

European defence ETFs: balancing strategic resilience and responsible investment

Published 2 April 2025

Kate Donegan

Kate Donegan, Associate Director, Product Legal and ESG

Key Takeaways

- Leading European defence companies are recording significant gains, reflecting growing confidence in the sector's long-term potential.
- Defence is redefining investors' views on ethical investing. However, a jurisdiction-aware approach is key to navigating restrictions around controversial weapons and sanctions for all investors.
- The rise of Europe-focused defence ETFs enables targeted exposure to companies aligned with Europe's strict ESG standards and strategic resilience.
- The WisdomTree Europe Defence UCITS ETF (WDEF) provides investors with access to an area of the market that acknowledges contemporary security challenges while implementing defined ESG parameters.
- Related Products WisdomTree Europe Defence UCITS ETF - EUR Acc Find out more

In today's uncertain geopolitical environment, Europe is ramping up investment in defence capabilities, driven by both necessity and a renewed commitment to collective security.

Defence spending across Europe has seen close to a decade of growth reaching €326 billion in 2024 and is projected to increase by at least another €100 billion by 2027¹.

To further strengthen its defence capabilities, the European Commission has unveiled an €800 billion financing plan², including a €150 billion loan³ instrument targeting key defence technologies. As part of this push, the European Investment Bank (EIB) has expanded lending for defence projects, reinforcing a "Member State preference" approach by excluding non-EU defence companies from third countries unless their home countries sign defence and security pacts with Brussels.

The EIB's proposed fund for EU-only defence companies signals a significant policy shift toward reducing reliance on traditional partners and strengthening strategic autonomy. While the effects of limiting funding to EU firms are still uncertain, growing defence needs across the continent make broad European collaboration more important than ever.

The surge in European capital allocation to the defence sector has not gone unnoticed by investors. Leading European defence companies recorded significant gains last month⁴, reflecting growing confidence in

the sector's long-term potential. This momentum reflects a broader recognition that defence investment is a critical pillar of European security and economic resilience.

Evolving perspectives on defence and ESG

Once considered as incompatible with ESG5, defence is now emerging as a dynamic sector and is reshaping the conversation around what ethical investment truly means.

The European Commission itself has acknowledged this shift, noting in its recent policy paper that "investing in European defence means investing in lasting peace and long-term stability... but also boosting technological innovation, supporting European competitiveness, promoting regional development, and powering economic growth"⁶.

Yet, this evolution is not without its challenges for the investment industry.

Constructing defence-focused portfolios demands careful navigation, particularly around the geopolitical implications and ethical sensitivities tied to controversial weapons.

In Europe, several competent authorities have introduced restrictions that directly impact defence-related investments. For example, Italy's Law No. 220 of 9 December 2021 enforces obligations under the Ottawa and Oslo Conventions and mandates that financial institutions operating in the banking, pension, insurance and financial sectors prohibit the financing of companies involved in antipersonnel mines, cluster munitions and submunitions. Luxembourg's 2009 law implementing the Oslo Convention similarly prohibits investment in manufacturers of banned munitions. Other Member States have enacted comparable legal frameworks, reinforcing the growing consensus around limiting exposure to such assets across the continent.

These regulatory shifts are particularly important for investment funds with broad geographic exposure, especially those allocating to NATO and NATO+ companies which may not impose explicit bans on controversial weapons. Hanwha Aerospace Co., Ltd, for example, appears on the Nummus list of excluded issuers⁷ which serves as a key reference for identifying issuers that violate Italy's Law 220/2021 and yet is still part of some UCITS defence-focused exchanged-traded funds (ETFs) currently in the market.

Sanctions risk is another critical factor for defence investors. Turkey is the only NATO member currently subject to targeted US sanctions under the Countering America's Adversaries Through Sanctions Act (CAATSA). These measures were introduced in response to Turkey's purchase of Russian S-400 missile systems and serve as a reminder of the potential for jurisdictional challenges in certain defence-related investments.

For investors in the defence sector, avoiding reputational and regulatory risk means going beyond broad exposure and taking a targeted, jurisdiction-aware approach.

European defence companies not only offer strategic and potential financial advantages but also present a compelling opportunity for investors to support peace, stability, and democratic resilience, values at the core of sustainable investing.

Defence as a responsible investment consideration

European defence companies operate under some of the world's most stringent regulatory frameworks, including ethical business practices and ESG standards. Additionally, these companies operate within jurisdictions that are signatories to the Treaty on the Non-Proliferation of Nuclear Weapons (NPT), ensuring alignment with global arms control standards.

The ESG performance and business activities of the continent's top defence companies are publicly available and can be independently verified via third-party sources such as the MSCI ESG Ratings tool⁸ which offers investors additional transparency and confidence in assessing a portfolio's alignment with ESG criteria.

According to the MSCI database, Sweden's Saab AB and UK's BAE Systems hold an AA MSCI ESG Rating, placing it in MSCI's "Leader" category. This reflects strong performance in managing ESG risks and opportunities relative to global industry peers. Notably, both companies are assessed as having no involvement in controversial weapons, such as cluster munitions, landmines, or biological/chemical weapons banned under international conventions. This classification is consistent across their peers such as Italy's Leonardo SpA and Germany's Rheinmetall AG which are rated slightly lower but still above average and similarly listed as having no involvement in controversial weapons banned by international law.

Tools like MSCI ESG Ratings provide investors with greater transparency and confidence when assessing a portfolio's alignment with ESG criteria and allow investors to evaluate a company's involvement in specific business activities, including the production of controversial weapons.

Moreover, the EU's commitment to building defence sovereignty ensures that capital is increasingly directed toward companies operating under strict governance and compliance standards. This not only excludes firms from restricted jurisdictions but also strengthens the competitive position of European defence companies by granting them preferred access to an increasingly protected internal market.

European defence ETFs: a thoughtful route to defence investment

Historically, defence investment has focused on NATO and allied industries, often favouring US defence stocks. This was partly due to underinvestment by many European members that historically fell short of NATO's 2% GDP⁹ defence spending target. However, this is changing. As of 2024, average EU defence spending reached approximately 1.9% of Member State GDP¹⁰, with Germany meeting the 2% target last year¹¹.

In continuing this momentum, the European Parliament in a recent Think Tank¹² highlighted the critical role of private investment in fortifying Europe's defence industry, particularly as funding gaps widen and security challenges evolve.

The introduction of European-focused defence ETFs marks a significant step in aligning capital markets with Europe's evolving security landscape. These ETFs help channel investment into the region's defence sector while offering investors a way to support resilience and strategic autonomy without compromising

on responsible investing principles. By bridging public and private funding, these ETFs play a key role in directing much-needed capital toward Europe's security priorities, while adhering to ESG and regulatory standards.

In a sign of growing policy support for strengthening Europe's defence capabilities, the French financial regulator (AMF) has introduced a fast-track authorisation process for investment funds targeting companies within the Defence Technological and Industrial Base (DTIB)¹³.

This initiative may signal the start of broader efforts by European supervisory bodies to reduce red tape and facilitate capital flows into the defence sector. By easing access to defence investment, policymakers can help strike a balance between enabling capital formation and staying aligned with European values and commitments.

With strict public sector backing, robust regulatory and compliance standards and a clear commitment to ethical defence practices, European defence companies provide the most ESG-aligned investment approach in the sector.

As security and sustainability become increasingly interdependent priorities, European-focused defence ETFs offer investors access to companies that align with both responsible governance and strategic resilience.

WisdomTree Europe Defence: a balanced solution

The [WisdomTree Europe Defence UCITS ETF \(WDEF\)](#) launched on 11 March 2025 and is designed to meet Europe's evolving security landscape by offering investors targeted exposure to defence companies operating within select European countries. WDEF excludes firms involved in controversial weapons banned under international law, as well as those that fail to meet global standards such as the UN Global Compact Principles and OECD Guidelines.

By focusing on companies in NPT signatory states and applying strict exclusionary screens, WDEF helps investors sidestep jurisdictional and regulatory risks while staying aligned with Europe's broader defence and compliance priorities.

[WDEF](#) is the first of its kind to focus solely on European defence companies and represents an investment approach that acknowledges contemporary security challenges while implementing defined ESG parameters—a balanced solution for a complex world.

1 [https://www.europarl.europa.eu/RegData/etudes/ATAG/2025/765790/EPRS_ATA\(2025\)765790_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2025/765790/EPRS_ATA(2025)765790_EN.pdf)
2

https://defence-industry-space.ec.europa.eu/document/download/30b50d2c-49aa-4250-9ca6-27a0347cf009_en?filename=White%20Paper.pdf

3 https://ec.europa.eu/commission/presscorner/detail/sv/statement_25_673

4 <https://www.reuters.com/markets/europe/european-stocks-climb-defense-boost-2025-02-17/>

5 Environmental, social, and governance.

6

https://commission.europa.eu/topics/defence/future-european-defence_en#:~:text=Investing%20in%20European%20defence%20means,development%20and%20powering%20economic%20growth

7 <https://nummus.info/en/esg-risk/italian-law-220-2021/>

8 <https://www.msci.com/our-solutions/esg-investing/esg-ratings-climate-search-tool>

9 GDP = gross domestic product.

10 <https://www.consilium.europa.eu/en/policies/defence-numbers/>

11

<https://www.reuters.com/world/europe/germany-met-nato-2-defence-spending-target-2024-sources-say-2025-01-20/>

12

[https://www.europarl.europa.eu/RegData/etudes/ATAG/2025/765790/EPRS_ATA\(2025\)765790_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2025/765790/EPRS_ATA(2025)765790_EN.pdf)

13 <https://www.amf-france.org/en/news-publications/news-releases/amf-news-releases/amf-introduces-fast-track-approval-procedure-defence-investment-funds>

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 after 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.

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 Factors¼ 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-library/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.

For Investors in Monaco: This communication is only intended for duly registered banks and/or licensed portfolio management companies in Monaco. This communication must not be sent to the public in Monaco.