

Sustainability Now Podcast

“From Cloud to Kill Chain”

Transcript, 27 February 2026

Bentley Kaplan

Hello and welcome to the weekly edition of Sustainability Now, the show that explores how the environment, our society and corporate governance affect and are affected by our economy. I'm Bentley Kaplan, your host for this episode. And on today's show, we're going to climb into a cramped elevator with sustainable investors and the defense sector. And that's because defense, as both an investment opportunity and an increasing necessity, as told by some, has re-entered the conversation in a very real way. It's not that the guardrails determining where and how investments can be channeled to the manufacturers of weapons, their components and their support systems have disappeared. But those guardrails are being reinterpreted, and the definition of so-called controversial weapons is by no means a fixed boundary. It turns out to be more fluid than it sounds. So, thanks for sticking around. Let's do this.

Now, for years, if you were running a sustainable portfolio in Europe, excluding defense companies might not have been especially surprising. Some may even have taken it for granted, and historically, they may well have been times where you could have done this without feeling much of a performance pinch. But that's changed. Defense spending is rising. Geopolitics is shifting, and quickly. And some investors are being told, sometimes directly by policy makers, that the defense sector can be seen as supporting peace and social stability. At the same time, the intent to have exclusions to ensure that funds are not directed towards some components of defense products or services still very much in play. Before we get more into these exclusions and where investors may be redrawing their red lines, I wanted to bring in my co-host, Mike Disabato. And that's because Mike covers aerospace and defense, and he has had a ringside seat to these recent and significant changes.

So, Mike, maybe first things first. Let's set the stage. This overlap between defense and sustainable investments, especially in Europe – it's something that's been on the rise for several years, arguably as far back as Russia's invasion of Ukraine, but then also more recently as we've seen the relationship between the US and NATO, or Europe more generally starting to shift. And one upshot of these changes is the way capital is now moving more deliberately towards the defense sector.

Mike Disabato

Europe has now had to say, well, okay, we need to increase our percent of GDP that goes into defense. They've done that. And they've also said to the large portion of sustainable investors in the region that you need to see these companies as a way to protect the social good, a way to protect the peace of the EU, a way to protect human rights and everything in between. And so now all of a sudden, sustainable investors are discussing their exclusions of weapons. And should they be changing those exclusions. A lot of them came out and said we need to make a case for defense spending. We need to make a case for the capital markets to be engaged in this. Sometimes it was a regulatory change. Sometimes it was just a policy paper change. And to signal to the market that this needs to become a priority. And really what's changing is around the guardrails for defense investing. They're not being completely done away with. But the lines as to where you can and cannot put your money, if you're going to be seen as a quote unquote investor with sustainable

priorities, has been changing throughout 2025 and in a really, really aggressive way. And not only that, the way you define your exclusions directly impacts. Some of these very large companies will either be in or out of your portfolio. And there is an economic driver in a lot of cases when you have a defense company. And so you need to be able to justify why you've included something, why you've excluded something to your investors, and you need to have the appropriate line set up to do that. If you don't have a well-structured guardrail, someone might come to you and ask, well, why did you remove this company? Why did you not remove this company?

Bentley Kaplan

Okay, so I guess what you're describing is not so much a world where defense is suddenly, you know, fully embraced by sustainable investors. It's more about the perimeter, the outlines being redrawn. Governments, particularly in Europe, are increasing defense spending. And in some cases, they're signaling that capital markets should be coming to the party as well. But at the same time, you've got investors looking for those guardrails because they still need to explain to their clients why a company like Lockheed Martin, for example, or Boeing, or BAE Systems, or Airbus is in or out of a portfolio. And so I guess that's where specific definitions really start to matter, because depending on how you draw those lines, some of the biggest names in global defense either stay in a portfolio or they're screened out. So let's maybe talk about where those lines are usually drawn. I suppose the term that comes up again and again here is controversial weapons. It sounds definitive, but, you know, from what you've told me, it isn't really.

Mike Disabato

Where we usually see the floor laid out. It's usually around this amorphous term called controversial weapons. And there is no real definition of a controversial weapon. There are regulations that have set this definition down. There are treaties that say, you know, these weapons cannot be used in the battlefield, should not be used in the battlefield. And then signatories say we agree with that. And then there's just long-standing priorities around this. And usually where people really don't like to go past is cluster munitions, chemical and biological weapons and anti-personnel landmines, everything else is sort of up for grabs. There's depleted uranium, there's non-detectable fragment weapons, there's blinding laser weapons that can be used against soldiers or civilians.

Incendiary weapons, white phosphorus nuclear weapons is a big question. So if we keep on Europe the discussion around what Europe needs to do in order to become a self-reliant military, it needs to also remove itself from the requirements of the US's nuclear arsenal in some ways. And it's doing that, and it means all the major European defense companies, most of the major European defense companies, are involved in some aspect of nuclear weapons. If you look at our screens and you look at the nuclear weapon "any tie" screen that we have, you're going to see a lot of EU companies there. You know, Rheinmetall, I think, is one of the only major European defense companies not involved in some way with nuclear weapons. That has been something that people have also been deciding to shift on. They have n't been removing nuclear weapons exclusion entirely, but they've been saying, well, maybe we only want to remove the main players in this. We don't want to remove someone that's making a component for a missile that then becomes a nuclear weapon at some point. So it really is about redefining where the line is in terms of inclusion in a portfolio. And when you do that, you do see some major companies coming into your portfolio. The question is, does that mean you're going to get, you know, the returns you want to see to justify a change in what many investors might still see as something they don't want you to go beyond. And that's defense investing.

Bentley Kaplan

Okay. Right. So, there's a red line. Most investors are reluctant to cross this. So that's cluster munitions chemical and biological weapons and anti-personnel landmines as you mentioned. And these are widely prohibited under international treaties. So, that's maybe a starting point. But then like you say, Mike, once you move beyond that, things really start to blur. With nuclear weapons being a good example, especially in Europe, where you have greater military

independence, meaning potentially greater involvement in nuclear capabilities. And then there's the component question, right. So do you exclude the company that builds the entire weapon system, or the one that makes a component that might ultimately be part of a controversial weapon? These choices can meaningfully change your investment universe. And if you decide to exclude certain companies from your investable universe that can impact portfolio performance, particularly at a time when many of these companies are seeing some enviable growth in share price.

But Mike, it seems that the heart of this isn't necessarily about sacrificing or securing returns. It's much more about clarity. Because as an investor, if one of your clients comes to you and asks why is Boeing or Airbus in this portfolio? Or the flip side, why aren't they in the portfolio? It may be hard to rest on performance alone. You may still have to explain your interpretation of a treaty, or why you've directed capital to a company that makes weapons or components that are in a bit of a gray area. And there's all of this complexity before we even get to what's coming next.

So, Mike, let's fast forward here, because even if investors feel comfortable with where they've drawn the line today, emerging technologies are going to complicate things even further. And in fact, are doing so already.

Mike Disabato

Where we're really seeing a massive shift. And this is really going to change, I think, how investors with sustainable priorities think about tech. Is that emergence of tech into the military sector. And it's done through sort of amorphous ways, like with cloud computing, where large tech companies are saying, hey, military, you have all this data, we can give you a cloud computing system with an AI overlay. You can then assess that data better and make a variety of decisions better. But they're also marketing those products to shipping companies. Where we're seeing another large push is these lethal autonomous weapons systems or laws that are often called and these lethal autonomous weapons systems. This is where I think the conversation is going to be in 2026, around what is a controversial weapon and what is a conventional weapon. If you have a semi-autonomous weapon system that has removed the human from deciding when to fire off a missile, when does that become controversial in the mind of investors? And it's really around what should be considered autonomous. What should be considered allowed within the kill chain? The kill chain being. I see a target. I need a human being to push the button that shoots off the target. And for us, what we need to think about as kind of a large investor community is how to set the guardrails around those weapon systems. These are the open questions I think there has to be for 2026. And we have to try to figure out how to answer them with some clarity in order for investors to be able to figure out again who they should or shouldn't include in a portfolio, that they want to have certain sustainable priorities associated with.

Bentley Kaplan

Right, so this modernization of defense is seeing non-traditional players entering the sector, either through all-purpose tech, like cloud computing or analytics. But also, in more niche and explicit products designed for use on the battlefield - something like the possibility of a fully automated kill chain with no human in the loop. And where and how investors decide to draw the line on which of these products to screen out could end up having a much more significant impact on their investable universe, given the market cap of tech companies. This defense evolution is suddenly raising the stakes on exclusion and screening strategies. So for investors, this may be a very timely moment to get more prepared. To take a careful look at their approach to investing in defense.

It's a sector that has always had slippery definitions. Treaties and regulations may give the impression of certainty and things being black and white, but in reality, there are a lot of grey areas. Which means there is a limit to how much of your exclusion policy you'll be able to outsource. At some point quite soon you're going to need to be able to explain where your line is and why it's there.

And that is it for the week. A massive thanks to Mike for his take on the news with a sustainability twist. And as always, I do want to say thank you very much for tuning in. If you like

what we're doing, then let us know. Drop us a review, rate the show on your platform of choice and tell a friend or colleague about this episode. Thanks again and until next time, take care of yourself and those around you.

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