There are many reasons why institutional investors should not invest in companies that produce weapons banned by international treaties. However, this remains a challenging task.

In February 2019, a group of 168* investors managing USD 9.0 trillion called on index providers “to remove companies involved in controversial weapons from mainstream indices” as “the default position should be to exclude controversial weapons from active and passive investments.”

The goal is to help institutional investors to avoid extra tracking error and enable passive investors to replicate traditional indices.

This may just be the beginning, as it may be required that mainstream indices take other ESG issues into account (first and foremost climate risks).

However, institutional investors should not wait until index providers adapt their products, as they already face growing due diligence expectations (UN, OECD, national law).