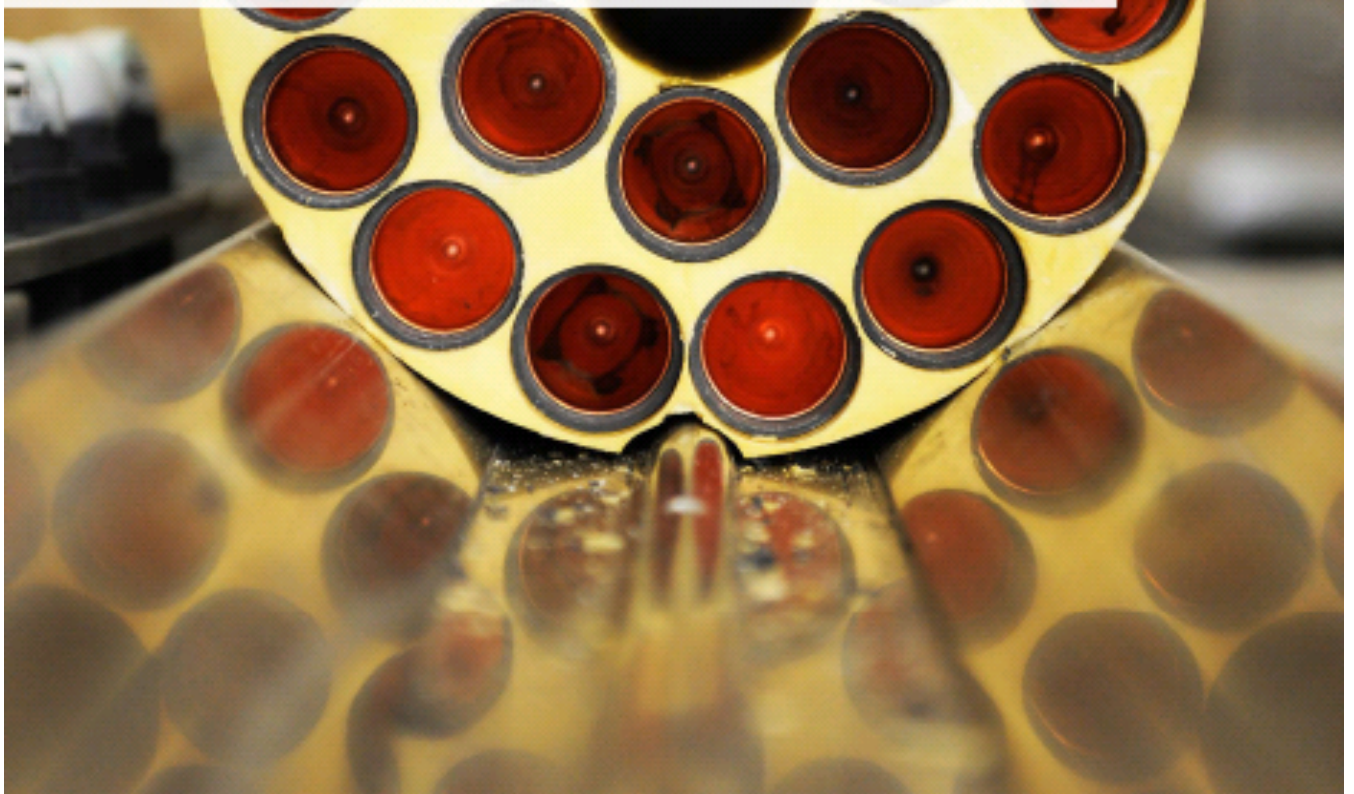


May 2011 update

# Worldwide investments in **CLUSTER MUNITIONS** a shared responsibility



  
**IKV PAX  
CHRISTI**

  
**netPwerk**  
A Different Approach to Money

**May  
2011**

# KEY FINDINGS

## Contents

This document contains the Key Findings, Methodology and Summary Tables of the May 2011 update of *“Worldwide Investments in Cluster Munitions; a shared responsibility”*. The full report is available on [www.stopexplosieveinvesteringen.nl](http://www.stopexplosieveinvesteringen.nl) and on <http://www.netwerkvlaanderen.be/en/clustermunitions>.

- The **Key Findings** provide an analysis of the research results. They include facts and figures on financial institutions and their involvement with cluster munition producers.
- The **Summary Tables** show the findings of the research at a glance. It gives both an overview of financial institutions listed in the Hall of Shame because of their investments in cluster munition producers, as well as an overview of financial institutions listed in the Hall of Fame or runners-up category because of their policy to exclude cluster munitions producers.
- The **Methodology** section answers the main questions on the definitions used in the research and on how to read the report.

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IKV Pax Christi (the Netherlands) and Netwerk Vlaanderen (Belgium) have strived to achieve the highest level of accuracy in our reporting. However, at this point, there is still a marked lack of official information available in the public domain about the use, production, transfer, and stockpiling of cluster munitions, as well as about investments in companies that produce cluster munitions. The information in this document reflects official information available in the public domain. We welcome comments, clarifications, and corrections from companies, financial institutions and others, in the spirit of dialogue, and in the common search for accurate and reliable information on an important subject. If you believe you have found an inaccuracy or if you can provide additional information, please contact us at [info@ikvpaxchristi.nl](mailto:info@ikvpaxchristi.nl).

## KEY FINDINGS

### 1 Key Findings<sup>1</sup>

#### 1.1 The report and update

IKV Pax Christi (the Netherlands) and Netwerk Vlaanderen (Belgium) published the first report *“Worldwide Investments in Cluster Munitions: a Shared Responsibility”* in October 2009. It was a state-of-the-art report on financial institutions' investment in companies that develop or produce cluster munitions, on financial institutions disinvesting from producers of cluster munitions and on legislative measures to prohibit investment in cluster munitions. An update of the report was published in April 2010. This edition, dated May 2011, is the second report update.

Cluster bombs have killed and injured thousands of civilians during the last 40 years and continue to do so today. They cause widespread harm on impact and continue to remain dangerous for decades, killing and injuring civilians long after a conflict has ended. To invest in cluster bombs is to invest in the misery they cause.

*‘Worldwide investments in cluster munitions; A shared responsibility’* highlights good practices of financial institutions and countries that disinvest, and provides information on financial institutions that are still investing in cluster munitions. The report contains clear recommendations for states and financial institutions that all come down to one simple message: disinvest from producers of cluster munitions now!

**In the past couple of years civil society has engaged with financial institutions and government representatives worldwide to talk about ways to disinvest. This engagement has resulted in some financial institutions disinvesting from cluster munition producers, parliamentary initiatives and interpretive statements from states that aim to put an end to investments in cluster munitions. Unfortunately, as can be seen in this report - a lot still needs to be done.**

#### 1.2 The momentum

The Convention on Cluster Munitions (CCM) entered into force on 1 August 2010. As of April 2011, 108 countries had signed the Convention of which 57 had ratified. The Convention bans the use, production, stockpiling and transfer of cluster munitions. Although the Convention on Cluster Munitions does not explicitly prohibit investments in cluster munitions, the prohibition on assistance that is included in article 1(1)c of the Convention<sup>2</sup> should be interpreted by states to include investments in cluster munition producers. Financing and investing are active choices, based on a clear assessment of a company and its plans. Investing in a cluster munition producer therefore is a choice to support the production of weapons that cause unacceptable harm and undermines the commitment that the majority of the world's governments have made to ban cluster munitions by joining the Convention.

Investment runs counter to the spirit of the Convention on Cluster Munitions. However, there is not only a legal argument to make here. Since 2007, the problems arising from the use of cluster munitions have been widely acknowledged. Thus, even before the Convention opened for signature, financial institutions should have been aware of the controversy around cluster munitions and should have started disinvesting from producers of the weapons. Some financial institutions did, others continued investing in these companies.

**The responsibility to ban cluster munitions is a shared responsibility. It requires courage, and it requires effort. An international humanitarian standard has been set, and the time to act is now - for states that have joined the Convention on Cluster Munitions, for states that have yet to join and for financial institutions.**

<sup>1</sup> This document presents the key findings of our research. The research findings are by no means exhaustive; they are limited by information available in the public domain, by our research guidelines, by the research period and by limits imposed by language (English/Dutch). Figures and tables in this document should therefore not be read as comprehensive.

<sup>2</sup> Article 1 of the Convention on Cluster Munitions reads: “Each State Party undertakes never under any circumstances to: (a) Use cluster munitions; (b) Develop, produce, otherwise acquire, stockpile, retain or transfer to anyone, directly or indirectly, cluster munitions; (c) Assist, encourage or induce anyone to engage in any activity prohibited to a State Party under this Convention.”

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### 1.3 The Hall of Shame<sup>3 & 4</sup>

#### Producers on our red flag list

In October 2009, when the first version of this report was published, eight cluster munitions producers were listed.<sup>5</sup> Since then, two of these companies announced that they had ceased producing (components of) cluster munitions.<sup>6</sup> These companies, Roketsan (Turkey) and L-3 Communications (USA) are no longer on the red flag list. However, the present edition of the report includes two new cluster munition producing companies. These state-owned companies did not appear in previous editions due to a lack of discernible financial links. Since financial links were found in this year's research, Norinco (China) and SPLAV (Russia) have been added to the red flag list.

#### Investments in the producers on our red flag list

In this update of the report "*Worldwide Investments in Cluster Munitions: a Shared Responsibility*", 166 financial institutions are identified as investing in eight producers of cluster munitions since 1 May 2008. Billions of US dollars are still being invested in cluster munitions producers. Producers still have no problem financing their activities, and many financial institutions seem to have no qualms about financing these producers.

**In the research period, these 166 financial institutions invested US\$39 billion in the eight cluster munitions producers included in the report. They:**

- **provided loans for a total of at least US\$1,501.5 million;**
- **provided investment banking services worth a total of at least US\$6,255.45 million; and**
- **owned or managed shares and bonds for at least US\$30,893.9 million.**

#### Changes since April 2010

The Hall of Shame in the report update launched in April 2010 contained 146 financial institutions. Of these, 95 financial institutions are still in the Hall of Shame in 2011. 51 financial institutions are no longer in the Hall of Shame. These 51 financial institutions can be grouped into three categories:

1. Financial institutions that dropped under or climbed above the research thresholds for asset management.
2. Financial institutions that introduced a policy or strengthened existing policy: The research shows that BNP Paribas, BBVA, Commerzbank, Crédit Agricole, Credit Suisse, HSBC, and WestLB, all listed in the 2010 Hall of Shame either adopted a policy or made their policy more stringent during 2010, which results in less involvement in producers of cluster munitions.
3. Thirteen financial institutions left the Hall of Shame because they were involved in L-3 Communications, a company that is no longer on the red flag list.

71 new financial institutions have joined the Hall of Shame in 2011; these newcomers can be grouped into two categories:

1. Financial institutions that financed companies that were also on the 2010 red flag list.

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<sup>3</sup> The list in the Hall of Shame in this research is not an exhaustive list of financial links of financial institutions investing in producers of cluster munitions. The research on financial links has been conducted by research company Profundo (the Netherlands).

<sup>4</sup> An overview of the financial institutions listed in the Hall of Shame can be found in the Summary Tables at p 14.

<sup>5</sup> IKV Pax Christi and Netwerk Vlaanderen, "Worldwide Investments in Cluster Munitions' A Shared Responsibility", October 2009, available at: [http://www.ikvpaxchristi.nl/files/Documenten/wap%20cluster%20munitie/Clustermunitie/Stop%20Explosive%20Investments/2010-09%20Worldwide%20investments%20in%20cluster%20munitions\\_%20ful%20report.pdf](http://www.ikvpaxchristi.nl/files/Documenten/wap%20cluster%20munitie/Clustermunitie/Stop%20Explosive%20Investments/2010-09%20Worldwide%20investments%20in%20cluster%20munitions_%20ful%20report.pdf), last viewed 2 April 2011.

<sup>6</sup> Roketsan, "122 mm Artillery Weapon Systems", Roketsan website, [www.roketsan.com.tr/products\\_eng.php?id=3](http://www.roketsan.com.tr/products_eng.php?id=3), last viewed 23 March 2011; L-3 Communications, written response to Profundo dated 17 February 2011.

## KEY FINDINGS

2. Access to financial information that was not accessible before:

- Information was found on the financing of the state-owned companies Norinco and SPLAV this year that wasn't found in previous years.
- Some financing of Poongsan Corporation has only come to light recently, due to a restructure of the company.

### Top financiers of cluster munition producers

When we look at which financial institutions provided the largest amount of money to the seven selected producers, we come to the following top five, divided by type of financial service:

#### **Top 5 investment banking services providers in the Hall of Shame**

Name of Financial Institution	Country of origin	Investment Banking Services in million US \$
JP Morgan Chase	USA	639.4
Bank of America	USA	476.3
Goldman Sachs	USA	426.9
Citigroup	USA	347.3
Changjiang Securities	China	264.3
<b>Total</b>		<b>2,154.2</b>

#### **Top 5 loan providers in the Hall of Shame**

Name of Financial Institution	Country of origin	Loans in million US \$
Sberbank	Russia	320
Korea Development Bank	South Korea	128.5
Bank of America	USA	100
Royal Bank of Scotland	UK	80
SunTrust Bank	USA	80
US Bank	USA	80
Wells Fargo Bank	USA	80
Mitsubishi UFJ Financial Group	Japan	75
<b>Total</b>		<b>943.5</b>

- **Investment banking services:** JP Morgan Chase, Bank of America, Goldman Sachs, Citigroup and Changjiang Securities provided the largest amount of investment banking services since May 2008. Compared to the April 2010 report, Deutsche Bank and HSBC are no longer listed in this top five, because some of the investment banking services they provided to Textron were underwritten or arranged more than three years prior to this update. HSBC has not provided any new investment banking services since February 2010, due to their new 'Sector Defence Equipment Sector Policy' which no longer allows the bank to provide investment banking services to producers of cluster munitions. Newcomers are Citigroup, which was listed on the tenth place in the 2010 report, and Changjiang Securities. This Chinese financial institution has provided investment banking services to Norinco, a new company listed in our report.
- **Loans:** Sberbank, Korea Development Bank, Bank of America, Royal Bank of Scotland, SunTrust Bank, US Bank, Wells Fargo Bank and Mitsubishi UFJ Financial Group provided the largest amount of loans since May 2008. Compared to the October 2010 report, Citigroup, Goldman Sachs, Calyon (the corporate and investment banking arm of Crédit Agricole) and Barclays are no longer listed in this top five. This is because their loans to cluster munition producers Lockheed Martin and Textron were signed more than three years prior to this update, and because L-3 Communications is no longer listed as a producer of cluster munitions in this report. For Crédit Agricole this is thanks to publishing a disinvestment policy in November 2010. Sberbank, Korea Development Bank, Royal Bank of Scotland, SunTrust Bank, US Bank, Wells Fargo Bank and Mitsubishi UFJ Financial Group are newcomers in this top five. Sberbank because it provided a loan to SPLAV, a new company in our red flag list. Korea Development Bank provided loans to Poongsan Corporation after May 2008 that only came to light recently. Royal Bank of Scotland, SunTrust Bank, US Bank, Wells Fargo Bank and Mitsubishi UFJ



## KEY FINDINGS

Financial Group were all part of a banking syndicate securing a US\$1 billion five-year credit facility to Alliant Techsystems in October 2010.

### Top 5 of largest asset management providers in the Hall of Shame

Name of Financial Institution	Country of origin	Asset management in million US \$
State Street	USA	5,515.6
Capital Group	USA	4,593
Temasek Holdings	Singapore	3,920.7
BlackRock	USA	1,816.3
MFS Investment Management	USA	1,469.8
<b>Total</b>		<b>17,315.4</b>

- Asset management:** State Street, Capital Group, Temasek Holdings, BlackRock and MFS Investment Management provided the largest asset management services based on their portfolio by the end of March 2011. MFS Investment Management is a newcomer; it switched places with Vanguard Group, which is now the sixth largest provider of asset management services. The involvement of Temasek Holdings is solely due to its major holding of 51.33% of the shares of Singapore Technologies Engineering.

**We call on all 166 financial institutions in the Hall of Shame to develop policies that exclude all financial links with companies involved in production of cluster munitions.**

### Countries of origin of the cluster munition financiers

The Hall of Shame contains 166 financial institutions from fifteen different countries. The majority of these financial institutions (128) are from countries that have not yet signed the Convention on Cluster Munitions. The other 38 financial institutions are from nine states that have signed the Convention. Seven financial institutions are from three countries that have signed but not yet ratified the Convention. 31 financial institutions are from six countries that have both signed and ratified the Convention.

Of the 166 financial institutions, 73 financial institutions are from the United States. US-based financial institutions account for 44 percent of the financial institutions included in the Hall of Shame. The USA has not signed the Convention on Cluster Munitions.

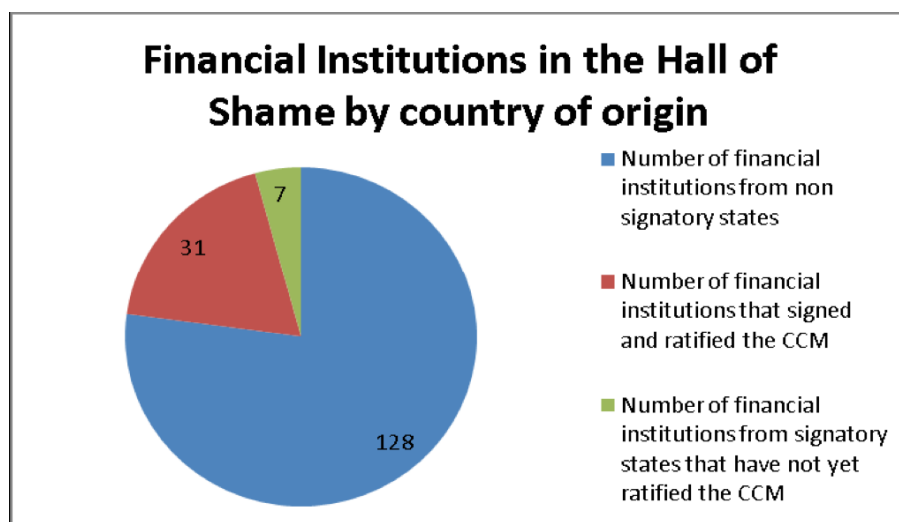
As of May 2011, 20 out of the 27 European Union member countries have signed the Convention on Cluster Munitions, and fifteen EU member countries have ratified the Convention. 26 financial institutions investing in producers of cluster munitions are from EU member countries. Of these 26 financial institutions, 24 are from EU countries that have not only signed but have also ratified the Convention.

Based upon these research findings, one may conclude that many financial institutions from countries that have joined the Convention on Cluster Munitions are still investing in cluster munitions producers.

**We call on all states that have joined the Convention on Cluster Munitions to stay true to the Convention and to develop legislation to ban investments in cluster munitions or to provide clear guidelines for financial institutions.**

## KEY FINDINGS

Country of origin of FIs listed in the Hall of Shame	Number of FIs per country
Australia	2
Canada	3
China	21
France	5
Germany	5
Italy	2
Japan	5
Russia	1
Singapore	3
South Korea	26
Switzerland	2
Taiwan	4
The Netherlands	2
United Kingdom	12
United States	73
<b>Total</b>	<b>166</b>



### 1.4 Financial institutions disinvesting from cluster munition producers<sup>7</sup>

Fortunately, more and more financial institutions have acknowledged that cluster munition producers are not ethical or viable long-term business partners and have installed a public policy to end investments in these companies. Some of them are listed in the Hall of Fame; others are listed as runners-up.

Since the last report in April 2010, two financial institutions have been added to the Hall of Fame, and eight have been added to the runners-up category. Moreover, three financial institutions listed in the report – BBVA, BNP Paribas and Crédit Agricole - have strengthened their policy since the last update. These changes can be attributed to the following:

- Worldwide campaigns, conversations, studies and media work have done much to substantially expand the information available for the report. These have helped to increase transparency and to augment explanations of, or additions to, financial institutions' disinvestment policies.
- Vigorous campaign efforts in New Zealand, Germany, Switzerland, France, Japan and other countries have led to the publication or announcement of new policies within different financial institutions. Some of these banks are already listed, we hope others will join the Hall of Fame or runners-up category in the 2012 update.

#### Runners-up

The financial institutions listed in the runners-up category took steps to ban investments in cluster munitions producers, but their course of action on cluster munitions has certain flaws. We commend these financial institutions for their efforts but point out that there are remaining steps needed to gain a place in the Hall of Fame.

The most common shortcomings are:

- Taking only the financial institution's own involvement into account, not that of their clients
- Exempting project financing for civil purpose
- Exempting funds following an index
- Covering only project financing for cluster munitions

<sup>7</sup>

Our Hall of Fame and the runners-up category are far from comprehensive. For this research it was impossible to research the policies of all the financial institutions worldwide. We have chosen to limit our research to policies available in the public domain, since we believe that financial institutions should be accountable for their policy. We worked within the limits imposed by language (English and Dutch) and accessibility. The Hall of Fame can be seen as an invitation to financial institutions that have a comprehensive policy to ban investment in cluster munitions producers, to provide us with their policy and to publish it on their website in order for us to include them in either the runners-up category or our Hall of Fame. The lists of financial institutions disinvesting from cluster munitions producers presented in this report are a first attempt to provide an overview and we welcome additional information.

## KEY FINDINGS

**The runners-up have taken important steps, but their policies show clear loopholes that can allow further investments in producers of cluster munitions producers.**

These policy shortcomings can have serious complications, as is shown by AXA, Rabobank and Royal Bank of Canada. These three runners-up are also listed in the Hall of Shame because of involvement in producers of cluster munitions after publication of their policy. AXA manages important shareholdings in Hanwha and Poongsan, while Rabobank owns or manages bonds issued by Singapore Technologies Engineering. Royal Bank of Canada was involved in a recent loan and investment banking service to Alliant Techsystems, and owns or manages assets of the company.

All 24 financial institutions that met our policy criteria for the runners-up category are from countries that have signed the Convention on Cluster Munitions. Nineteen financial institutions in the runners-up category are from countries that have signed and ratified the Convention. All the financial institutions but two (Royal Bank of Canada and Credit Suisse) are from EU countries. All financial institutions listed as runners-up are private financial institutions.

Country of origin of FIs listed as runners-up	Number of FIs per country	Type of Financial Institution in the runners-up category	Number of FIs per type
Belgium	2	Private financial institutions	24
Canada	1	<b>Total</b>	<b>24</b>
Denmark	3		
France	3		
Germany	2		
Italy	1		
Spain	1		
Sweden	2		
Switzerland	1		
The Netherlands	6		
United Kingdom	2		
<b>Total</b>	<b>24</b>		

### Hall of Fame

The Hall of Fame lists those financial institutions with a far-reaching policy ending all investments in cluster munitions producers. 23 financial institutions are listed in the Hall of Fame: five government-managed pension funds, three ethical banks and fifteen private financial institutions.

The five government-managed pension funds operate in four different countries: Ireland, Norway, New Zealand and Sweden. These countries acted according to their disapproval of cluster munitions by not investing government-managed pension money in producers of cluster munitions.

When we compare the new Hall of Fame with our April 2010 report, we see that two new financial institutions have entered the Hall of Fame.

Twelve of the fifteen private financial institutions listed in the Hall of Fame are institutions who only offer Asset Management as a financial service. They are not involved in investment banking and don't give out loans, etc. Three of the financial institutions in the Hall of Fame however, Ethias, Storebrand and DnB Nor, do provide other banking services: these financial institutions prove that it is possible for a bank involved in a broad spectrum of financial services to exclude producers of cluster munitions from all its financial services.

All 23 financial institutions identified in the Hall of Fame are from countries that have signed the Convention on Cluster Munitions. Eighteen financial institutions in the Hall of Fame are from countries that have signed and ratified the CCM. All these financial institutions but one (New Zealand Superannuation Fund) are EU member countries.



## KEY FINDINGS

Country of origin of FIs listed in the Hall of Fame	Number of FIs per country
Belgium	1
Denmark	1
Ireland	1
Italy	1
New Zealand	1
Norway	4
Sweden	4
The Netherlands	10
<b>Total</b>	<b>23</b>

Type of Financial Institution in the Hall of Fame	Number of FIs per type
Government managed pension fund	5
Ethical bank	3
Private financial institutions	15
<b>Total</b>	<b>23</b>

Government and policy leadership helps. The research shows the positive effect of a government signing the CCM as a stimulus for financial institutions to implement a comprehensive policy to disinvest from cluster munitions producers. As we have seen in the Hall of Shame however, this is certainly not an automatic response by financial institutions based in or operating in signatory states to the CCM. We therefore applaud the financial institutions in the runners-up category for their steps to ban investments in cluster munitions producers, and encourage other financial institutions to do the same.

### 1.5 Legislation

The Cluster Munition Coalition interprets the prohibition on assistance in the production/development of cluster munitions as a prohibition on investments in cluster munitions producers.<sup>8</sup> More and more states that have signed the Convention on Cluster Munitions confirm this interpretation.

Belgium adopted legislation to ban investments in cluster munitions even before the Convention on Cluster Munitions opened for signature. Colombia, Croatia, France, Guatemala, the Holy See, Ireland, Lebanon, Madagascar, Malawi, Mexico, New Zealand, Rwanda, United Kingdom and Zambia all interpret (direct) investment as a prohibited form of assistance under the Convention. Ireland, Luxemburg and New Zealand passed legislation to that effect. In the Netherlands and Switzerland motions have been adopted to develop legislation prohibiting investment in cluster munitions. Other parliamentary action or discussions are on-going in Germany, Italy and Norway. During the First Meeting of States Parties to the Convention on Cluster Munitions, held on 9-12 November 2010 in Vientiane, Lao PDR governments showed a high level of support for banning investments in cluster munitions producers.<sup>9</sup> The number of states that support the interpretation that article 1(1)c of the Convention encompasses investments seems to be growing, which is a positive development.<sup>10</sup>

**In this year's update we see that many more states have either installed legislation that ban investments or made interpretive statements to that effect.**

**It is vital that more states confirm that article 1(1)c includes a ban on investment in cluster munitions, and take appropriate measures to prevent such investments.**

<sup>8</sup> Cluster Munition Coalition, "CMC Policy Papers on the Convention on Cluster Munitions", May 2010, available at <http://www.stopclustermunitions.org/wp-content/uploads/2010/06/3a-cmc-policy-papers.pdf>, last viewed 29 March 2011.

<sup>9</sup> Cluster Munition Coalition, "Disinvestment Campaign Gains Momentum at Milestone Laos Meeting on Cluster Bomb Treaty", 1 February 2011, available at: <http://www.stopexplosiveinvestments.org/news/14/59/Disinvestment-campaign-gains-momentum-at-milestone-Laos-meeting-on-cluster-bomb-treaty>, last viewed 2 April 2011.

<sup>10</sup> During the First Meeting of State Parties in Lao PDR, November 2010, the following states made statements that expressed the desire to stop investments in the production of cluster munitions: Holy See, Ireland, Luxembourg, Madagascar, New Zealand, Norway and the United Kingdom. Notes by Katherine Harrison, Action on Armed Violence, First Meeting of States Parties to the CCM, Vientiane, 9-12 November 2010.

## KEY FINDINGS

### 2 Recommendations

- **States** that have signed the Convention on Cluster Munitions should make clear that in prohibiting assistance, article 1(1)c of the convention prohibits investment in cluster munitions producers.
- **States** should provide clear guidelines for financial institutions. When states draft national legislation prohibiting investment in producers of cluster munitions, they act in the spirit of the Convention on Cluster Munitions
- **Financial institutions** should develop policies that exclude all financial links with companies involved in cluster munitions production. Because all investment facilitates this production, no exceptions should be made for third-party financial services, for index funds or for civilian project financing for a company also involved in cluster munitions. Policies should not be narrowed to refusing project financing for cluster munitions.
- **Financial institutions** should inform producers that they have decided to end investment because of their involvement with cluster munitions. Financial institutions can set clear deadlines with a limited time frame within which a company must cease production of cluster munitions if it wishes the disinvestment decision to be reversed. When a company persists in producing cluster munitions after the set deadline, the financial institution will disinvest until the company terminates production of cluster munitions. New applications for investment will be declined until the company has halted all activities related to the production of cluster munitions.
- **Financial institutions** should apply their disinvestment policy to all activities: commercial banking, investment banking and asset management. All such activities aid and abet a company's production of cluster munitions. When this new course of action requires a change in investment fund management, investors should be notified of this and given a deadline for withdrawing from these funds. After this deadline, management strategy will change and shares and obligations in companies involved in cluster munitions will be sold.

## KEY FINDINGS

### 3 Summary Tables

#### 3.1 Hall of Shame

The following overview presents the types of financial relationships that financial institutions have with cluster munitions producers on our red flag list.

**Key:** **B** = ownership or management of (convertible) bonds, **L** = provision of loan facility, **S** = ownership or management of shares, **X** = underwriting of share issues, **Y** = underwriting of bonds issues.

Financial Institution	Country	Alliant Techsystems (US)	Hanwha (South Korea)	Lockheed Martin (US)	Norinco (China)	Poongsan (South Korea)	Singapore Technologies Engineering (Singapore)	Splav (Russia)	Textron (US)
Aberdeen Asset Management	United Kingdom						S		
Acadian Asset Management	United States		S						
Aegon Group	The Netherlands			B					
Agricultural Bank of China	China				Y				
AIG	United States			B					
Alaska Permanent Fund Corporation (APFC)	United States	S		S					S
Allianz	Germany	B, S		B		S	S		B
Alyeska Investment Group	United States	S							
Allstate Corporation	United States			B					
American Century Investments	United States								S
ANZ Bank	Australia			Y					
Aviva	United Kingdom			B					B
AXA	France		S			S			
Bank of America	United States	L, Y		Y					X, Y
Bank of Beijing	China				Y				
Bank of China	China				Y <sup>11</sup>				
Bank of Communications	China				Y				
Bank of New York Mellon	United States	L							Y, S
Bank of Shanghai	China				Y				
Barclays	United Kingdom								X, Y
Baring Asset Management	United Kingdom					S			
Batterymarch Financial Management	United States					S			
BB&T Corporation	United States	L							B
BlackRock	United States	S	S	S			S		S
BNP Paribas	France	L		Y		S			Y
Bookook Securities	South Korea					S			
Calamos Holdings	United States	B							
California Public Employees' Retirement System	United States	S		S					S

<sup>11</sup> Apart from underwriting bonds issues for Norinco, Bank of China has also signed a strategic agreement with the company.

## KEY FINDINGS

Financial Institution	Country	Alliant Techsystems (US)	Hanwha (South Korea)	Lockheed Martin (US)	Norinco (China)	Poongsan (South Korea)	Singapore Technologies Engineering (Singapore)	Splav (Russia)	Textron (US)
(CalPERS)									
Capital Group	United States			S,B			S		
Castle Creek	United States	B							
Chang Hwa Commercial Bank	Taiwan	L							
Cheonan Bukil Education Foundation	South Korea		S						
Changjiang Securities	China				Y				
China Construction Bank	China				Y				
China Development Bank	China				Y				
China Everbright Bank	China				Y				
China Merchants Group	China				Y				
China Mincheng Banking Corporation	China				Y				
China Securities	China				Y				
Citadel Group	United States	B							B
Citigroup	United States			Y					X,Y
Commonwealth Bank of Australia	Australia						B		
Crédit Agricole	France			Y					Y
Credit Suisse	Switzerland		S				B		X,Y
Daishin Group	South Korea					S			
D.E. Shaw Group	United States								B
Daewoo Securities	South Korea		Y						
Daiwa Asset Management	Japan						S		
Davis Selected Advisers	United States			S					
Deutsche Bank	Germany	S					Y		X,Y
Dimensional Fund Advisors	United States		S			S			
DJE Kapital	Germany					S			
Dongbu Securities	South Korea		Y						
Dreman Value Management	United States	S							
Essence Securities	China				Y				
Eugene Investment & Securities	South Korea		Y						
Export Import Bank of Korea	South Korea					L			
Fidelity Group	United States	S,B	S						S
Fiduciary Management	United States	S							
First Eagle Investment Management	United States	S							
First Financial Holding Corporation	Taiwan	L							
Franklin Templeton	United States					S			
General Electric (GE)	United States	S, L							
Goldman Sachs	United States	S, B	S	Y					X,Y,B
Great Eastern Holdings	Singapore						B		
Grantham Mayo Van Otterloo	United States		S				S		

## KEY FINDINGS

Financial Institution	Country	Alliant Techsystems (US)	Hanwha (South Korea)	Lockheed Martin (US)	Norinco (China)	Poongsan (South Korea)	Singapore Technologies Engineering (Singapore)	Splav (Russia)	Textron (US)
& Co									
Guotai Junan Securities	China				Y				
Haitong Securities	China				Y				
Hanyang Securities	South Korea		Y						
Hanwha Securities	South Korea		S, B, Y			S			
Hartford Financial Services Group	United States			B					
Helaba	Germany					S			
Henderson Global Investors	United Kingdom						S		
HI Investment & Securities	South Korea		Y			S			
HMC Investment Bank	South Korea		Y						
Hotchkis & Wiley Capital Management	United States	S		S					
HSBC	United Kingdom								X,Y
Hua Nan Financial Holdings	Taiwan	L							
Industrial Bank	China				Y				
Intesa Sanpaolo	Italy			Y					
Invesco	United Kingdom <sup>12</sup>	S					S		S
Italmobiliare S.p.A.	Italy						B		
JP Morgan Chase	United States	B, L, S		Y					X,Y,S
Keybank	United States	S, L							
Killen Group	United States	B							
Knightsbridge Asset Management	United States								S
Kookmin Bank	South Korea		Y			S			
Korea Development Bank	South Korea		Y			L, Y			
Korea Investment & Securities (now: Korea Investment Holdings)	South Korea		S, Y			S			
KTB Asset Management	South Korea					S			
Liberty Mutual	United States			B					
Lincoln National Corporation	United States			B					
Lloyds Banking	United Kingdom			Y					
Loews Corporation	United States								B
Lord, Abbett & Co.	United States	B							
Manulife Financial	Canada								S
Massachusetts Finance Group	United States			B					
Massachusetts Mutual	United States								B
Matthews International Capital Management	United States						S		

<sup>12</sup>

Invesco has headquarters in Bermuda, an overseas territory of the United Kingdom

## KEY FINDINGS

Financial Institution	Country	Alliant Techsystems (US)	Hanwha (South Korea)	Lockheed Martin (US)	Norinco (China)	Poongsan (South Korea)	Singapore Technologies Engineering (Singapore)	Splav (Russia)	Textron (US)
Mellon Capital Management	United States		S			S			S
Meritz Securities	South Korea		Y						
Metropolitan Life Insurance	United States	B		B					
MFS Investment Management	United States			S					
Midas Asset Management	South Korea		S						
Minsheng Securities	China				Y				
Mirae Asset Securities	South Korea		Y			S			
Mitsubishi UFJ Financial Group	Japan	L, Y		Y					X, Y
Mizuho Bank	Japan	L		Y					
Morgan Stanley	United States			Y			Y		S
National Agricultural Cooperative Federation	South Korea					L			
National Pension Service	South Korea		S			S			
Natixis	France								B
Neuberger Berman	United States	S							
New Jersey Division of Investment (New name: New Jersey Department of Treasury)	United States			B					
New York Life	United States	B		B					
Newton Investment Management	United Kingdom						S		
Nomura	Japan					S			
Northern Trust	United States			S					S
Northwestern Mutual	United States			B					
Nuveen Investments	United States	S		S					
Och-Ziff Capital Management	United States								B
Oaktree Capital Management	United States	B							
People's United Financial	United States	L							
Pioneer Investments	United States								S
PNC Financial Services Group	United States	L							
Principal Financial Group	United States	S							
Prudential	United Kingdom		B						S
Prudential Insurance	United States	B		B					B
Putnam Investment Management	United States	B							
Rabobank	The Netherlands						B		
Royal Bank of Canada	Canada	L, B, Y							
Royal Bank of Scotland	United Kingdom	L, B, Y		Y					
SAC Capital Advisors	United States								B
Samsung Group	South Korea		S, Y			S			



## KEY FINDINGS

Financial Institution	Country	Alliant Techsystems (US)	Hanwha (South Korea)	Lockheed Martin (US)	Norinco (China)	Poongsan (South Korea)	Singapore Technologies Engineering (Singapore)	Splav (Russia)	Textron (US)
Sberbank	Russia							L	
Scepter Holdings	United States	B							
Shanghai Pudong Development Bank	China				Y				
Shinhan Bank	South Korea		Y			Y			
Shinyoung Securities	South Korea					S			
Sinolink Securities	China				Y				
SK Securities	South Korea		Y			Y			
Société Générale	France								S, Y
State Farm	United States			B					
State Street	United States	S	S	S		S	S		S
Sumitomo Trust & Banking	Japan						S		
Sun Life Financial Services	Canada								B
SunTrust Bank	United States	L, Y							
Symetra Life Insurance	United States			B					
T. Rowe Price Group	United States	S		S					S
Teachers Insurance & Annuity Association (TIAA-CREF)	United States	B		B					S
Temasek Holdings	Singapore						S		
Tenor Capital	United States	B							
Tong Yang Securities	South Korea		B, Y			B			
UBS	Switzerland			Y		S			S, X, Y
United Overseas Bank	Singapore	L					B		
Universal Investment Gesellschaft	Germany						S		
US Bank	United States	L, Y							
Vanguard Group	United States	B, S	S	B, S		S	S		S
Veritas Asset Management	United Kingdom						S		
Wellington Management Company	United States								S
Wells Fargo Bank	United States	B, L, Y		Y		S			Y
Western Securities	China				Y				
Westwood Holdings Group	United States	S							
Woori Investment & Securities	South Korea		Y			L, Y			
Xian International Trust & Investment	China				Y				
Yuanta Financial Holdings	Taiwan					S			

## KEY FINDINGS

### 3.2 Hall of Fame and runners-up category

		Has the institution published its policy?	Does it exclude cluster munitions producers?	Does it exclude all cluster munitions producers, (no exceptions for certain types?)	Does the policy apply to all the financial institution's products?	Are all a company's activities excluded?
Financial institution	Country of origin*					
<b>HALL OF FAME</b>						
ABP	The Netherlands	X	X	X	X	X
ASN Bank	The Netherlands	X	X	X	X	X
ATP	Denmark	X	X	X	X	X
Banca Etica	Italy	X	X	X	X	X
BPF Bouw	The Netherlands	X	X	X	X	X
DnB NOR	Norway	X	X	X	X	X
Ethias	Belgium	X	X	X	X	X
Folksam	Sweden	X	X	X	X	X
KLP	Norway	X	X	X	X	X
KPA	Sweden	X	X	X	X	X
National Pensions Reserve Fund	Ireland	X	X	X	X	X
Norwegian Government Pension Fund - Global	Norway	X	X	X	X	X
NZ Superannuation Fund	New Zealand	X	X	X	X	X
Pensioenfonds Vervoer	The Netherlands	X	X	X	X	X
PGGM	The Netherlands	X	X	X	X	X
Philips Pension Fund	The Netherlands	X	X	X	X	X
PME	The Netherlands	X	X	X	X	X
PNO Media	The Netherlands	X	X	X	X	X
Spoorwegpensioenfond s	The Netherlands	X	X	X	X	X
Storebrand	Norway	X	X	X	X	X
Swedish Pension Funds AP1 – 4	Sweden	X	X	X	X	X
Swedish Pension Fund AP7	Sweden	X	X	X	X	X
Triodos Bank	The Netherlands	X	X	X	X	X
<b>RUNNERS-UP</b>						
ABN Amro	The Netherlands	X	X	X		X
AXA	France	X	X	X		X
BBVA	Spain	X	X	X		X
BNP Paribas	France	X	X	X		X
Commerzbank	Germany	X	X	X		X
Co-operative Financial Services	United Kingdom	X	X	X		X
Crédit Agricole	France	X	X	X		X
Credit Suisse	Switzerland	X	X	X		X
Danske Bank	Denmark	X	X	X		X
Dexia	Belgium	X	X	X		
HSBC	United Kingdom	X	X	X		X
ING	The Netherlands	X	X	X		X
KBC	Belgium	X	X	X		X
Laegernes	Denmark	X	X	X		X

## KEY FINDINGS

Pensionskasse						
Nordea	Sweden	X	X	X		X
Nycredit	Denmark	X	X	X		X
Pensioenfonds Horeca & Catering	The Netherlands	X	X	X		X
Rabobank	The Netherlands	X	X	X		X
Royal Bank of Canada	Canada	X	X	X		X
SEB	Sweden	X	X	X		X
SPF Akzo Nobel	The Netherlands	X	X	X		X
Syntrus Achmea	The Netherlands	X	X	X		X
UniCredit	Italy	X	X	X		X
WestLB	Germany	X	X	X		X

<b>Red Flag Lists in our reports</b>		
<b>2009</b>	<b>2010</b>	<b>2011</b>
Alliant Techsystems	Alliant Techsystems	Alliant Techsystems
Hanwha	Hanwha	Hanwha
L-3 Communications	L-3 Communications	Lockheed Martin
Lockheed Martin	Lockheed Martin	Norinco
Poongsan	Poongsan	Poongsan
Roketsan	Singapore Technologies Engineering	Singapore Technologies Engineering
Singapore Technologies Engineering	Textron	Splav
Textron		Textron

<b>Investments in companies on our Red Flag lists</b>			
	<b>2009</b>	<b>2010</b>	<b>2011</b>
<b>Total investments in Red Flag list companies</b>	20 billion USD	43 billion USD	39 billion USD
<b>Loans</b>	5,097.51 million USD	3,190.26 million USD	1,501.5 million USD
<b>Investment banking services</b>	4,204.85 million USD	6,712.15 million USD	6,255.45 million USD
<b>Asset Management</b>	11,795.61 million USD	33,116.1 million USD	30,893.9 million USD

# KEY FINDINGS

## 4 Methodology

### 4.1 Methodology: Questions and Answers

#### Does this study include all companies that produce cluster munitions?

No. There is still a marked lack of official information available in the public domain about the production of cluster munitions. We have chosen to include only those companies that meet the following criteria:

- There is sufficient evidence that the company has produced (key components for) cluster munitions or explosive submunitions after 30 May 2008 (the day the convention text was adopted in Dublin) and the company has not stated publicly that it will end its involvement in the coming 12 months;
- There is sufficient evidence that over the past year the company has become involved in planned production or development of (key components for) cluster munitions or explosive submunitions and the company has not stated publicly that it will end its involvement in the coming 12 months;

When we found no financial links for companies, we did not include them on our red flag list. There may also well be companies that currently produce (key components for) cluster munitions or explosive submunitions but that have been excluded from the long list simply because we could not find sufficient evidence of their production activities.

#### **Sources of information on companies producing cluster munitions:**

Company publications, contracts with the US government, correspondence between the companies and investors, and correspondence between the companies and research company Profundo. We contacted most of the producing companies on the red flag list before publishing our report to verify our data; when they provided additional information, we included this in our report. Research by Profundo (the Netherlands).

#### **Are all financial institutions with investments in cluster munitions producers listed in the Hall of Shame?**

No. The list in the Hall of Shame is not an exhaustive list of financial institutions with investments in cluster munitions producers. We apply different thresholds to different companies for investment in shares and bonds. Due to the different shareholding structure in the various companies,<sup>13</sup> we chose a 0.1% floor limit for Hanwha, Poongsan, and Singapore Technologies Engineering and 1% limit for Alliant Techsystems (ATK), Lockheed and Textron. This threshold is a pragmatic tool designed for this research. Without these thresholds, the list of financial institutions would be too long to handle in this report. Even when a financial institution has invested in a cluster munitions producer, as long as its shares are below 0.1% in Hanwha, Poongsan, and Singapore Technologies Engineering and/or 1% in ATK, Lockheed and Textron, you will not find it on our list. Because the red flag list of producing companies is not exhaustive, a financial institution that has invested in a producing company might still not be included in our research. Moreover, there is still a marked lack of transparency in the public domain about financial institutions' investments. There is little or no transparency on what credits were given to whom. That makes it very hard to find out whether a financial institution has granted a loan to a controversial company.

#### **Sources of information for the Hall of Shame**

We used a variety of sources including reports by NGOs and exclusion lists maintained by financial institutions that ban investment in cluster munitions. We also drew upon stock exchange filings and the financial institutions' and the cluster munitions producers' own publications, as well as commercial databases with information supplied by financial institutions. Research by Profundo (the Netherlands).

<sup>13</sup> Asian companies seem to have a few large (local) shareholders and a group of foreign shareholders with less than 1%. We therefore lowered the threshold for Hanwha, Poongsan and Singapore Technologies Engineering.

## KEY FINDINGS

### **Were all the financial institutions in the Hall of Shame contacted to verify information before publishing this report?**

No. Since the sources of information for the Hall of Shame – stock exchange filings, financial institutions' own publications and commercial databases – come directly from the financial institutions, we trust that it is correct and have not contacted every one of the financial institutions in the Hall of Shame before publishing this report. We welcome comments, clarifications, and corrections from governments, companies, financial institutions and others, in the spirit of dialogue, and in the common interest of accurate and reliable information on an important subject. If you believe you have found an error in our report or if you can provide additional information please contact us.

### **Why is there a special chapter on Sovereign Wealth Funds and Public Pension Funds?**

We chose to do so, because of the growing importance of these funds. Moreover, most of these funds are state owned, which makes them particularly interesting. They sometimes hold a substantial stake in the capital of companies. This gives them considerable voting power at annual meetings, and sometimes even one or more seats in the board of directors. For our research we targeted 15 major sovereign wealth funds and public pension funds, chosen for their importance and country of origin (to ensure a broad geographical spread). Many of these funds are entrusted to managers. This makes it difficult to determine in which companies they hold assets. We found information on assets for twelve funds; three own or manage assets in the companies in our red flag list.

### **Are all financial institutions with a policy requiring them to disinvest from cluster munitions producers listed in the Hall of Fame and runners-up category?**

No. The Hall of Fame and the runners-up category are far from comprehensive. We believe that the financial institutions listed are only the tip of the iceberg. It is impossible to research the policies of every financial institution worldwide. The Hall of Fame can be seen as an invitation to financial institutions with a comprehensive policy banning investment in cluster munitions to provide us with their policy and to publish it on their websites.

We have chosen to limit our research to policies available in the public domain, since we believe that financial institutions should be accountable for their policies. We worked within the limits imposed by language (English and Dutch) and accessibility. In some cases, we now have translations of disinvestment policies unavailable in Dutch or English in the public domain, but in most cases we were limited to documents available in Dutch or English. There are probably many more financial institutions that deserve a place in our Hall of Fame or runners-up category. Our list of financial institutions disinvesting from cluster munitions producers is an initial survey. We welcome additional information.

We have checked all shareholdings of financial institutions listed in the Hall of Fame, including those under the 1% and 0.1% threshold, just to be sure that these financial institutions indeed have no link to cluster munitions producers and fully implement their policies.

#### **Sources of information for the Hall of Fame and runners-up**

We used a variety of sources: NGO reports, screening agency information, financial institutions' reports and websites, information from campaigners worldwide and other public sources. Since an investment policy is usually stipulated by the banking group and since this group directly or indirectly supervises its subsidiaries, we researched the group's policy. Our list of financial institutions is not exhaustive. We contacted all financial institutions in these lists before publication to check our research findings and clarify their policies. This study takes into account only publicly available policy documents and written comments. A policy document is public when a financial institution has published it and/or a summary of it on its website or in its publications (e.g. annual report, sustainable development report, etc.). Research by Netwerk Vlaanderen (Belgium).

### **How can a financial institution be listed in the Hall of Shame and as a runner-up at the same time?**

The runners-up category lists financial institutions that took steps to ban investment in cluster munitions producers, but whose policies have loopholes. A financial institution can be applauded in the runners-up category for its policy, while at the same time it can be listed in the Hall of Shame for its investment. Checking whether this involvement runs counter to their policies, or whether it results

## KEY FINDINGS

from a loophole, was beyond the scope of this report. An accurate report on implementation of policies published by runners-up would require more detailed information on the investments we found. Examples of the kind of information we still need are whether a financial link constitutes own or third-party investments, which investment fund is involved, or whether the financial link is through a fund following an index; all issues beyond the scope of our research.

### **Do all financial institutions in the runners-up category have the same loopholes in their policies?**

No. This category lists financial institutions that took steps to ban investment in cluster munitions producers, but whose courses of action on cluster munitions have flaws of various types. The runners-up category is a very diverse category, where the scope of the policies differs greatly. Financial institutions are listed there for many different reasons. It is important to note that, as with the Hall of Fame, we welcome any financial institution that has a publicly available policy, and is not listed yet, to provide us with this information. We also invite financial institutions already listed to provide copies of revised or updated policy documents that could demonstrate their right to a place in our Hall of Fame.

### **Why does this research not make an exception for funds following an index?**

During our research and the conversations we had with financial institutions about this issue, many of these institutions pointed out that it is simply impossible to exclude cluster munitions producers from funds following an index. Still, some financial institutions do have a policy that includes index funds. These examples have convinced us that it is possible to exclude producing companies from funds following an index. Although it might well be difficult, and cost more in time and/or money, we think that if it is possible it should be done. We invite financial institutions that see no possibility of meeting this criterion to demonstrate why they are unable to do so. Until then, we have chosen to list financial institutions that make an exception for funds following an index in the runners-up category, and not in the Hall of Fame.

#### **Researched time frame**

- We listed a company as a cluster munitions producer when we found evidence that it was involved in producing (key components of) cluster munitions in the time span extending from 30 May 2008 to 15 March 2011.

- We listed a financial institution as an investor when we found evidence of investment in the time span extending from 1 May 2008 to 31 March 2011. Since an investment policy is usually stipulated by the banking group and since this group directly or indirectly supervises its subsidiaries, we researched the group's investments.

- We updated the policies of financial institutions listed in the Hall of Fame and runners-up category as far as 31 March 2011. Since an investment policy is usually stipulated by the banking group and since this group directly or indirectly supervises its subsidiaries, we researched the group's policy.