How to choose a pure-play European defence ETF: WisdomTree's approach

Published 6 November 2025

Baoqi Zhu
Associate Director, Quantitative Research & Multi Asset Solutions

Key Takeaways

- A Europe-only universe keeps exposure aligned with the region's procurement and end-demand, while global baskets risk dilution via non-European constituents and significant ex-Europe revenues.
- Revenue-tilted weighting emphasises purer defence names rather than simply the largest market caps.
- 'Europe defence' labels can still include non-European issuers; a strict European scope better reflects EU procurement and funding channels.
- Tight quoted spreads and solid trading activity support cost-effective implementation in practice.

Headlines about geopolitical tensions have moved from abstract to immediate, and Europe's defence posture has reset accordingly. Since 2022, threats have shifted from theory to the front line and uncertainty around US posture has reinforced the case for greater European self-reliance. Rising budgets, renewed stockpiles and accelerating investment are powering an explicitly Europe-centred rearmament and industrial expansion cycle.

Investor interest has followed. Defence-themed ETFs have attracted over $10 billion[1] of inflows year to date as allocators seek targeted exposure to the theme. The key test for investors is finding an exchange-traded fund (ETF) that delivers pure exposure to Europe's rearmament, built around European companies and weighted by the factors that drive defence demand.

In the sections that follow, we show why a Europe-focused scope matters, how 'Europe' labels can mask very different portfolio definitions, how the WisdomTree Europe Defence ETF's revenue-tilted design aims to create purer exposure than market-cap peers, and why its liquidity makes it efficient to hold.

Global baskets dilute Europe's defence story

Global defence ETFs are built to capture the average of a worldwide theme, not the centre of Europe's rearmament. By design, they include large US primes and Asia-Pacific names whose demand cycles, budget dynamics, and programme timelines differ from those in Europe. That broad reach pulls portfolio weight away from European companies and away from revenues earned in Europe - the pulse of the continent's procurement and capacity build-out.

Europe's rearmament is a region-specific cycle, but most global defence ETFs are constructed around market capitalisation across regions, which naturally concentrates exposure in the largest US primes. That is not Europe's demand centre and it underweights European primes and suppliers more directly levered to European procurement, ammunition replenishment, missile defence and industrial scaling. Even when global funds hold European companies, their weights are relatively low.

WDEF takes the opposite approach, restricting the universe to companies domiciled in Europe only. That scope choice leads, mechanically, to a heavier focus on European players and a higher share of revenues linked to European customers than other global defence ETFs. As Figure 1a shows, major global defence ETFs only allocate roughly 24–32% to European-domiciled companies. This, in turn, results in around 50% median revenue exposure to Europe for WDEF, which is significantly higher than the typical 10–15% of global strategies (Figure 1b). Global ETFs dilute Europe's defence story. WDEF keeps it intact by concentrating both portfolio weight and revenue exposure within Europe.

Figure 1a: Portfolio weight in European-domiciled companies: WDEF vs global defence-themed UCITS ETFs

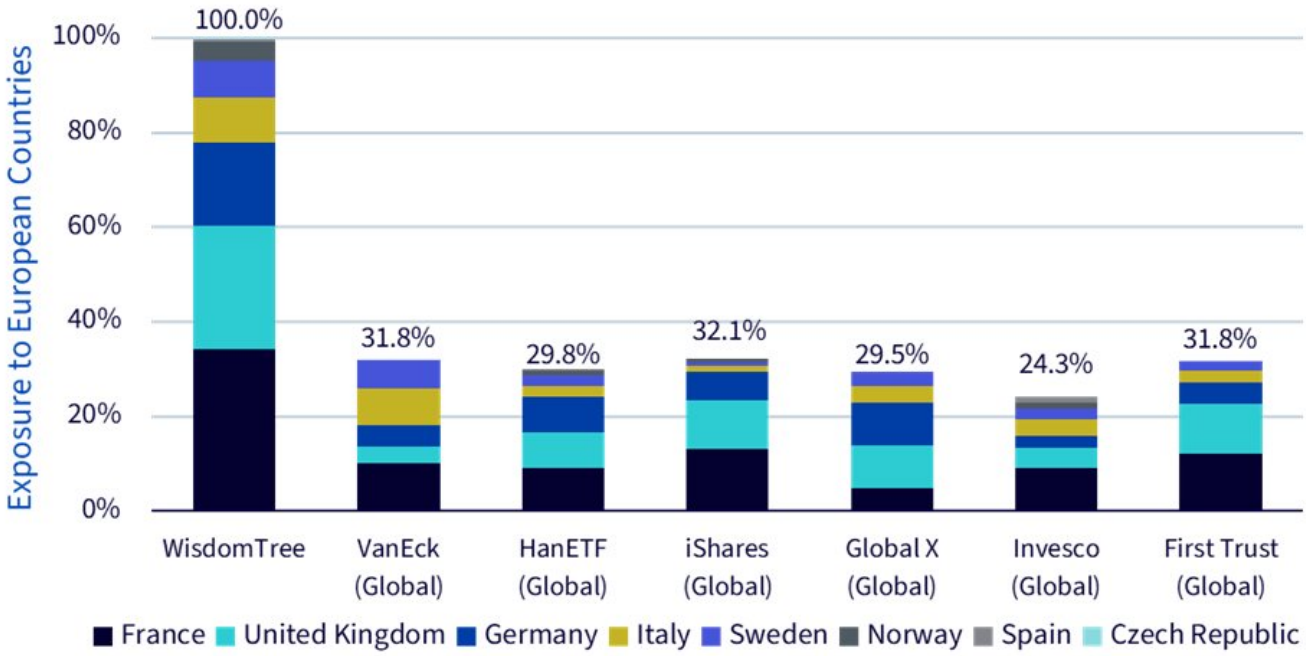
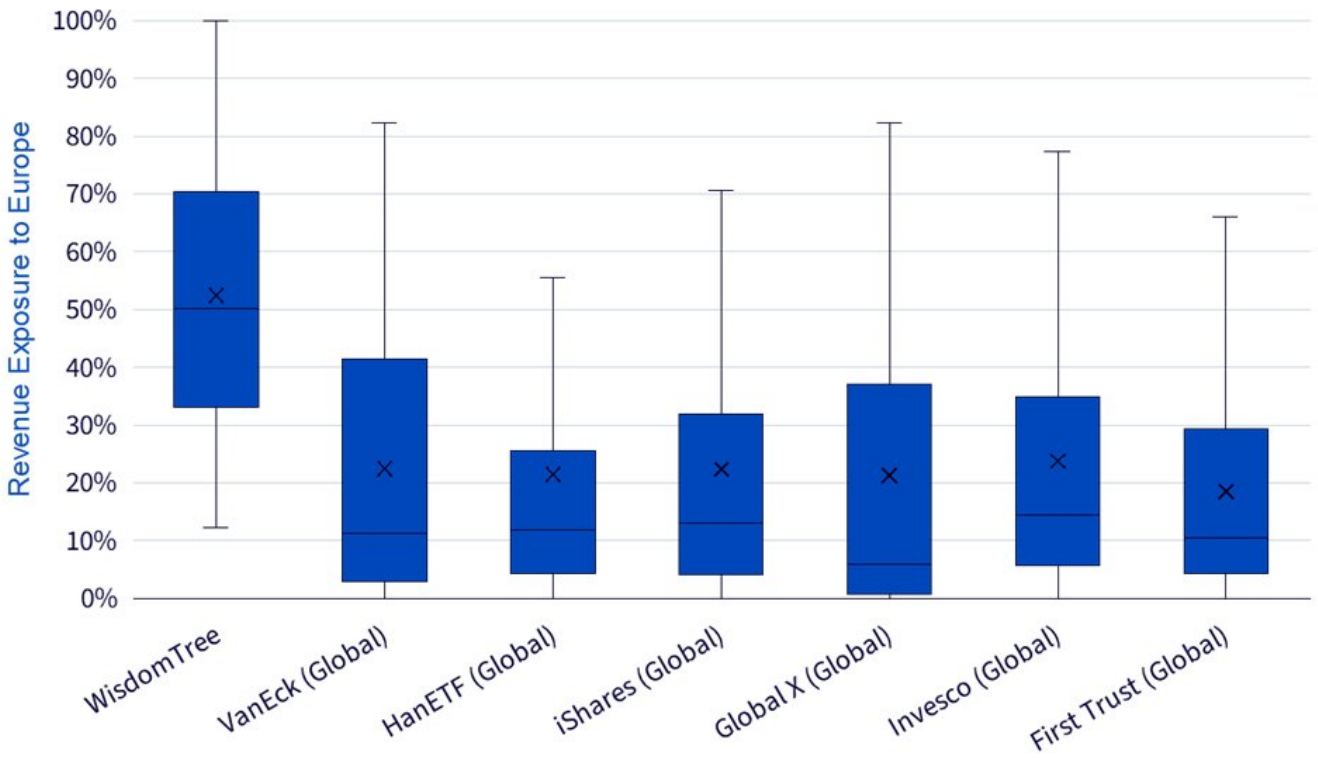


Figure 1b: Revenue exposure to Europe: WDEF vs global de-fence-themed UCITS ETFs



Purity by design: incorporate revenue in weighting

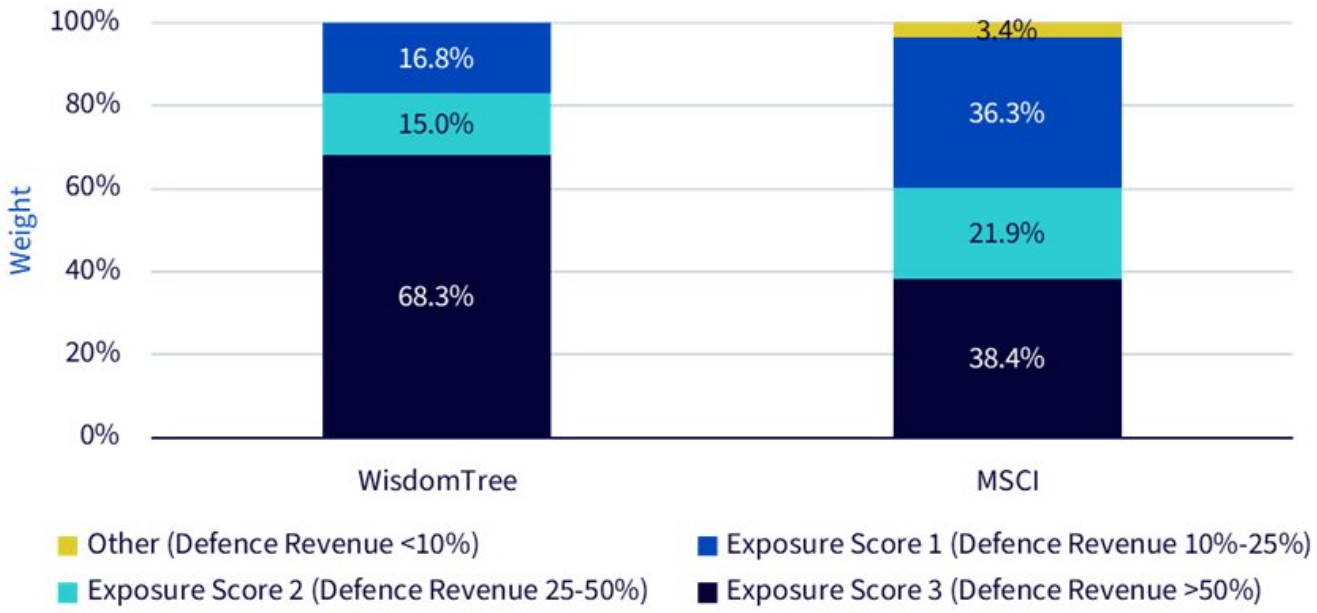
Within a clean Europe-only universe, how you weight holdings determines the purity of the exposure. Plain market-cap methods favour the biggest constituents, which are not always the most tied to defence activity. WDEF incorporates defence revenue into construction, tilting weights toward companies more directly linked to defence spending. Eligible companies are assigned exposure scores based on revenue exposure to defence activities: Score 3 (>50%), Score 2 (25–50%) and Score 1 (10–25%). Higher scores receive greater emphasis, subject to liquidity and risk constraints.

This design choice matters in practice. Consider Airbus and BAE Systems. Airbus has the larger market capitalisation but a broader civil aerospace mix and BAE Systems has a higher share of defence revenues. A cap-weighted aerospace and defence benchmark will tend to skew toward Airbus, while a revenue-aware approach places greater emphasis on BAE Systems and similar high-intensity names, lifting the portfolio's thematic purity. As shown in Figure 2b (using the MSCI Europe Aerospace and Defence Index as a reference), Score 3 names account for around 68% of WDEF versus about 38% in a cap-weighted index.

Figure 2a: Weighting cases in WDEF: BAE Systems vs Airbus

	BAE SYSTEMS	AIRBUS
Market Cap	EUR 67.3bn	EUR 153.6 bn
Defence Exposure	High revenue exposure ~90%	Low revenue exposure ~20%
Exposure Score	**3**	**1**
Weight at the Last Rebalancing	**12.5%**	**7.5%**

Figure 2b: Exposure Score Breakdown: WisdomTree Europe Defence UCITS Index vs MSCI Europe Aerospace and Defence Index



At the group level, higher-score cohorts have shown relatively stronger sales growth and performance, supporting the case for a revenue-aware tilt (Figure 3). There remains a strategic role for lower-score names such as Airbus or Rolls-Royce. These firms supply propulsion, subsystems and services central to Europe's rearmament; they offer liquidity and diversification, and their civil exposure can dampen programme-specific risk. The tilt does not exclude these companies; it reweights toward the pure-play part of the theme, aiming to align more closely with Europe's defence cycle and its growth opportunities.

Figure 3: WDEF - sales growth and 1-year return by exposure score

Exposure score	Median Sales growth	Median 1-yr total return
3	16.3%	80%
2	9.6%	43%
1	5.1%	54%

Europe label, non-Europe exposure

Products with 'Europe defence' in the name can still reach outside Europe. Some strategies permit allocations to non-European companies in Turkey, South Korea, or Australia, for example, allowing the portfolio to hold companies such as Aselsan, whose revenues are predominantly domestic (87% from Turkey). If the goal is to align with Europe's rearmament narrative, these inclusions dilute the signal: the demand centre, procurement priorities and budget execution are Europe-centric.

Funding support is another factor. EU initiatives such as the European Defence Fund (EDF), which promotes joint R&D and capability development, and the European Defence Industry Reinforcement through Common Procurement Act (EDIRPA), focused on joint procurement, both aim to scale Europe's defence industrial base and can directly or indirectly benefit European companies. These programmes are intended primarily for EU-based recipients, meaning non-EU issuers are less likely to benefit directly from this policy support. In short, scope choices are not semantic; they map to the policy plumbing behind Europe's cycle.

Efficient to own: liquidity and spreads

Good thematic design still needs good implementation. Execution costs matter as much as management fees in an ETF. Two factors drive the 'all-in' cost of trading: the quoted bid-ask spread and the depth available, both on-exchange and via the primary market (creations/redemptions). WDEF shows a quoted spread of 5.4 bps, the tightest in the set. On turnover, WDEF's 1-month average daily volume is $12.82m, far ahead of the group. That combination, including tight spreads and materially higher on-screen activity, suggests greater capacity for block trades without significant price impact, which helps keep total trading costs in check even for larger tickets.

Figure 4: Bid ask spread and daily volume comparison vs other Europe Defence-Themed ETFs

Issuer	WisdomTree	HanETF	Amundi	BNP	Global X	iShares	SPDR	Xtrackers
Ticker	WDEF	ARMY	DEFS	GUARD	EDEF	DFEU	DFSV	XDEF
Bid ask spread (bps)	5.40	23.10	9.60	16.50	65.60	10.30	28.40	19.20
1m Average daily volume ($, mn)	12.82	0.31	1.30	0.16	0.03	0.87	0.17	0.19

Conclusion

Europe’s defence rearmament is a multi-year, Europe-centred story. Suppose the objective is to capture that specific cycle - scope and weighting both matter. WDEF starts with a European issuer universe and a clear preference for European end-demand, mitigating the ‘label risk’ that blurs the theme. It then tilts by defence-revenue intensity so that exposure follows the drivers of the cycle, not just the biggest tickers. Finally, it seeks to deliver that purity in an ETF wrapper that is practical to own, with tight spreads and solid trading depth. For investors seeking a targeted sleeve that aligns with Europe’s evolving security priorities, WDEF could offer a pure-play, rules-based route into the theme.

[1]Source: WisdomTree European thematic monthly update, September 2025.

Important Risks Related to this Article

IMPORTANT INFORMATION

Marketing communications issued in the European Economic Area ("EEA"): This document has been issued and approved by WisdomTree Ireland Limited, which is authorised and regulated by the Central Bank of Ireland. **Marketing communications issued in jurisdictions outside of the EEA:** This document has been issued and approved by WisdomTree UK Limited, which is authorised and regulated by the United Kingdom Financial Conduct Authority. WisdomTree Ireland Limited and WisdomTree UK Limited are each referred to as "WisdomTree" (as applicable). Our Conflicts of Interest Policy and Inventory are available on request. This marketing communication has been prepared for professional investors, but the WisdomTree products set out in this document may be available in some jurisdictions to any investors, subject to applicable laws and regulations. As the product may not be authorised or its offering may be restricted in your jurisdiction, it is the responsibility of every person or entity to satisfy themselves as to the full observance of the laws and regulations of the relevant jurisdiction. Prior to any application investors are advised to take all necessary legal, regulatory, tax and investment advice on the suitability and consequences of an investment in the products. Past performance is not a reliable indicator of future performance. Any historical performance included in this document may be based on back testing. Back testing is the process of evaluating an investment strategy by applying it to historical data to simulate what the performance of such strategy would have been. Back tested performance is purely hypothetical and is provided in this document solely for informational purposes. Back tested data does not represent actual performance and should not be interpreted as an indication of actual or future performance. The value of any investment may be affected by exchange rate movements. Any decision to invest should be based on the information contained in the appropriate prospectus and affer seeking independent investment, tax and legal advice. These products may not be available in your market or suitable for you. The content of this document does not constitute investment advice nor an offer for sale nor a solicitation of an offer to buy any product or make any investment. An investment in exchange-traded products ("ETPs") is dependent on the performance of the underlying index, less costs, but it is not expected to match that performance precisely. ETPs involve numerous risks including among others, general market risks relating to the relevant underlying index, credit risks on the provider of index swaps utilised in the ETP, exchange rate risks, interest rate risks, inflationary risks, liquidity risks and legal and regulatory risks. The information contained in this document is not, and under no circumstances is to be construed as, an advertisement or any other step in furtherance of a public offering of shares in the United States or any province or territory thereof, where none of the issuers or their products are authorised or registered for distribution and where no prospectus of any of the issuers has been filed with any securities commission or regulatory authority. No document or information in this document should be taken, transmitted or distributed (directly or indirectly) into the United States. None of the issuers, nor any securities issued by them, have been or will be registered under the United States Securities Act of 1933 or the Investment Company Act of 1940 or qualified under any applicable state securities statutes. This document may contain independent market commentary prepared by WisdomTree based on publicly available information. Although WisdomTree endeavours to ensure the accuracy of the content in this document, WisdomTree

does not warrant or guarantee its accuracy or correctness. Any third party data providers used to source the information in this document make no warranties or representation of any kind relating to such data. Where WisdomTree has expressed its own opinions related to product or market activity, these views may change. Neither WisdomTree, nor any affiliate, nor any of their respective officers, directors, partners, or employees accepts any liability whatsoever for any direct or consequential loss arising from any use of this document or its contents. This document may contain forward looking statements including statements regarding our belief or current expectations with regards to the performance of certain assets classes and/or sectors. Forward looking statements are subject to certain risks, uncertainties and assumptions. There can be no assurance that such statements will be accurate and actual results could differ materially from those anticipated in such statements. WisdomTree strongly recommends that you do not place undue reliance on these forward-looking statements. This document contains a comparison of financial products contained within the relevant prospectus and/or based on publicly available information, some of which has been prepared by third parties. While such sources are believed to be accurate as at their date of publication, WisdomTree does not warrant, guarantee or otherwise confirm the accuracy or correctness of any information contained herein and any information or opinions related to the products detailed herein may change over time. Any third parties used to source the information in this document make no warranties or claims of any kind relating to such data. Investors should read the prospectus and other applicable offering documents for each product and consider the investment objectives, risks, charges and expenses carefully before investing. WisdomTree Issuer ICAV The products discussed in this document are issued by WisdomTree Issuer ICAV (“WT Issuer”). WT Issuer is an umbrella investment company with variable capital having segregated liability between its funds organised under the laws of Ireland as an Irish Collective Asset-management Vehicle and authorised by the Central Bank of Ireland (“CBI”). WT Issuer is organised as an Undertaking for Collective Investment in Transferable Securities (“UCITS”) under the laws of Ireland and shall issue a separate class of shares ("Shares”) representing each fund. The Fund is described in a Key Information Document (KID) or Key Investor Information Document (KIID) for UK investors, and the prospectus of WT Issuer (“WT Prospectus”). A copy of the WT Prospectus and the KID / KIID is available, for EEA/UK only, in English at www.wisdomtree.eu. Where required under national rules, the KID will also be available in the local language of the

relevant EEA Member State. Investors should read the WT Prospectus before investing and should refer to the section of the WT Prospectus entitled 'Risk Factors' for further details of risks associated with an investment in the Shares. The summary of investor rights associated with an investment in the fund is available in English on WisdomTree Europe's website. WisdomTree Management Limited may decide to terminate the arrangements made for the marketing of its collective investment undertakings. In such circumstances, shareholders in the affected EEA Member State will be notified of this decision and will be provided with the opportunity to redeem their shareholding in the fund free of any charges or deductions for at least 30 working days from the date of such notification.

Notice to Investors in Switzerland – Qualified Investors This document constitutes an advertisement of the financial product(s) mentioned herein. The prospectus and the key investor information documents (KIID) are available from WisdomTree's website: https://www.wisdomtree.eu/en-ch/resource-li-

brary/prospectus-and-regulatory-reports Some of the sub-funds referred to in this document may not have been registered with the Swiss Financial Market Supervisory Authority (“FINMA”). In Switzerland, such sub-funds that have not been registered with FINMA shall be distributed exclusively to qualified investors, as defined in the Swiss Federal Act on Collective Investment Schemes or its implementing ordinance (each, as amended from time to time). The representative and paying agent of the sub-funds in Switzerland is Société Générale Paris, Zurich Branch, Talacker 50, PO Box 5070, 8021 Zurich, Switzerland. The prospectus, the key investor information documents (KIID), the articles of association and the annual and semi-annual reports of the sub-funds are available free of charge from the representative and paying agent. As regards distribution in Switzerland, the place of jurisdiction and performance is at the registered seat of the representative and paying agent. For Investors in France: The information in this document is intended exclusively for professional investors (as defined under the MiFID) investing for their own account and this material may not in any way be distributed to the public. The distribution of the Prospectus and the offering, sale and delivery of Shares in other jurisdictions may be restricted by law. WT Issuer is a UCITS governed by Irish legislation, and approved by the Financial Regulatory as UCITS compliant with European regulations although may not have to comply with the same rules as those applicable to a similar product approved in France. The Fund has been registered for marketing in France by the Financial Markets Authority (Autorité des Marchés Financiers) and may be distributed to investors in France. Copies of all documents (i.e. the Prospectus, the Key Investor Information Document, any supplements or addenda thereto, the latest annual reports and the memorandum of incorporation and articles of association) are available in France, free of charge at the French centralizing agent, Societe Generale at 29, Boulevard Haussmann, 75009, Paris, France. Any subscription for Shares of the Fund will be made on the basis of the terms of the prospectus and any supplements or addenda thereto. **For Investors in Malta:** This document does not constitute or form part of any offer or invitation to the public to subscribe for or purchase shares in the Fund and shall not be construed as such and no person other than the person to whom this document has been addressed or delivered shall be eligible to subscribe for or purchase shares in the Fund. Shares in the Fund will not in any event be marketed to the public in Malta without the prior authorisation of the Maltese Financial Services Authority. Certain information contained herein (the “Information”) is sourced from/copyright of MSCI Inc., MSCI ESG Research LLC, or their affiliates (“MSCI”), or information providers (together the “MSCI Parties”) and may have been used to calculate scores, signals, or other indicators. The Information is for internal use only and may not be reproduced or disseminated in whole or part without prior written permission. The Information may not be used for, nor does it constitute, an offer to buy or sell, or a promotion or recommendation of, any security, financial instrument or product, trading strategy, or index, nor should it be taken as an indication or guarantee of any future performance. Some funds may be based on or linked to MSCI indexes, and MSCI may be compensated based on the fund's assets under management or other measures. MSCI has established an information barrier between index research and certain Information. None of the Information in and of itself can be used to determine which securities to buy or sell or when to buy or sell them. The Information is provided “as is” and the user assumes the entire risk of any use it may make or permit to be made of the Information. No MSCI Party warrants or guarantees the originality, accuracy and/or completeness of the Information and each expressly disclaims all express or implied warranties. No MSCI Party shall have any liability for any errors or omissions in connection with

any Information herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages.