Defence & Responsible Investment

Sharper insights from institutional investor roundtables in Asia-Pacific

Executive Roundtable Summary • Chatham House Rule Discussions

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Core shift

Less about rewriting exclusions. More about answering harder questions on AI, dual-use, customers, end use and disclosure limits.

Executive Summary & Context

What changed most was not policy language, but implementation and it's complexity.

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1 Stable baselines

Treaty-based controversial-weapons exclusions remain the common starting point; several investors reported limited formal policy change.

2 Harder questions

AI, software, semiconductors, cloud, cyber and diversified industrials are forcing more precise company-level questions.

3 Client scrutiny

Client and beneficiary questions are pushing teams beyond simple sector labels toward comfort, accountability and evidence.

4 Deal-flow pressure

Private markets and infrastructure exposure are making upfront guardrails more important before fast investment decisions.

5 Data realism

Investors want better data, but recognise that confidentiality and national-security constraints limit what companies can disclose.

6 Stewardship demand

Expectations now include human-rights due diligence, end-use thinking, customer screening, cybersecurity and board accountability.

The debate is moving from "is defence investable?" to "what information is enough to act?"

Formal Policies Are Relatively Stable — Investor Questions Are Not

Several investors had not rewritten exclusions, but the work behind them has become more demanding.

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What stayed stable

- Controversial-weapons exclusions remain the baseline
- Treaty obligations continue to anchor many frameworks
- Some sustainable funds still exclude conventional weapons where clients expect this

What became harder

- Dual-use software and AI are harder to classify
- Government and defence-tech contracts raise new questions
- Emerging-market and state-owned company disclosure norms differ across APAC

What triggered action

- Rising client scrutiny
- More defence-related deal flow
- Pressure to make quick private-market decisions
- Regulatory attention to accurate disclosure and fund claims

The policy debate may be stable; the implementation burden is not.

Dual-Use Is Blurring the Boundary of the Defence Sector

AI and advanced technology are stretching old classification tools.

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Investor dilemma

If the definition of defence exposure is stretched too far, major AI and technology companies can suddenly appear to be "defence companies".

This is forcing investors to look beyond sector codes and consider product significance, customer, geography, end use and governance.

1 Technologies in scope

AI, cloud, cyber, drones, satellites, semiconductors, facial recognition

2 Exposure pathway

Risk may arise through customers, geography or end use — not only defence revenue

3 Practical question

When is a small revenue exposure still strategically material?

4 APAC nuance

Disclosure comfort varies across markets, especially with state-linked companies

The harder cases are no longer only traditional arms manufacturers.

Revenue Thresholds Can Create False Precision

A percentage can be tidy — but not always decision-useful.

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"4.99%" problem

One investor noted how many companies appear just below common revenue thresholds — creating apparent precision that may not reflect real exposure.

The issue is not only "how much revenue?" but "how important is the product, who uses it, and where?"

1 Revenue remains useful

A starting point for screening, exposure mapping and mandate alignment.

2 But context matters

Low revenue can still mean high strategic military significance.

3 Action triggers differ

Geography, product type, customer and end use may trigger heightened review.

4 Investor comfort varies

A concentrated mandate and a global equity mandate may not reach the same decision.

The question is not just the size of exposure — it is the significance of exposure.

The Disclosure Gap Cannot Be Solved by Data Providers Alone

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Better datasets help — but they cannot manufacture information companies cannot disclose.

Where investors look

- ESG data providers
- Company disclosures
- Media and campaign research
- Defence journals
- OECD and public lists
- Direct company engagement

Where the limits appear

- Government-contract confidentiality
- Sovereign-security restrictions
- Unknown downstream users
- Resale and donation in conflict contexts
- Divergent controversial-weapons lists

What investors need

- Clearer definitions
- Transparent methodology from providers
- Product-level and customer indicators
- Red flags for heightened due diligence
- Enough evidence to support escalation

Investor Expectations May Already Be Ahead of Company Practice

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The due-diligence checklist is becoming more mature — but still partly aspirational.

1 Responsible R&D

Guardrails for what the company will develop and how it assesses responsible use.

2 Human rights policy

Clear processes for conflict-affected and high-risk areas, not just generic policy language.

3 Customer screening

Understanding who buys the product and what restrictions or safeguards apply.

4 Export controls

Compliance with sanctions and regimes, but not treated as the full answer.

5 End-use limits

Recognition that resale, redistribution or sovereign donation may move products elsewhere.

6 AI oversight

Human-in/on-the-loop, testing, accountability and decision thresholds across the lifecycle.

7 Cybersecurity

What happens if products or systems are hacked and used for unintended purposes?

8 Board accountability

Oversight, scenario testing and accountability for sensitive defence-related activities.

Investors have a wish list — but few companies currently meet it in full.

Strategic Outlook & Next Steps

From high-level policy to practical indicators for stewardship and heightened due diligence.

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1 Move from lists to indicators

Develop practical red flags that identify when dual-use or defence exposure requires heightened review.

Relevant indicators include product type, customer, geography, end use, conflict linkage and governance.

2 Clarify company expectations

Translate broad responsible-investment principles into concrete engagement asks on disclosure, customer controls and AI governance.

This is where collaborative engagement may add leverage, especially with large technology companies.

3 Feed into GRID

Use investor dialogue to strengthen practical guidance for responsible investment in defence.

The goal is not a single investment view, but a more consistent process for difficult decisions.

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