

Private Capital Solutions

Rethinking European defence

**Emerging opportunities and risks across the
European defence supply chain**

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Introduction

This series of reports examines the evolving European and UK defence sector landscape for private capital funds (PCFs) and institutional investors, given wider shifts in global geopolitics. Drawing on extensive private capital fund raising and transaction experience, we analyse fund requirements, regulatory frameworks, deal structuring challenges, and sector dynamics in the €326bn European defence market, particularly in key industry verticals downstream of controversial weapons.

We address this topic in three parts:

- **Part 1: Market dynamics and sector opportunities:** Europe's strategic shift towards defence self-reliance has driven substantial increases in defence spending, creating sustained demand for private capital across seven key verticals as nations rebuild capabilities to meet growing security threats.
- **Part 2: ESG framework evolution and fund structuring:** Many ESG frameworks have evolved from blanket defence exclusions to nuanced approaches that separate controversial weapons from legitimate security infrastructure, potentially enabling responsible investment in democratic resilience through bespoke fund structuring.
- **Part 3: Executing transactions amidst regulatory complexity:** Investors must navigate government security requirements to execute defence transactions, including rules around security protocols, export controls, and emerging technologies in an increasingly complex regulatory environment.

Market dynamics and sector opportunities

Shifting global geopolitics are rapidly increasing European defence spending, creating space for private capital funds (PCFs) and institutional investors. This first report analyses these market dynamics, highlighting why investors increasingly view defence as a strategic opportunity rather than simply a risk, with a particular focus on key industry verticals downstream of controversial weapons.

Overview

Recent shifts in global geopolitics have prompted a significant reassessment of defence spending priorities across Europe, where countries face increasing pressure to take greater responsibility for their security. Governments across the continent now require new technology platforms, upgraded infrastructure, and expanded supply chains to rebuild defence capabilities to meet growing threats.

Institutional investors and private capital funds can play an important role in this effort —major asset managers like Aviva¹ and Legal & General², for example, have signalled increasing engagement in the sector, supported by reforms in European regulations enabling private capital participation.³ The UK's recent Comprehensive Spending Review demonstrated this commitment with substantial increases in defence capital spending⁴, whilst exploring broader pension fund investment into the sector⁵. Germany has issued guidelines clarifying that sustainable finance regulations should not restrict defence industry financing⁶, and progress on EU-UK defence cooperation agreements could enable enhanced access to European Defence Fund opportunities for UK manufacturers.⁷

The defence sector encompasses a diverse ecosystem of technologies and services that extend beyond offensive capabilities to include protective systems, secure communications, and critical infrastructure that supports both military and civilian applications. While controversial weapons systems often dominate public discourse, this report focuses on the broader defence ecosystem and opportunities further down the value chain that can align with responsible investment frameworks.

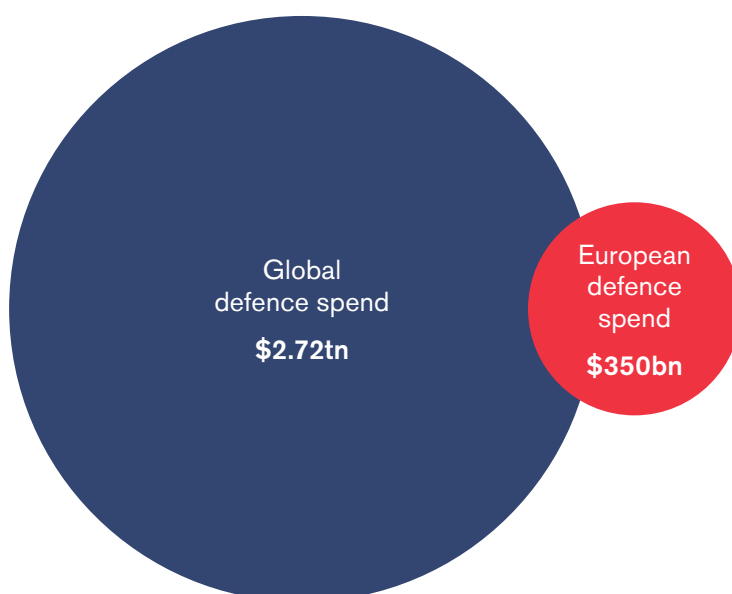
In the next section of the report, we dive into the spending data that demonstrates both the urgency of current requirements and the sustained nature of future commitments.

Understanding the market

Global defence spending reached \$2.72tn in 2024, representing 9.4% growth – the steepest increase since the Cold War ended.⁸ Major asset managers like Aviva have built upon this momentum, investing £900m in UK defence companies² whilst Legal & General has announced substantial new commitments.⁹

The acceleration in European defence spending appears more pronounced than global trends, with EU member states allocating €326bn to defence in 2024 - a 30% increase from 2021 levels. Defence investments reached €102bn in 2024, with equipment procurement alone amounting to €90bn, representing a year-on-year increase exceeding 50%.¹⁰ The scale of this European commitment suggests structural rather than cyclical change, driven by fundamental reassessment of security requirements.

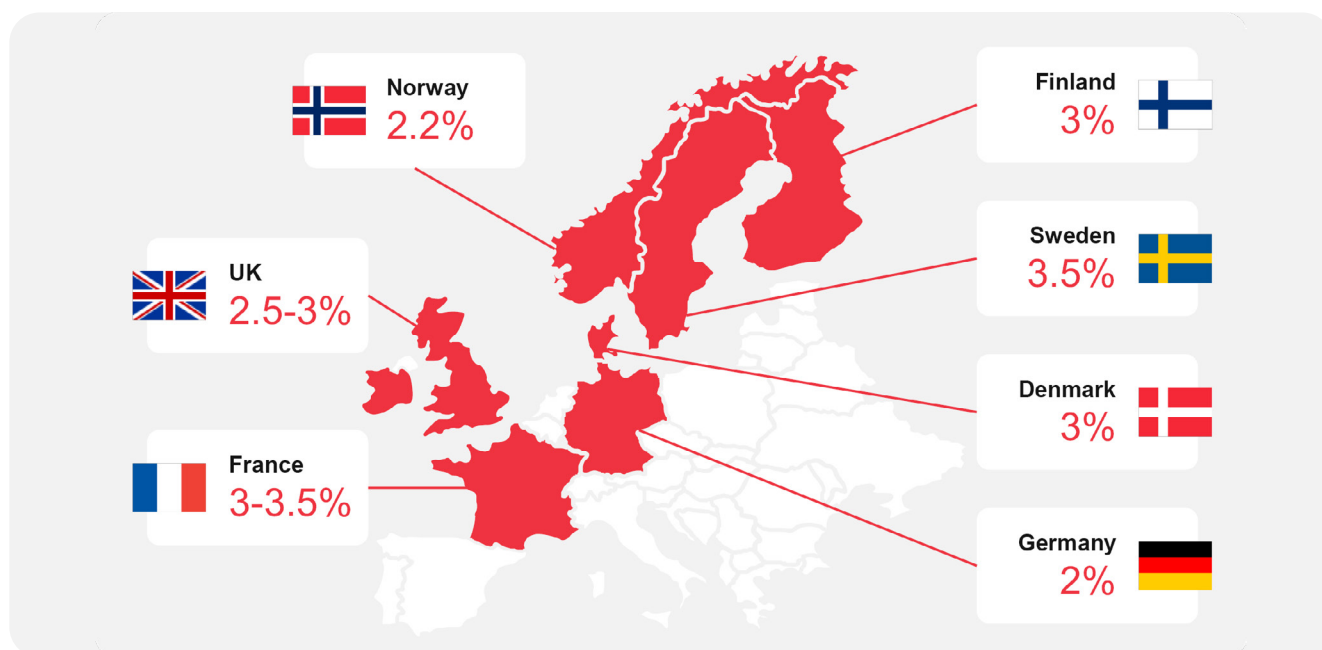
Defence spending, 2024



NATO defence spending transformation

Individual country commitments reveal the breadth and depth of European defence spending transformation. Major NATO members have announced fundamental restructuring of fiscal priorities that are likely to generate sustained demand for private capital:

Current defence spending commitments as a percentage of GDP



Germany

- Announced plan to exempt defence spending from constitutional “debt brake”.¹¹
- Issued political guidelines ensuring ESG standards do not restrict defence investment.¹²
- German financial associations (BVI) removed >10% revenue threshold for defence exclusions.¹³

United Kingdom

- Committed to increase defence spending to 2.5% of GDP by 2027, with ambition for 3% in next parliament. Represents potential £19bn increase from 2024 levels.¹⁴
- FCA clarified that ESG rules do not prevent investors with ESG mandates from investing in defence assets.¹⁵

France

- President Macron stated ambitions to raise defence spending to 3-3.5% of GDP (over €40bn increase).¹⁶
- AMF introduced accelerated approval process for investment funds targeting defence sector.¹⁷

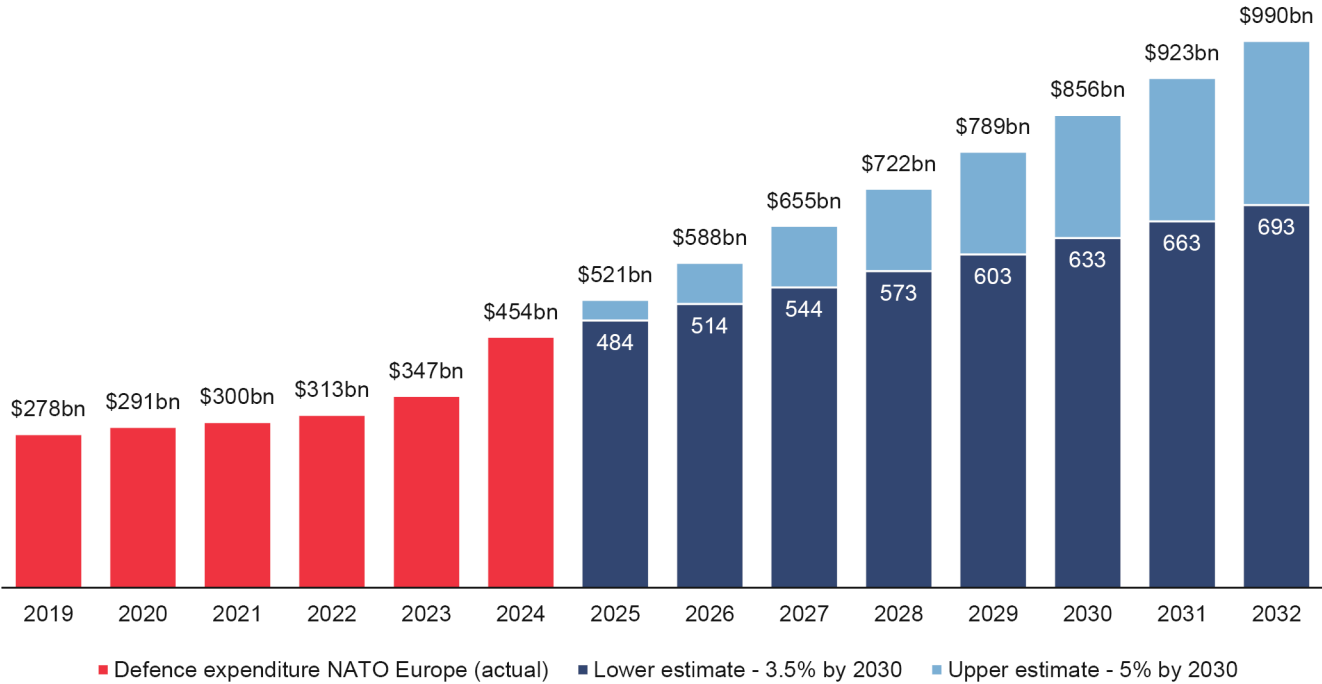
Nordics

- Norway: Planning to nearly double defence spending by 2036, with pressure to allow \$1.8 trillion sovereign wealth fund defence investment.¹⁸
- Sweden: Committed to 3.5% of GDP (from 2.4%)¹⁹, with Swedish defence fund becoming first Article 8 classified in Europe.²⁰
- Finland: NATO member since 2023, committed to 3% of GDP by 2029.²¹
- Denmark: Plans over 3% of GDP over the next decade with dedicated fund for military capabilities.²²

A new target for defence expenditure is expected to be agreed at the NATO summit hosted today, June 24, 2025. Secretary-General Mark Rutte indicated that this would include a primary target of 3.5% of GDP for direct military spending and an additional 1.5% for broader security-related investments, including infrastructure and cybersecurity.²³

If a 5% defence spending target is agreed, defence expenditure could see an increase of \$200 billion by 2027 (compared to 2024 figures). Even if only the core target of 3.5% is met by 2032, that would still represent over \$230 billion in additional capital over the next seven years. The spending increases outlined above could represent a permanent shift toward higher baseline defence allocation.

Figure 1: NATO member defence expenditure: 2032 estimates



Source: Macfarlanes analysis using NATO's data. Assumes an average GDP growth rate for NATO's European members of 1.55% between 2024 and 2030 based on projections from the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD)

Key verticals in Europe's defence ecosystem

The substantial spending increases outlined above will flow through Europe's €326bn total addressable defence market²⁴ across distinct investment verticals. Each vertical presents unique opportunities for PCFs and institutional investors to capture this growth, with varying risk-return profiles shaped by regulatory requirements, technical barriers, and government procurement cycles.

We have identified seven key areas where capital deployment can leverage the NATO spending commitments:

Figure 2: Key European defence verticals

Vertical	Indicative companies	Description
 Prime contractors and platform integration	- BAE Systems - Rheinmetall - Leonardo	Offers stable government revenues through multi-decade contracts. High barriers to entry and strategic national importance create defensive investment characteristics.

Vertical		Indicative companies	Description
	Technology and electronics	- Chemring Group - Hensoldt - Cohort	Major technology companies lead a high-growth segment driven by IP value and dual-use applications. Technology leaders show consistent patterns of revenue growth in specialist niches and increasing consolidation pressure across the sector.
	Cybersecurity and digital defence	- Darktrace - Airbus Cybersecurity - F-Secure	Critical national infrastructure protection drives recurring revenue models in this segment. Specialist companies benefit from expanding MOD contracts and growing private sector demand. The convergence of military and civilian cyber threats creates a substantial addressable market with strong growth characteristics driven by increasing threat sophistication.
	Infrastructure and construction	- Serco Group - Sedexo Defence - Capita	Key mid-market and enterprise infrastructure firms maintain strategic MOD partnerships spanning decades. Their involvement in projects from aircraft carrier construction to nuclear facility management offers infrastructure-style returns with extended visibility. Notable stability through long-term contract relationships with government customers.
	Precision components and advanced materials	- Meggitt - Senior - Melrose Industries	Occupy critical positions in defence supply chains. Military specification requirements create natural barriers to entry, whilst sole-source positions on major platforms provide pricing power. This segment offers consolidation opportunities as primes seek supply chain security.
	Aerospace and dual-use systems	- GKN aerospace - Aero Engines - Airbus	Benefit from technology transfer between civil and military applications. Complex financing structures in this segment require sophisticated navigation of export controls and technology transfer regulations. Recent major transactions have demonstrated how dual-use assets can attract premium valuations.
	Software, AI, VR/AR	- Bohemia Interactive Simulations - Systematic A/S - Cervus Defence	Virtual simulation, AI applications, and autonomous systems represent the frontier of defence investment. Whilst offering venture-style growth potential, these investments increasingly benefit from long-term government development contracts that de-risk early-stage technology development.

European defence companies now occupy 13 of the 15 top-performing positions in global sector indices.²⁵ This outperformance suggests either fundamental repricing of defence sector multiples or a temporary premium that may not be sustained as more capital enters the market. The distinction matters significantly for institutional investors considering strategic allocation versus tactical positioning.

Regulatory clarity has transformed the investment landscape. The FCA's March 2025 statement confirmed sustainable finance rules do not prohibit defence investment.²⁶ Germany went further, explicitly stating that sustainable funds "can of course also invest in companies in the security and defence industry."²⁷

Building strategic positions through European collaboration

The regulatory clarity and spending commitments outlined above create opportunities for institutional investment, but success in European defence markets requires coordination across national boundaries. The diverse ecosystem — spanning protective systems, secure communications, and critical infrastructure — presents investment opportunities across multiple countries and regulatory frameworks.

European market fragmentation historically constrained individual defence contractors but now creates consolidation opportunities across subsystems and components. Technology convergence allows portfolio companies to serve both military and civilian markets, reducing customer concentration while expanding addressable markets.

European sovereignty requirements are creating capability gaps in critical technologies, presenting greenfield opportunities for investors who can structure solutions meeting multiple national requirements. Recent EU-UK defence cooperation progress suggests portfolio companies may be able to access both European Defence Fund programs and UK procurement cycles.

Success depends on identifying investments that capture value across multiple themes rather than isolated opportunities within traditional boundaries. The substantial NATO commitments, combined with regulatory clarity around sustainable investment, suggest strategic positioning in Europe's defence ecosystem can generate attractive returns while supporting broader security requirements.

ESG framework evolution and fund structuring

The rapid growth in European defence investment requires new approaches to balancing commercial objectives with stakeholder risk appetite. Building on our [first report's market analysis](#), we now examine how institutional investors and private capital funds (PCFs) navigate ESG considerations and structure investments to accommodate diverse stakeholder requirements.

The legal architecture of responsible defence investment

Defence investment occupies a unique position in the ESG landscape. Beyond traditional sectors where conventional environmental and social factors dominate, defence intersects with fundamental questions of democratic values, human rights, and geopolitical stability. This complexity manifests in multiple layers of legal and regulatory considerations that investors must navigate.

At the supranational level, some market participants interpreted the EU taxonomy for sustainable activities, as initially excluding defence-related investments entirely. However, it is now commonly understood that legitimate security infrastructure is distinguished from controversial weapons systems, which are excluded.²⁸ The European Commission's position – that defence capabilities supporting democratic values may align with sustainable investment objectives – creates both opportunity and complexity for fund structuring, however, most defence investments do not directly contribute to environmental or social sustainability objectives.

National interpretations add further nuance. The FCA's March 2025 statement that their “rules should not be confused with financial institutions' own policies” provides crucial regulatory space.²⁹ German authorities went further, explicitly stating “regulations on sustainable finance do not restrict the financing of the security and defence industry.”³⁰ Yet these clarifications do not eliminate the challenge – they shift responsibility to fund managers to develop frameworks distinguishing acceptable from unacceptable activities, on which they are typically led by their investor base.

Tracking shifting perspectives on defence

The strategic shift from blanket defence exclusion to nuanced inclusion of some elements of the broader defence sector reveals how institutional thinking has matured. French institutional investors, following extensive review, concluded there's “no contradiction” between ESG commitments and defence financing when focusing on democratic protection rather than weapons production.³¹ This shift acknowledges a fundamental truth: in an interconnected world facing diverse security threats, the infrastructure supporting democratic societies needs investment.

Norway's sovereign wealth fund exemplifies this evolution in practice. Despite maintaining specific weapons restrictions (e.g. investment in nuclear weapons production), the fund holds substantial defence positions (e.g. Leonardo and Rheinmetall) through policies distinguishing defensive capabilities from offensive systems.³² This approach recognises that modern security encompasses cybersecurity, satellite communications, and protective technologies far removed from traditional armaments.

However, implementation remains complex. Legal frameworks must address:

- **Definitional precision:** What constitutes a “controversial weapon” versus legitimate defence technology?
- **Revenue attribution:** How should funds treat companies with mixed civilian-military revenues?
- **Supply chain complexity:** Where do acceptable component sales end and weapons system participation begin?
- **Jurisdictional variations:** How can pan-European funds navigate divergent national interpretations?

The strategic shift from exclusion to inclusion creates immediate practical challenges — how do fund managers translate these nuanced perspectives into legally binding documentation that satisfies diverse stakeholder requirements?

Fund documentation in defence

Modern defence-oriented fund structures require bespoke legal drafting. The complexity stems from multiple stakeholder requirements intersecting with regulatory frameworks across jurisdictions. Fund documents must, therefore, address:

- **Investment policy parameters** that provide clarity whilst maintaining flexibility. Rather than rigid exclusion lists, funds can adopt nuanced approaches – complete prohibition of cluster munitions and landmines, revenue thresholds for conventional weapons systems (typically 10-20%), and case-by-case assessment for dual-use technologies.³³ This nuanced approach enables participation in the broader defence ecosystem whilst respecting investor's red lines.
- **Governance mechanisms** that ensure ongoing compliance without paralysing decision-making. Enhanced Limited Partnership Advisory Committee (LPAC) involvement has become standard, with quarterly reporting on defence exposures, pre-clearance processes for investments exceeding thresholds, and annual policy reviews informed by evolving regulatory guidance. These mechanisms provide investor comfort whilst preserving GP discretion for complex investment decisions.
- **Granting excuse rights** that accommodate diverse LP requirements without fragmenting the fund. Analysis of recent fund launches reveals that 70% of Article 8 funds and 90% of Article 9 funds³⁴ had no exposure to controversial weapons³⁵, whilst institutional investors commonly request side letter provisions prohibiting investments in portfolio companies that engage in the distribution, development and/or sale of weapons or ammunition.³⁶

While these structural mechanisms provide the scaffolding for defence investment, they operate within a more fundamental tension—the sector's core activities often sit uneasily alongside the metrics and assumptions underlying traditional ESG frameworks.

The legal complexity of ESG integration

Defence investment challenges traditional ESG frameworks in fundamental ways. Environmental considerations may at times conflict with operational requirements such as in cases where military equipment prioritises battlefield performance over GHG emissions. Social factors also add layers of complexity considering workforce development and skills transfer, where defence industries often provide highly specialised technical training and career pathways in engineering, cybersecurity, and advanced manufacturing that benefit civilian sectors, but that may ultimately be applied for weapons development, resulting in social harm to an alternative society. Governance takes on new dimensions when attempting to balance the need for secrecy around sensitive information with transparency and oversight.

Legal structuring can address these tensions through:

- **Outcome-based frameworks** that evaluate defence investments through their contribution to security and stability rather than simplistic product categorisations. A satellite communications company providing connectivity for disaster response and humanitarian operations will likely contribute positively to societal resilience, regardless of military end user.
- **Proportionality principles** that recognise the difference between primary weapons manufacturers and companies within diversified manufacturing and technology verticals that sit below primes on the defence value chain. Legal frameworks should enable investment in companies where defence represents a minor revenue stream or where civilian applications predominate.
- **Downstream R&D benefits** acknowledging that today's military technology becomes tomorrow's civilian innovation. GPS, the internet, and countless other technologies emerged from defence research. Legal frameworks should accommodate this innovation pipeline, whilst balancing the risk of harm to civilians.

Regulatory fragmentation

The fragmented European regulatory landscape creates unique challenges for defence investment. Unlike single-market funds, pan-European vehicles must navigate:

- **Multiple sustainability regimes:** SFDR, ESMA's guidelines on fund naming, each in the EU, SDR in the UK (which doesn't currently apply to overseas funds), and various national rules create sometimes overlapping but non-identical requirements. Defence positioning for funds disclosing under either Article 8 or 9 of SFDR requires careful analysis of how military applications affect sustainability objectives.
- **Divergent licence requirements:** Export control regimes remain stubbornly national despite EU harmonisation efforts. A technology acceptable in France may face restrictions in Germany, complicating portfolio company operations and exit strategies.

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- **Political risk variations:** Defence investment acceptance varies dramatically between Eastern European states like Estonia and Poland (increasingly supportive), Western European states with large defence industries like France (traditionally supportive), and neutral EU members like Austria, Ireland, and Malta (remaining cautious).³⁷ Legal structures must accommodate these variations whilst maintaining fund cohesion.

Beyond pure legal structuring, successful defence fund formation may require bespoke investor communication. The sector's complexity demands education and training alongside transactional and documentation support. Some effective approaches could include:

- **Detailed policy briefings** that move beyond boilerplate language to explain the rationale behind defence inclusion. Why does democratic security align with ESG objectives? How do defensive capabilities differ from offensive weapons? These explanations build investor confidence in GP judgment.
- **Case study illustrations** demonstrating practical policy application. A satellite communications investment supporting both military coordination and disaster response illustrates dual-use benefits. A cybersecurity platform protecting hospitals and military networks shows defensive technology in practice.
- **Regular dialogue** that helps maintain investor confidence through transparency. Quarterly letters detailing defence exposure evolution, annual investor days featuring portfolio company presentations, and responsive communication when controversial events occur build trust essential for long-term partnerships.

Defence liability landscape

While clear communication builds investor confidence, managers must also navigate the sector's distinctive legal risks and liability considerations that require careful structuring:

- **Regulatory liability** from evolving sanctions regimes and export controls requires robust compliance frameworks and appropriate indemnities. The Ukraine conflict demonstrated how quickly sanctions landscapes can shift, potentially stranding investments or creating compliance challenges.³⁸
- **Reputational considerations** extend beyond traditional investment risk. Association with controversial events, even indirectly through portfolio companies and their supply chains, can damage LP relationships and lead to a governance issue. Legal structures must include appropriate disclosure frameworks and decision-making protocols for sensitive situations.
- **Operational complexities** from classified programmes and government contracts create information asymmetries challenging traditional governance models. Legal frameworks must balance transparency obligations with security requirements.

Evolution in fund terms

Liability considerations have catalysed fundamental changes in how defence funds structure their terms, specifically through:

- **Extended commitment periods** acknowledging longer regulatory timelines. Where traditional buyout funds operate with 3-5 year investment periods, defence-focused vehicles may require 5-7 years to accommodate security clearances and regulatory approvals.³⁹
- **Specialist portfolio monitoring systems** addressing the complexity of dual-use technologies and classified programmes. Private equity firms increasingly leverage industry-leading portfolio monitoring tools (eFront, iLevel, BlackMountain) and proprietary platforms to track defence investments while managing information asymmetries inherent in government contracting.
- **Extended hold periods** reflecting the sector's capital-intensive nature and lengthy development cycles. The average holding period of US and Canada private equity buyout funds spiked to 7.1 years year to date from 5.7 years in full year 2022 with defence investments often requiring even longer timelines due to regulatory approvals and programme maturation.⁴⁰

The path forward

Defence investment's gradual transition into mainstream portfolios reveals the flexibility of private capital to respond to geopolitical realities. This report has examined the legal innovations enabling this shift — frameworks that reconcile security imperatives with stakeholder values through nuanced approaches rather than binary choices.

The diversity of approaches — from granular exclusion lists to strategic alignment and reconciliation — could lead to important conversations between investors and GPs to establish where the guard rails lie in establishing responsible defence investment. Meanwhile, the sector's inherent complexity demands governance structures sophisticated enough to manage complex supply chain risks, classified programmes and dual-use technologies while maintaining investor trust. Importantly, successfully navigating this environment hinges on reframing defence as essential infrastructure for democratic resilience.

The legal structures pioneered today will determine whether private capital can effectively support European strategic autonomy whilst maintaining legitimacy. For fund managers navigating this terrain, the opportunity extends beyond returns to shaping democratic resilience. The challenge is ensuring these frameworks remain principled yet adaptable as the nature of security itself evolves.

Executing transactions amidst regulatory complexity

Whilst ESG compatibility and fund structuring create the foundation for defence investment, as we [explored in part 2](#), successful execution requires mastering the complex and evolving regulatory frameworks and transaction dynamics that define this sector. Investors must navigate multiple overlapping jurisdictions whilst managing security requirements that do not affect traditional private equity.

Understanding the regulatory architecture

Defence transactions operate within a regulatory framework designed primarily for national security rather than commercial efficiency. This fundamental tension shapes every aspect of deal execution, from initial due diligence through post-completion integration. Governments maintain extensive oversight powers that have expanded significantly since Russia's invasion of Ukraine, reflecting heightened security awareness across Western Europe.⁴¹

Success in these conditions requires early engagement with regulatory authorities and deep understanding of their concerns and decision-making processes. This engagement must begin well before transaction announcement, involving preliminary discussions that shape deal structure and timeline expectations.

While this broad regulatory framework establishes the overarching context for defence transactions, specific legislative instruments translate these principles into operational reality — none more consequentially than the UK's National Security and Investment Act.

Unpacking the National Security and Investment (NSI) Act

The NSI Act has fundamentally reshaped defence transaction execution in the UK, creating mandatory notification requirements and extensive government intervention powers.⁴² Experience with numerous NSI notifications reveals patterns enabling efficient navigation whilst maintaining transaction momentum.

The Act's scope encompasses both traditional defence contractors and sub-contractors and companies with potential dual-use applications. Notification thresholds require careful analysis of the transaction structure, target companies' commercial relations and technology applications. For unproblematic transactions, the initial 30 business day review period is typically sufficient to obtain clearance. However, transactions concerning targets whose activities are particularly sensitive, or involve purchasers from sensitive jurisdictions, can give rise to a detailed assessment process that can add several months to transaction timetables (with scope for further, mutually agreed extensions).

Even in circumstances where mandatory notification thresholds are not satisfied, voluntary notification is increasingly common for sophisticated transactions in the broader defence sector, providing certainty and preventing subsequent intervention. Structuring considerations including staged investment structures enable investors to establish initial positions below notification thresholds whilst securing rights to subsequent tranches subject to regulatory clearance.

Yet notification requirements represent only one dimension of the regulatory maze — equally critical are the export control regimes that govern how defence technologies move across borders and between entities, adding layers of operational complexity that persist long after transaction closing.

Export control compliance: multi-jurisdictional complexity

Export control regulations create overlapping compliance requirements that significantly influence transaction structuring and ongoing operational management. UK Strategic Export Controls encompass broad dual-use technology definitions, often capturing civilian technologies with potential military applications.⁴³ Notably, the UK expanded licensing requirements in April 2024 to cover certain advanced materials such as semiconductors.⁴⁴ These changes reflect a global trend of tightening controls on emerging technologies, with the UK now requiring licences for both physical exports and intangible transfers such as sharing controlled technical information via video calls or cloud access. The US has continued to expand its controls. ITAR contamination represents one of the most challenging aspects, particularly for companies with US-origin technology, creating global limitations on technology sharing. The EU and several member states have introduced their own national controls on high-tech items, sometimes going beyond the unified EU Dual Use List. China, meanwhile, has responded with its own regime upgrades and retaliatory measures, such as export bans on critical minerals. The impact of Brexit also means that companies conducting business in the UK and EU must navigate regulations in both jurisdictions.⁴⁵

Addressing these challenges may require compliance frameworks started from transaction initiation, such as:

- technology classification matrices mapping products against relevant control lists;
- automated screening systems enabling real-time customer verification; and
- organisational firewalls separating controlled and non-controlled technology teams.

Export control enforcement has also become more assertive with the creation of the Office of Trade Sanctions Implementation (OTSI) in December 2023, which has been empowered to levy significant civil penalties, and the publication of revised compliance codes by the Export Control Joint Unit (ECJU). HMRC have issued 17 compound settlements in relation to export control breaches since the start of 2024. Regulators have urged firms to self-disclose violations and reinforce internal compliance, with recent enforcement actions demonstrating the risks of non-compliance.⁴⁶ Enforcement coordination has also increased, with joint high-priority lists, intelligence-sharing and the formation of alliances such as AUKUS.

While export control frameworks shape the regulatory boundaries of defence transactions, the sensitive nature of many defence programmes demands equally sophisticated approaches to information gathering and verification.

Due diligence in sensitive and classified environments

Defence due diligence presents unique challenges requiring specialised approaches and security-cleared advisory teams. The classified or otherwise sensitive nature of many defence programmes precludes traditional due diligence methods, necessitating alternative assessment approaches that can provide investors with confidence whilst respecting security requirements.

Sensitive Compartmented Information Facilities (SCIFs) designed for classified document review may become essential infrastructure. Security clearance requirements may often extend beyond transaction principals to include lawyers, accountants, and technical advisors, adding significant time to transaction timelines requiring early planning.

Nonetheless, new assessment methods have evolved to provide investment comfort without complete classified access, including customer reference discussions with government stakeholders, analysis of public contract awards, past performance ratings assessment, and evaluation of facility security clearances and key personnel qualifications.

These constrained information environments fundamentally reshape not just how investors assess opportunities but how transactions themselves must be structured to accommodate ongoing security requirements while protecting commercial interests.

Transaction structuring for complex environments

Defence transactions require bespoke structuring approaches addressing security requirements, regulatory compliance, and commercial objectives within integrated frameworks. Warranty and indemnity frameworks should address defence-specific risks including enhanced compliance warranties covering export controls and sanctions, specific indemnities for historical contract performance issues, and government audit rights reflecting ongoing oversight powers.

Exit planning requires consideration from deal inception due to unique market characteristics, including limited buyer universes necessitating early relationship building, government consent requirements affecting sale process timing, and potential technology changes triggering new restrictions. Successful exits typically require extended preparation periods with early government stakeholder engagement and detailed separation planning.

Traditional structuring approaches, however, carefully crafted, face new pressures as defence investment increasingly centres on technologies that blur civilian-military boundaries and challenge existing regulatory categories.

Emerging technologies

Artificial intelligence and autonomous systems represent the defence sector's most significant technological transformation, occurring within regulatory frameworks that struggle to address their rapid evolution and deployment. Export control frameworks designed for traditional defence articles struggle with AI/ML technologies that do not fit existing categories. Existing and prospective autonomous weapons conventions under development create potential future restrictions that could influence current investment decisions.⁴⁷

Successful investment approaches balance opportunity capture with risk management through modular investment structures enabling business model evolution, strong governance frameworks addressing ethical concerns, and emphasis on defensive and protective applications aligning with emerging regulatory preferences.

Building sustainable investment practices

Effective defence transaction execution requires capabilities and relationships that translate to sustainable competitive advantages for investors. Early engagement with regulatory authorities, experienced teams with appropriate security clearances and sector expertise, flexible transaction structures accommodating regulatory uncertainty, and patient capital accepting extended timelines remain vital ingredients for success.

The complexity inherent in defence transaction execution creates significant barriers to entry that, once mastered, provide enduring opportunities. Investors who develop specialised capabilities, build appropriate relationships, and create repeatable execution playbooks will identify opportunities that others find elusive.

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