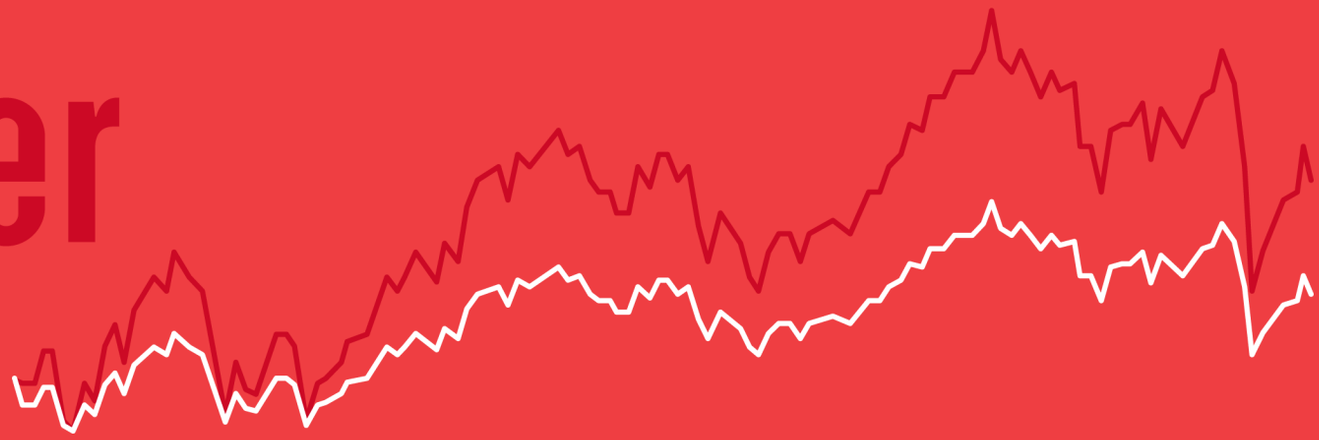
MORNINGSTAR

Silver



Gold

Opportunities in Defense

Structural drivers and attractive valuations

Bronze

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Important Disclosure
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Key Takeaways

Takeaways

- Despite strong underlying growth, recent market volatility has improved the valuation backdrop for defense stocks, particularly among European companies, potentially creating an attractive entry point.
- Europe's rearmament is a long-term demand story; decades of underinvestment have left armed forces needing to replenish equipment and rebuild capacity.
- The supercycle has further room to run. Rising backlogs and NATO spending commitments support growth, although delivery depends on national budgets and execution.
- For stock investors, contractors benefit from long program cycles and high barriers to entry, but revenue remains concentrated in a small group of primes and programs.
- Fund choice matters. Focused sector funds offer the clearest exposure to Europe's value opportunity and highly rated stocks.
- Defense technology widens the investment universe, but valuations are less attractive today.
- Sustainability attitudes to defense are evolving. Article 8 funds can include conventional defense, but the label does not remove environmental, social, and governance risks or controversial weapons exposure.

Defense Becomes Key Thematic Play as Europe Rearms and Global Geopolitical Tensions Rise

Key defense events:

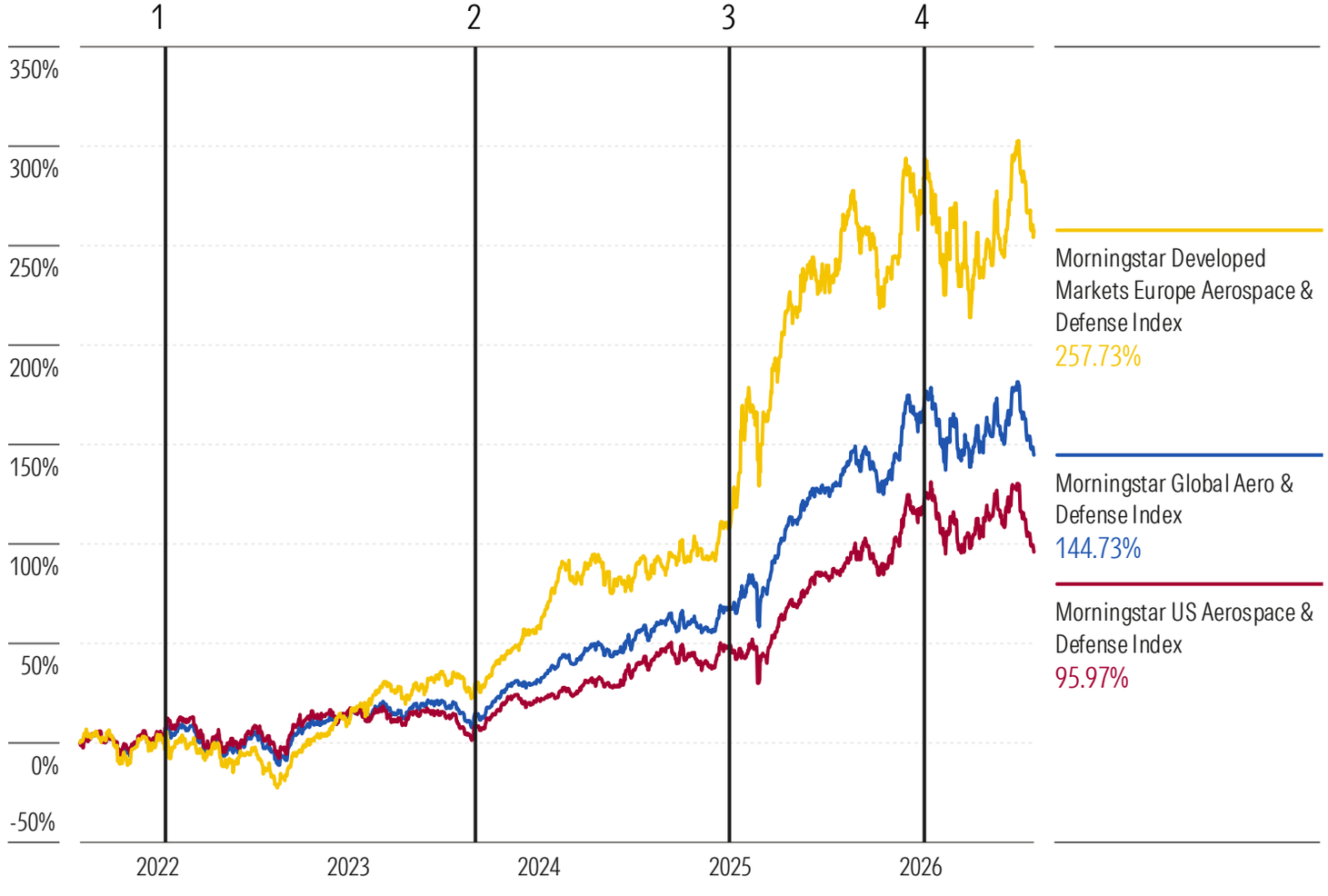
1. **Feb 2022—Russia invades Ukraine.** Launches the multiyear rearmament cycle: European and US budgets pivot from a decades-long "peace dividend" to sustained military spending growth.

2. **Oct 2023—Hamas attacks Israel.** Opens a second active war alongside Ukraine, broadening the "world is less safe" thesis behind the sector.

3. **Jan 2025—Trump demands NATO hit 5% of gross domestic product at Davos.** Days after his second inauguration, sparking scramble for European rearmament and yearlong surge in investment.

4. **Feb 2026—Khamenei killed in US-Israel strikes.** US defense index posts its sharpest one-day jump in the dataset; Europe flat to down. Uncertainty over peace in both Ukraine and the Middle East drives heightened volatility through the rest of the year.

Defense Stocks Have Comfortably Outperformed Broad Equities Over the Trailing 5 Years

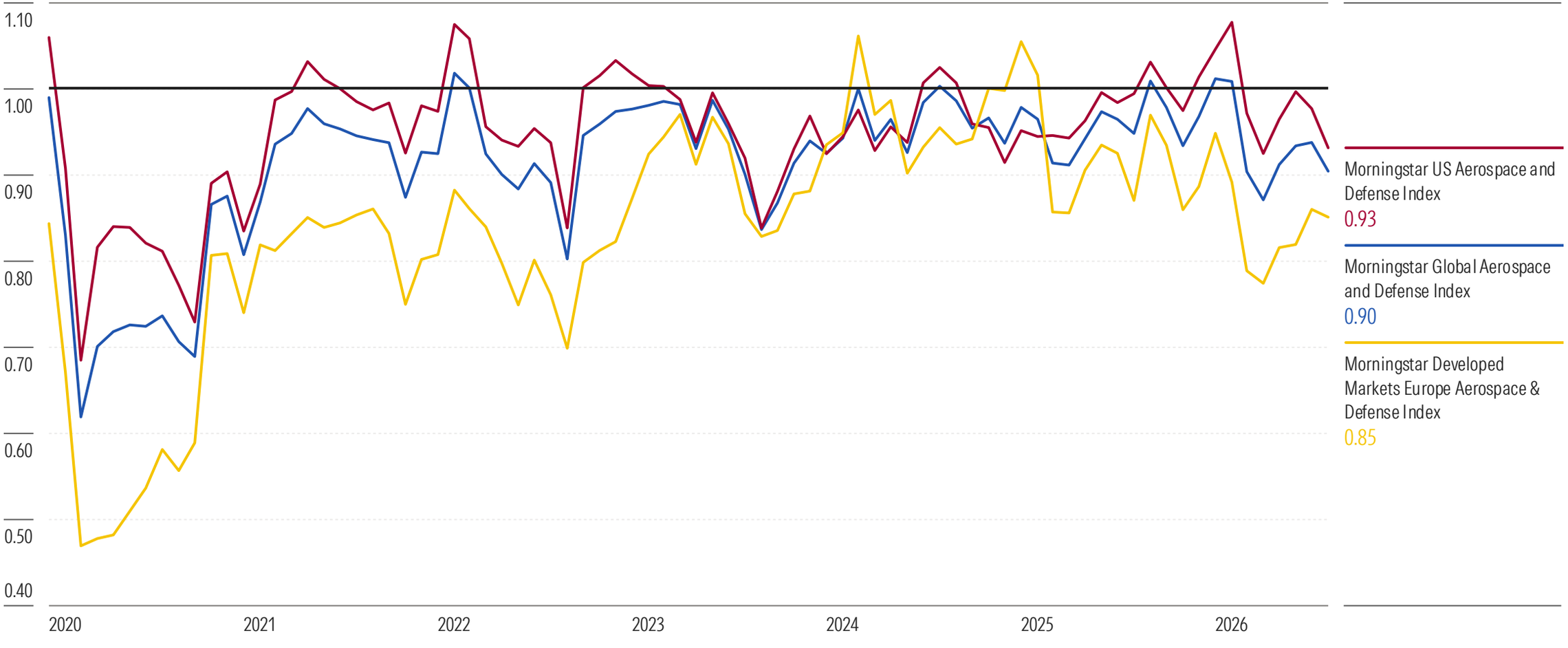


Source: Morningstar Direct

Despite Exceptional Growth, European Defense Stocks Still Offer the Most Upside

Global Defense Remains Undervalued, While Europe Still Offers the Best Value

Price/Fair Value Estimates for Morningstar Defense Indexes

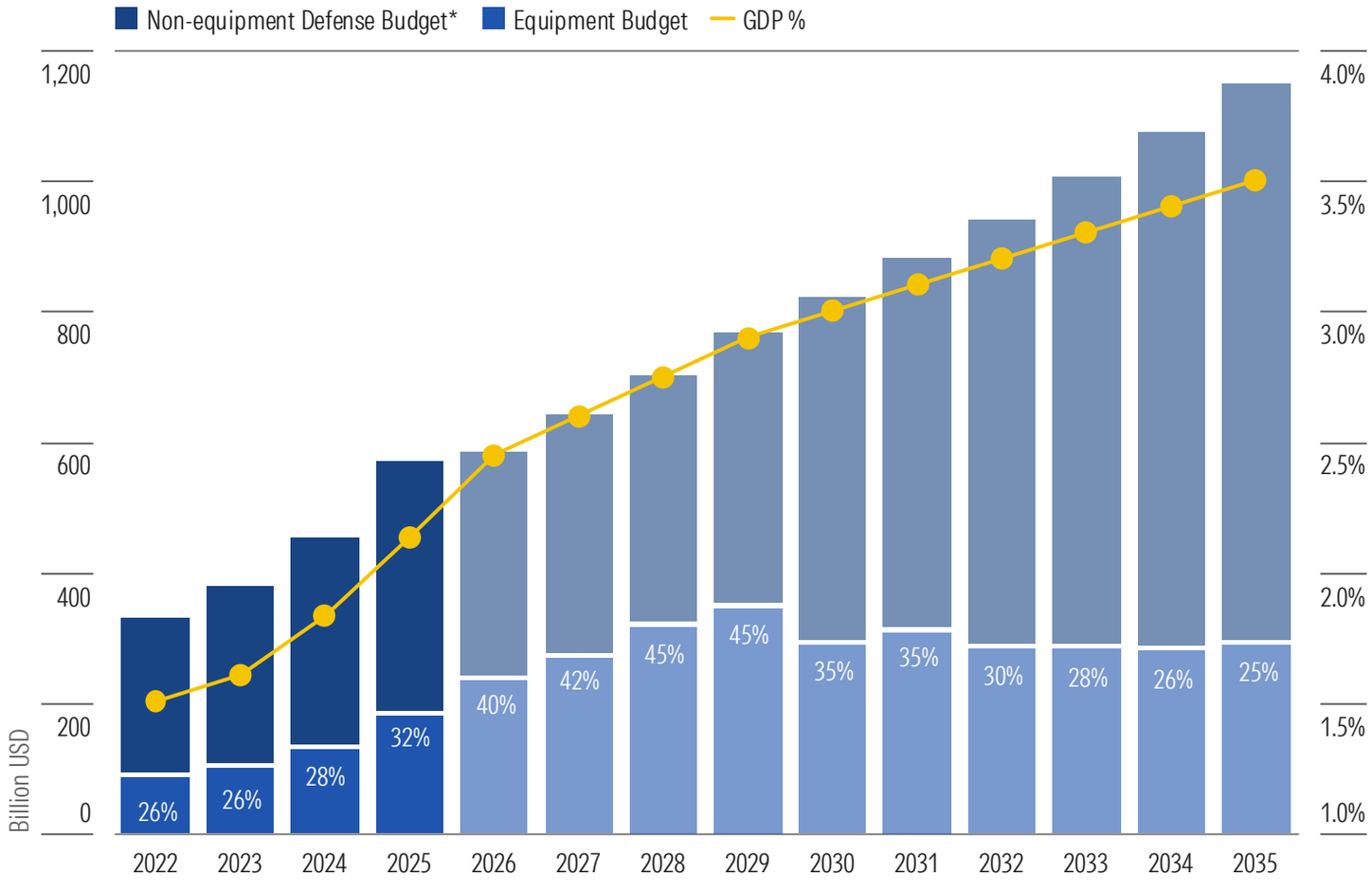


Source: Morningstar Investment Management

The Investment Case for Defense

Europe's Defense Rebuild Drives Equipment-Led Growth, With $3 Trillion Opportunity Through 2035

European Countries' Defense Budget to Reach 3.5% of GDP With Increased Share of Equipment in the Midterm



- Defense supercycle to unlock $1.7 trillion opportunity by 2030. We project European defense spending will reach 3.2% of GDP by 2032 (~$900 billion), climbing to 3.5% by 2035.
- Equipment has averaged 28% of defense budgets in recent years, rising to 31% in 2024, still inadequate after decades of underinvestment. We expect a medium-term pivot toward inventory replenishment, pushing equipment to a meaningful increase to the historical rate of 25% by 2035 as personnel and R&D take precedence. This reallocation could unlock $1.7 trillion in cumulative equipment outlays by 2030, and up to $3 trillion over the next decade, primarily benefiting European contractors.
- We believe most of this structural spending increase is already reflected in the industry forecast. Further upside will depend on greater clarity: on how the funds will be allocated and how high-deficit countries will implement their spending plans.

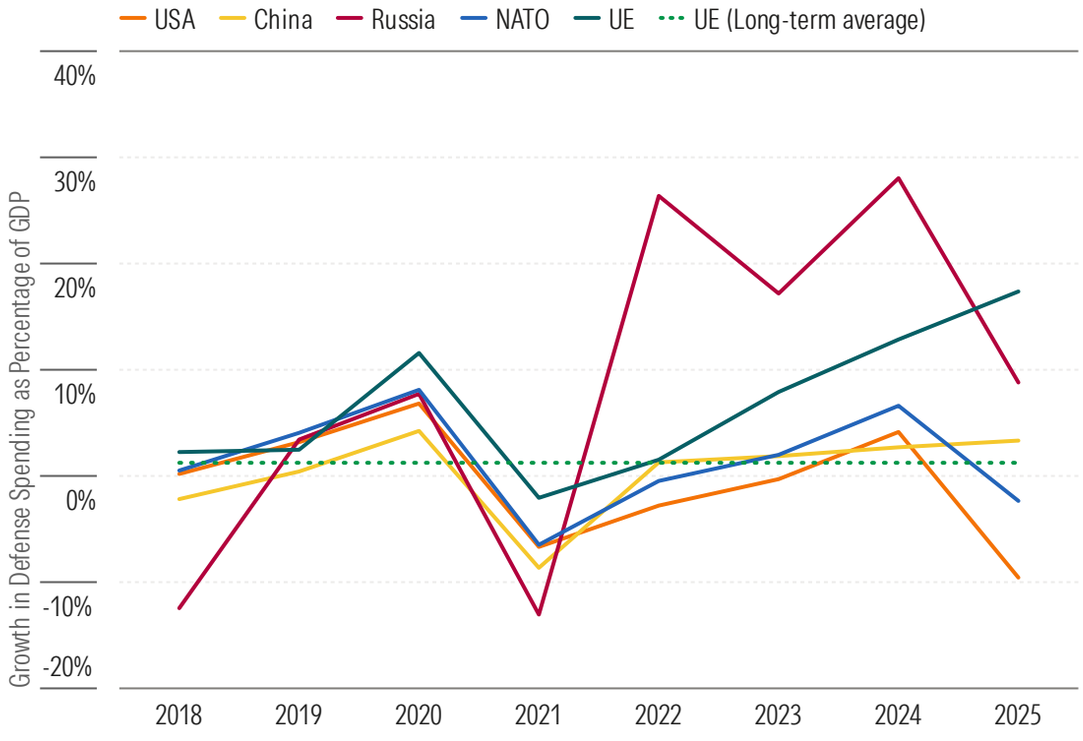
Source: International Monetary Fund; NATO defense spending data; Rheinmetall annual report; Morningstar analysis.
*Note: R&D, maintenance, personnel, and infrastructure.

See Important Disclosures at the end of this report.

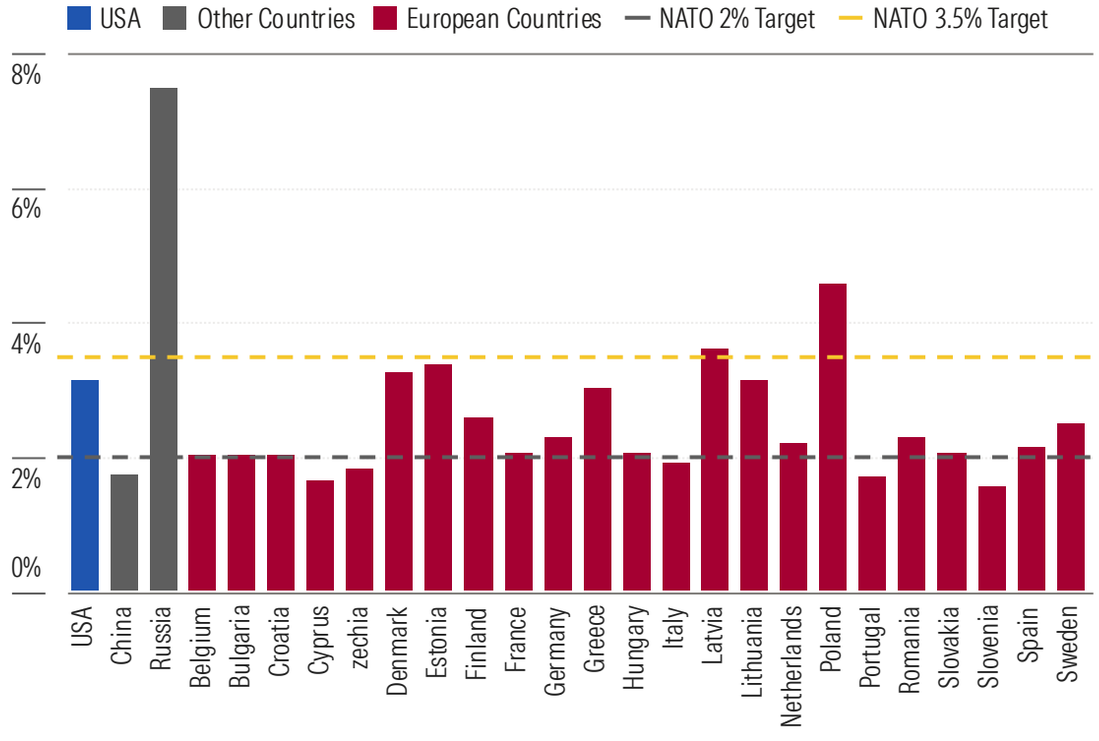
Defense Budgets Are Tied to Economic Cycles but Shaped by Strategic Priorities

Defense budgets are shaped by economic growth and fiscal capacity, but security threats can take precedence over economic pressures. Over the past four years, European countries have increased defense spending faster than GDP, raising their military spending more sharply than China or the US. Even so, every EU member remained behind Russia in 2025. Only Poland and Latvia exceeded the 3.5% benchmark set by NATO for core defense spending by 2035, while five countries—Cyprus, Czechia, Italy, Portugal, and Slovenia—remained below the previous 2% benchmark.

Growth in Defense Spending as Percentage of GDP



Defense Spending by Country as Percentage of GDP, 2025



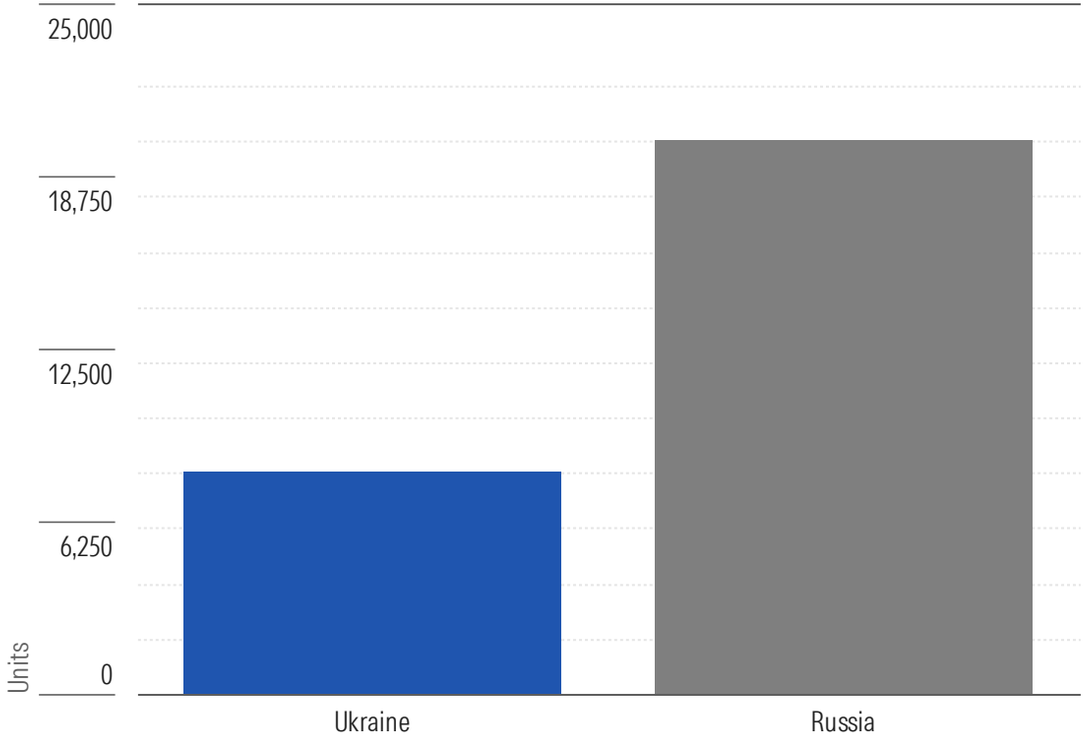
Source: SIPRI, Morningstar.

Artillery Demand Results in a Multibillion Opportunity in the Medium Term, Even Without Ukraine War

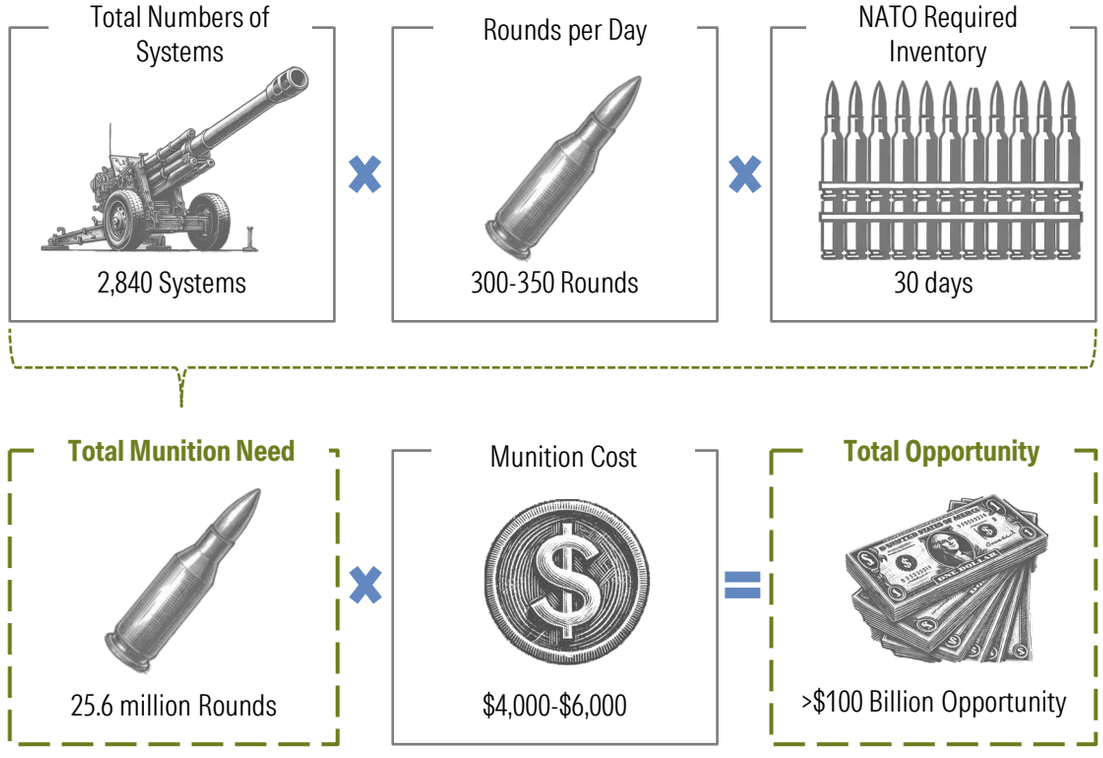
Ukraine uses 110,000 artillery shells monthly but needs up to 600,000 for optimal operations. Assuming the war will continue for another six months, this demand could cost more than $14.4 billion. Each shell costs between $4,000 and $6,000.

Even with the end of the Ukraine war, NATO's 30-day stockpile mandate for high-intensity conflict implies major restocking needs. Assuming 300 rounds per system per day, minimum ammunition sales could exceed $100 billion.

Ukraine and Russia Daily Round Consumption



US and Europe Ammunition Requirement Based on High-Intensity Conflict



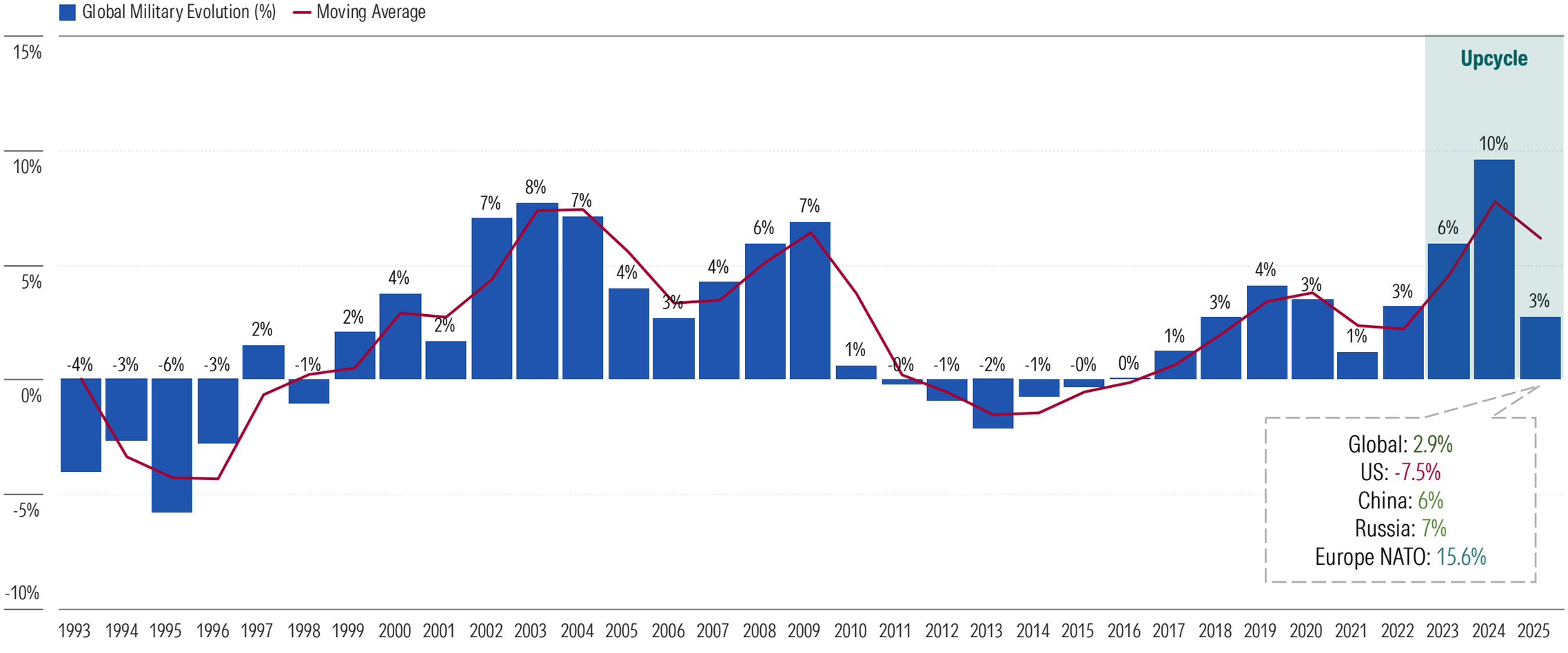
Source: Morningstar.

Why There's Still Upside

Defense Markets Are at the Initial Stage of a New Supercycle

The Rearmament Cycle Continues Despite Slower Global Growth in 2025; Excluding US, Spending Increased 9.2% as European and Asian Rearmament Continued

US spending fell 7.5%, largely reflecting lower Ukraine aid approvals.

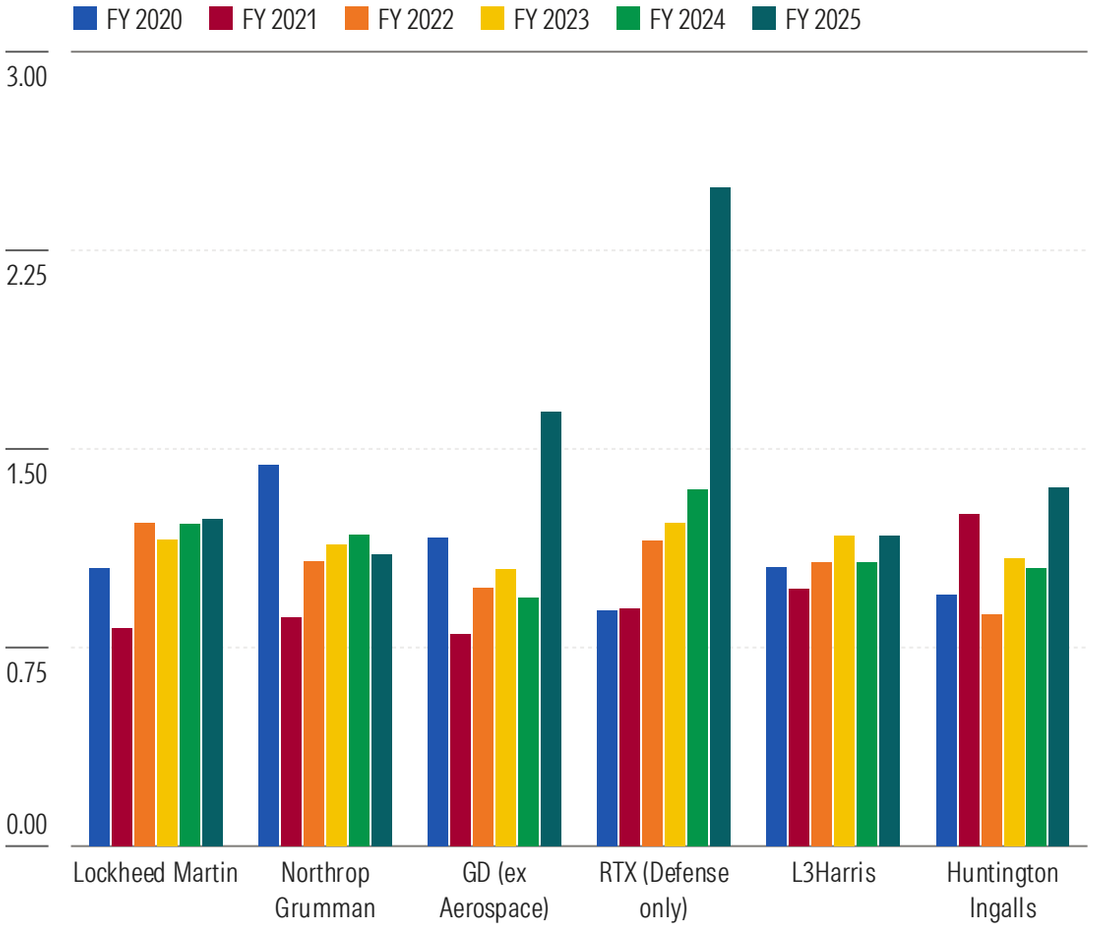


Source: SIPRI, Morningstar.

Record Backlogs Confirm Further Revenue Expansion Supported by the Easing of Supply Chain Issues

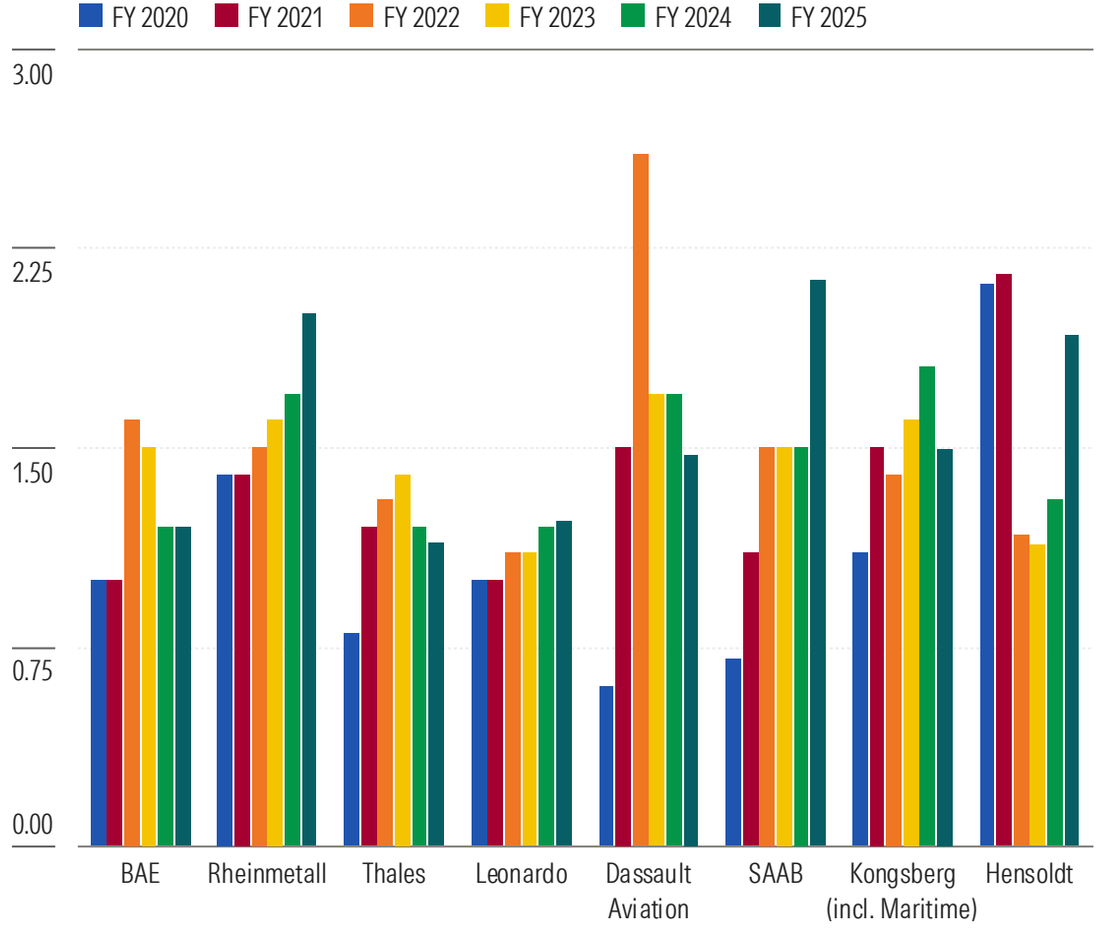
US Contractors Book/Bill, 2020–25

US defense book/bill ratios have all surpassed 1x after some dips in 2020–21.



European Contractors Book/Bill, 2020–25

As revenue is increasing at double/high-single digits, order intake stays well above 1x

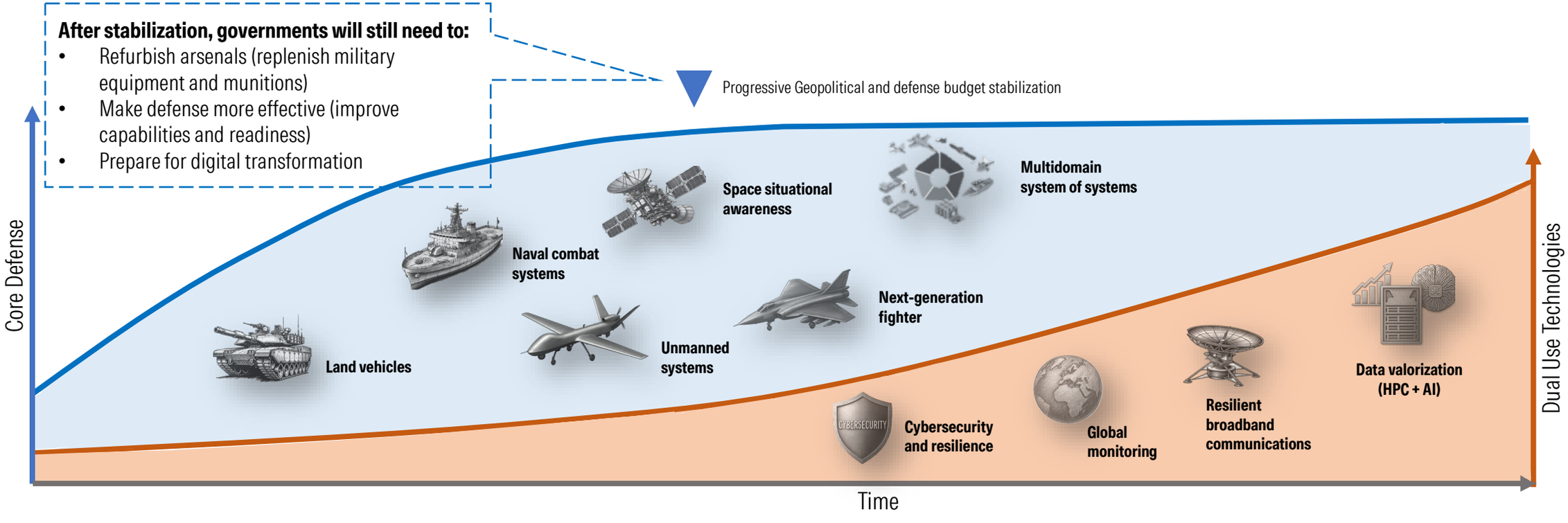


Source: Company reports, Morningstar. Data as of Oct. 13, 2026.

NATO Budget Increase Expands Core Defense While Unlocking Dual-Use Opportunities

NATO's 5% GDP target by 2035 earmarks 3.5% for core defense, directly accessible to contractors. The remaining 1.5% funds broader security infrastructure, not accessible to contractors, but also enables investment in dual-use and cyber-resilient technologies. Over time, defense priorities will shift away from traditional platforms toward more advanced and integrated systems. Governments will need to strengthen critical infrastructure with emerging technologies, driving a transition to dual-use (military and civilian) security.

From Core Defense to Dual-Use Global Security, Dual-Use Technologies Are Gaining Strategic Importance as Innovation Becomes Central to Capability Growth

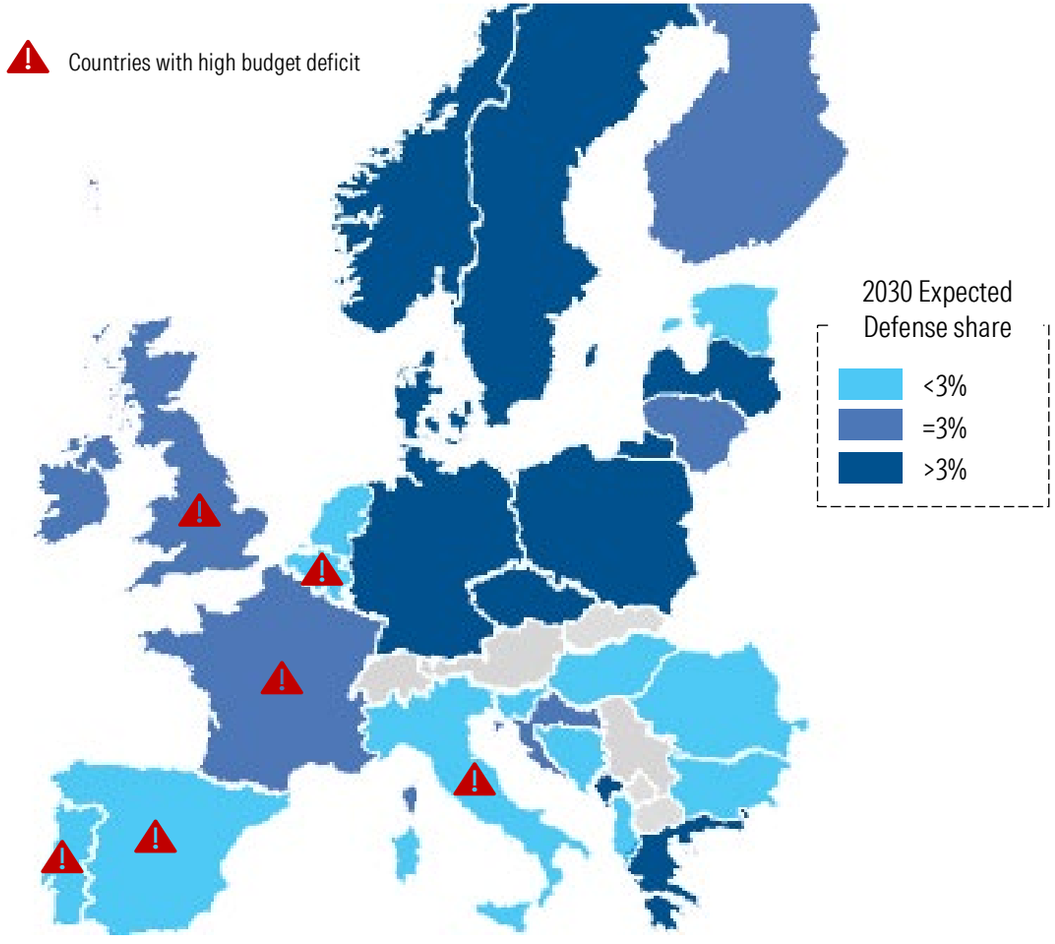


Source: Leonardo Industrial Plan 2025–29; Morningstar.

Europe's Defense Buildup Faces Uneven Path Without Further Support, Despite Ambitious Targets

High-Deficit Countries Will Struggle to Meet Target Without External Support

As a Percentage of GDP



- Implementation will be highly uneven. The goal is nonbinding, and fiscal constraints will remain a major obstacle. For now, support comes mainly through temporary fiscal flexibility under the EU's ReArm Europe plan. But this flexibility is limited, both in scope and duration. It lasts only four years and is benchmarked to 2021 spending levels.
- Germany is set to meet NATO's 3.5% GDP defense spending goal in 2029, after amending its budget rules to exempt all military spending above 1% of GDP from the debt brake. Rheinmetall is poised to capture more than 50% of the equipment spending.
- We expect France to reach 3% of GDP in 2030 despite rising budget deficits, with national champions Thales and Dassault set to benefit significantly.
- The UK plans to raise defense spending to 3% of GDP by 2030, up from the current 2.3%. We expect this increase to benefit national champion BAE Systems, which could capture approximately 45% of the equipment budget.
- Italy is one of the few European countries with a 2024 defense budget below NATO's 2% target at 1.6% of GDP. Spending is projected to rise to 2% in 2025 and 2.8% by 2030. Key priorities include procurement of Lynx vehicles and Panther tanks through the Rheinmetall-Leonardo joint venture, as well as 25 F-35s and 24 Eurofighters, where Leonardo will benefit from its Tier 1 role in both programs.
- Sweden has committed to significantly increasing defense spending, aiming to reach NATO's 3.5% of GDP in 2030. We expect national champion Saab to capture an estimated 60% of the equipment budget. Additionally, BAE Systems is poised to benefit from it through Sweden's combat vehicle upgrades.

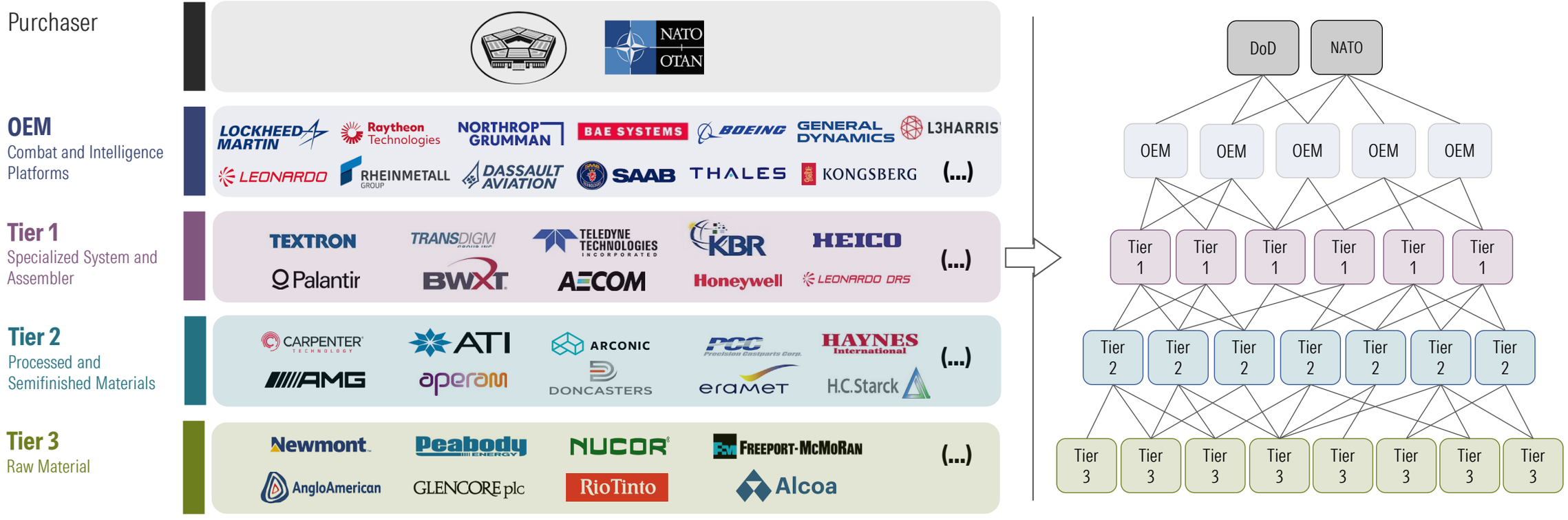
Source: International Monetary Fund, NATO defense spending data, Morningstar.

Investing in Defense With Stocks

The Industry Features Numerous Multitiered Supply Chains Functioning Simultaneously

The defense industry utilizes complex, multitiered supply chains tailored by technology and scope. The procurement structure involves numerous suppliers at each tier, each specializing in distinct components or processes, increasing complexity. Prime contractors oversee the overall design, development, and assembly of the final product. They are central to the network, collaborating with government entities and engaging lower-tier suppliers under risk-sharing agreements to manufacture defense equipment.

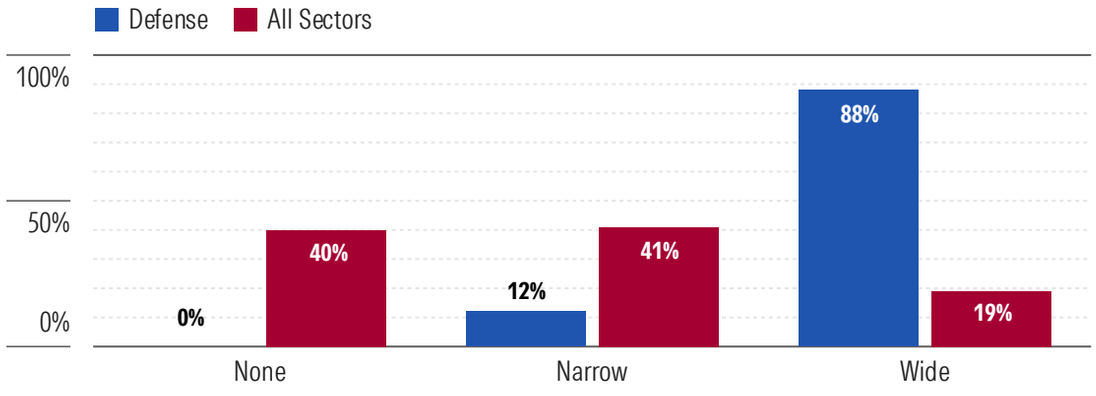
US and European Defense Supply Chain Structure and Relationships of Industry Players by Tier



Source: EU Commission: Defense industrial supply chains and the role of SMEs in the sector; Morningstar.

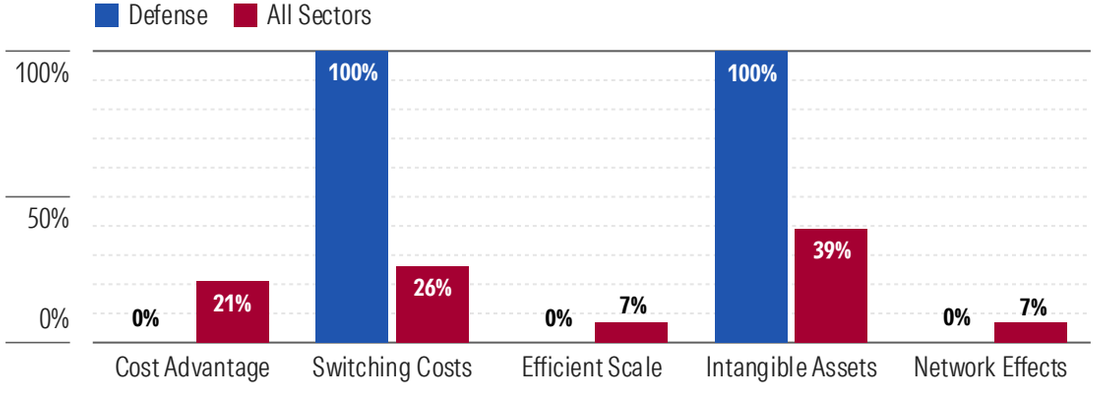
All Stocks in Morningstar's Defense Coverage Have an Economic Moat, With Most Boasting Wide Ratings

Defense Has the Highest Concentration of Wide-Moat Companies



- Morningstar's defense industry coverage features the highest concentration of companies with economic moats, with predominantly wide Morningstar Economic Moat Ratings. Notably, all companies in our defense coverage possess a moat, with 88% (14 of 16) classified as wide moat, significantly higher than the 19% average across all sectors in our coverage.
- Wide moats are particularly prominent among large defense contractors, driven by substantial intangible assets and high switching costs. We believe a new decade-long defense budget upcycle will reinforce the intensity of these competitive advantages.

Intangibles, Complemented by High Switching Costs, Underpin Strong Moats

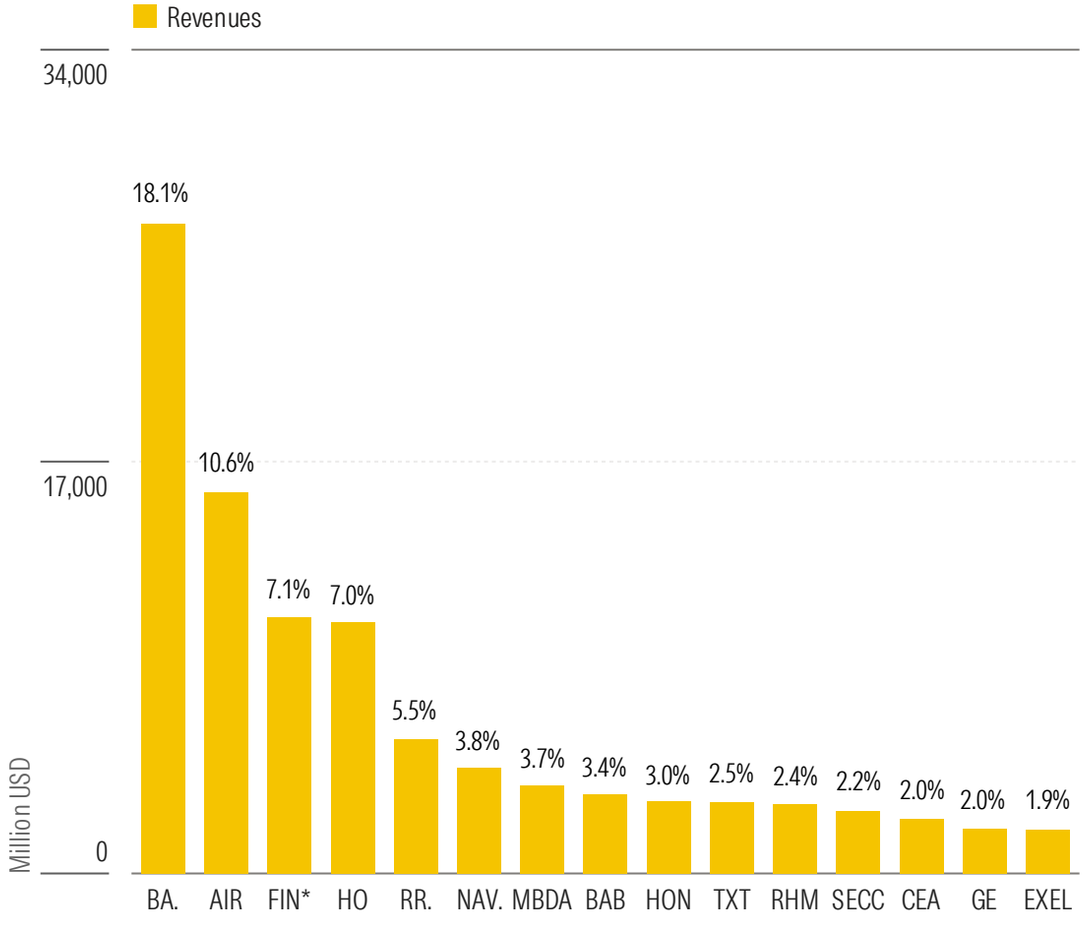


- All defense companies in our coverage benefit from intangible assets and switching costs shaped by the industry's unique structure. Government regulation and product complexity serve as significant barriers to entry, reinforced by decades long product cycles and contract structures that reduce risks for incumbents while effectively excluding alternative suppliers.
- Switching costs are considerable for risk-averse customers, who face significant uncertainty when transitioning to new products or suppliers. The strength of these competitive advantages varies on factors such as complexity and product life cycle—and the potential for aftermarket revenue generation.

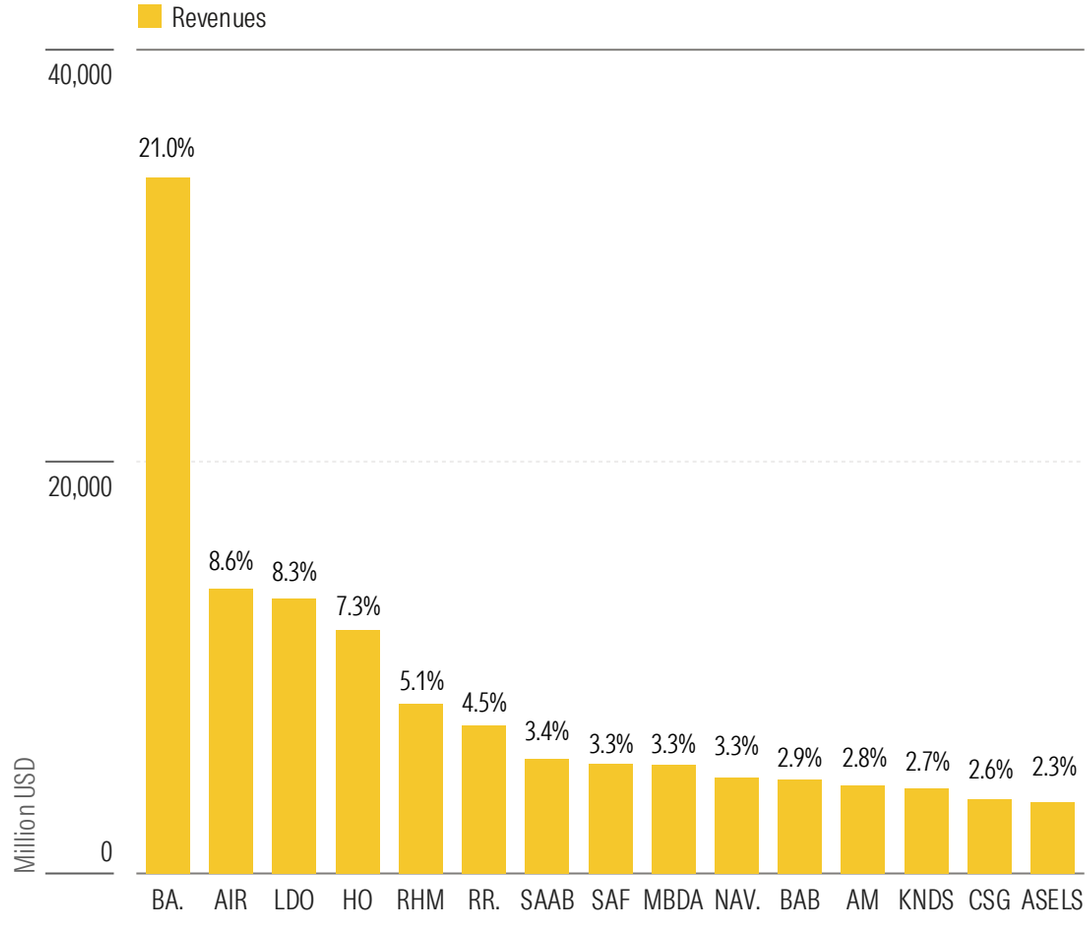
Source: Morningstar.

Top 15 Contractors Are Largely Unchanged and Have Strengthened Their Grip in the Past Decade

Top 15 Europe OEMs' Revenue, Market Share 2013: Region Top 5 Hold Over 40%



Top 15 Europe OEMs' Revenue and Market Share 2024: Region Top 5 Hold Over 50%



Source: SIPRI, Morningstar.

Note: Finmeccanica changed its name to Leonardo as of Jan. 1, 2017. United Technologies merged with Raytheon in April 2020.

See Important Disclosures at the end of this report.

Coverage List and Ratings

The Lion's Share of Defense Opportunities Lies in Europe

Morningstar's Defense Coverage

Company (Ticker)	Market Cap (Billions)	Moat Rating	Uncertainty Rating	Last Close	Fair Value Estimate	Star Rating	P/FVE	P/E	Dividend Yield	1-Year Return
Rheinmetall (RHM)	45 EUR	Wide	Medium	939.10	2380.00	★★★★★	0.39	24.8x	1.60%	-49.49%
Leonardo (LDO)	27 EUR	Narrow	Medium	46.81	68.00	★★★★	0.69	19.6x	1.54%	-10.32%
Huntington Ingalls Industries (HII)	10 USD	Wide	High	264.03	382.00	★★★★	0.69	14.2x	2.11%	-4.75%
Fincantieri (FCT)	5 EUR	Narrow	High	12.49	18.00	★★★★	0.69	22.9x	0.00%	-51.72%
L3 Harris Technologies (LHX)	44 USD	Narrow	Medium	238.25	340.00	★★★★	0.70	19.9x	2.10%	-16.81%
Thales Group (HO)	46 EUR	Wide	Medium	218.30	308.00	★★★★	0.71	20.5x	1.97%	-13.71%
BAE Systems (BA.)	55 GBP	Wide	Medium	18.60	26.00	★★★★	0.72	22.2x	2.17%	-4.35%
Dassault Aviation (AM)	22 EUR	Wide	Medium	281.80	372.00	★★★★	0.76	18.1x	1.85%	2.72%
Hensoldt AG (HAG)	9 EUR	Wide	Medium	76.22	100.00	★★★★	0.76	39.9x	0.93%	-26.96%
Northrop Grumman (NOC)	69 USD	Wide	Medium	485.00	630.00	★★★★	0.77	16.7x	2.00%	-20.68%
Lockheed Martin (LMT)	118 USD	Wide	Medium	511.88	650.00	★★★★	0.79	16.8x	2.73%	4.08%
General Dynamics (GD)	91 USD	Wide	Medium	335.46	407.00	★★★★	0.82	19.7x	1.90%	2.64%
RTX Corp (RTX)	252 USD	Wide	Medium	186.66	214.00	★★★★	0.87	25.7x	1.54%	20.15%
Kongsberg (KOG)	264 NOK	Wide	Medium	295.40	329.00	★★★	0.90	40.6x	1.76%	13.54%
Saab (SAAB B)	328 SEK	Wide	Medium	599.70	610.00	★★★	0.98	39.6x	0.53%	14.27%
Airbus (PAR: AIR)	149 EUR	Wide	Medium	187.80	183.00	★★★	1.03	25.8x	1.85%	-5.45%
Aerospace and Defense (Median)							**0.76**	**21.3x**	**1.8%**	

Source: PitchBook.

Investing in Defense With Funds

The Case for Thematic Defense Funds

- **Individual stocks and thematic funds**

Buying individual shares lets investors choose specific companies and avoid a fund fee. A thematic fund gives up some of that precision in exchange for exposure across companies, programs, and national budgets.

- **Program risk**

Defense revenues often depend on a small number of large contracts. A delay, cancellation or cost overrun can change one company's earnings outlook even while defense spending rises across the sector.

- **Rheinmetall illustrates the point**

Rheinmetall shares fell 18.7% on June 24, 2026, after Germany canceled the F126 frigate program. A fund spreads exposure across programs, helping reduce the effect of one decision on the portfolio.

- **Budget and policy risk**

Defense demand depends on what governments fund, how alliance commitments evolve, and which procurement plans proceed. Holding companies exposed to several countries can reduce dependence on any one budget or decision. It cannot remove the effect of a broad change in policy or spending.

- **A broad value chain**

Modern defense includes established prime contractors and specialist suppliers in munitions, avionics, cyber, space, communications, and autonomous systems. A thematic fund can capture several parts of that chain without requiring investors to decide in advance which layer will win the most contracts.

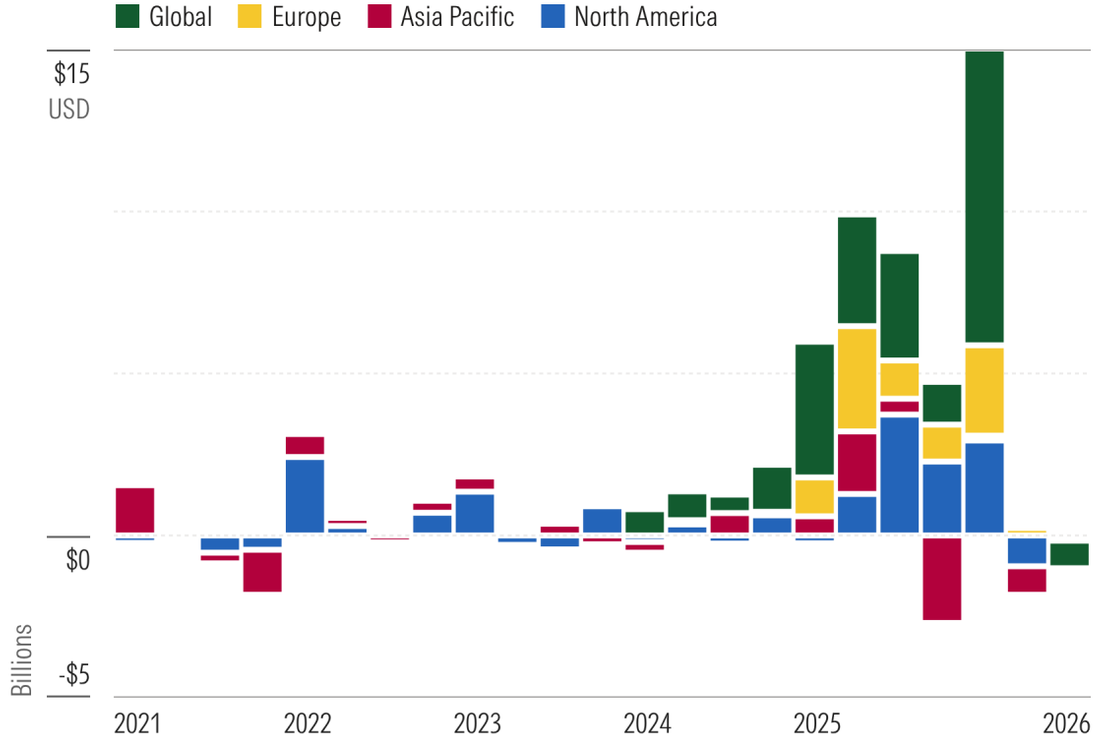
Defense Fund Assets Near Record Highs, as Iran Conflict Prompts Record Quarterly Inflow

After a blockbuster 2025, which saw record annual global inflows, the conflict in Iran drove a record **$14.9 billion** inflow in the first quarter of 2026. Uncertainty over peace deals in Ukraine and the Middle East has since prompted small net outflows in the second and third quarters of 2026.

Assets invested in defense funds currently stand at **$71 billion**, just below the **$81.3 billion** high-water mark set in the first quarter of 2026. European-focused funds have grown from a negligible base to a record **$9.6 billion** by the end of the third quarter of 2026.

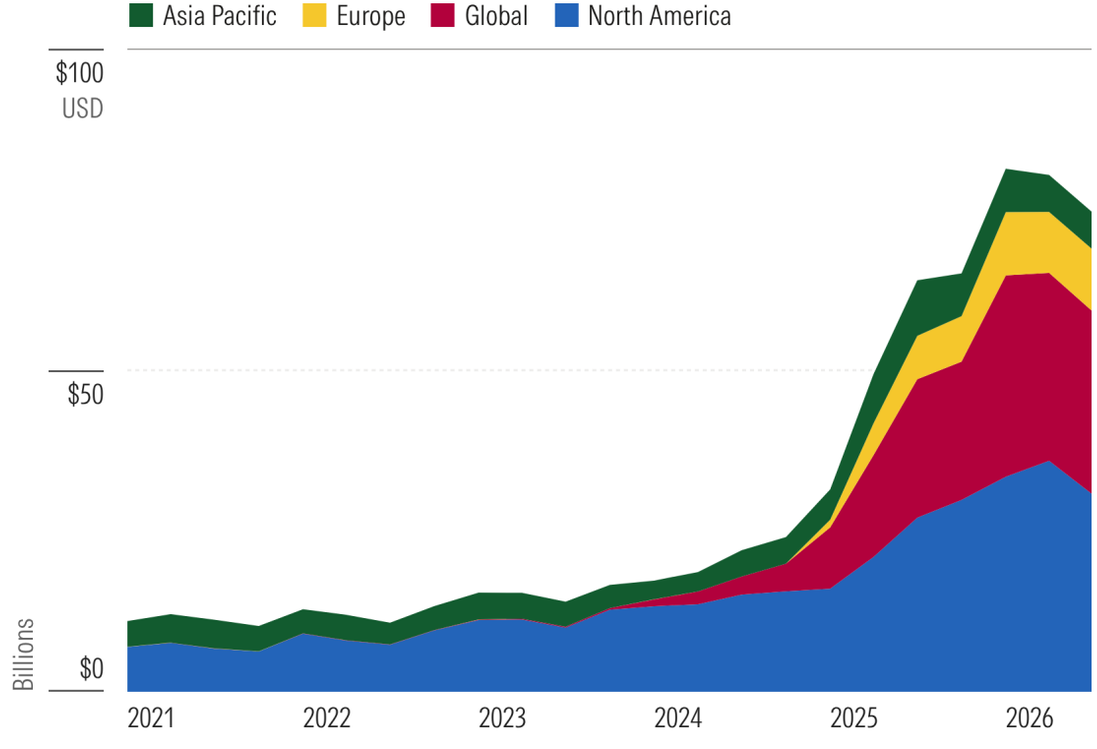
Iran Conflict Prompts Record Inflows Into US Defense Funds in Q1 2025

Defense Fund Net Flows by Regional Investment Focus



European Focused Defense Assets Near Highs

Defense Fund Assets by Regional Investment Focus



Source: Morningstar Direct. Data as of September. 30, 2026.

Fund Strategies Vary Considerably Across European Focused Defense Funds

WisdomTree ETF Provides Highest Exposure to Best Value Stocks Under Coverage

Largest European Defense Funds Domiciled in Europe*

Fund	ISIN	Fund size (USD m)	Holdings	Active Share**	Exposure to Big Five Stocks***	Largest Holding Outside Index**	Exposure to 4/5-Star Stocks****	Largest Index Holdin Not Held**
WisdomTree Europe Defence ETF	IE0002Y8CX98	$4,960	42	39%	50%	Babcock (1.4%)	49%	MTU Aero Engines (3.1%)
Amundi Stoxx Europe Defense UCITS ETF	LU3038520774	$617	24	32%	52%	Babcock (2.5%)	40%	Kongsberg Gruppen (1.9%)
BNP Paribas Easy Bloomberg Europe Defense UCITS ETF	LU3047998979	$577	34	29%	54%	Indra Sistemas (1.6%)	32%	Kongsberg Maritime (0.3%)
iShares Europe Defence ETF	IE000IAXNM41	$397	33	38%	56%	Aselsan (3.1%)	46%	MTU Aero Engines (3.1%)
Future of European Defence Screened ETF	IE000I7E6HL0	$175	28	42%	44%	Aselsan (3.9%)	41%	MTU Aero Engines (3.1%)
DPAM L Equities Europe Defence	LU3076252611	$75	34	56%	26%	Siemens Energy (4.2%)	20%	BAE Systems (10.5%)
CPR Invest Europe Defense	LU3079549070	$59	31	43%	41%	Nokia (4.0%)	27%	QinetiQ (0.4%)
Xtrackers Europe Defence Technologies ETF	LU3061478973	$45	34	30%	52%	Melrose (2.4%)	35%	Kongsberg Maritime (0.3%)
State Street SPDR S&P Europe Defense Vision ETF	IE0008GRJRO8	$29	30	39%	53%	Babcock (2.5%)	48%	MTU Aero Engines (3.1%)
Global X Europe Focus Defence Tech ETF	IE000WRQ9RR1	$24	22	84%	11%	Korea Aerospace Industries (6.8%)	41%	Rolls-Royce (23.3%)
SEB European Defence & Security Fund	LU3096982403	$14	70	65%	28%	ASML (4.2%)	14%	MTU Aero Engines (3.1%)

* Funds domiciled in Ireland or Luxembourg only.

** Active share and holdings compared using each fund's latest holdings and the Morningstar Developed Markets Europe Aerospace & Defense Index.

*** Big Five: Rolls-Royce, Safran, Airbus, BAE Systems and Rheinmetall. Together they represent 80.5% of the index.

**** Share of each fund invested in covered stocks rated four or five stars by Morningstar Equity Research, indicating shares trade below analysts' fair value estimates.

Source: Morningstar Direct. Fund size in USD as of September 2026. Holdings and portfolio weightings are from each fund's latest available portfolio, mostly on or after June 30, 2026.

Benchmarking Defense Funds

The Benchmark

The core European defense stock universe is relatively small, and most companies' defense exposure is well defined. Even so, funds differ meaningfully in their portfolio construction.

The **Morningstar Developed Markets Europe Aerospace & Defense Index** provides a useful reference point but is not a pure defense benchmark. It includes civilian aerospace companies and is weighted by market capitalization, limiting overlap with pure-play defense-focused funds.

Classification differences also create divergences between the benchmark and the funds.

For example, **MTU Aero Engines** is included in the index on account of its involvement in programs such as the Eurofighter, despite defense representing only around 7% of revenue, leading many defense funds to exclude it.

Conversely, **Babcock** is classified by Morningstar as an engineering company rather than a defense firm, despite generating significant defense-related revenues, including support for the UK's nuclear submarine fleet. As a result, it is absent from the index but is commonly held by defense-focused funds.

The Big Five Stocks

The index is also highly concentrated. At the time of writing, its five largest holdings—Rolls-Royce, Safran, Airbus, BAE Systems, and Rheinmetall—account for more than 80% of total index weight. Rolls-Royce alone represents 23%.

Most defense funds hold these companies, but generally at lower weightings. For example, 10 of the 11 funds in our universe hold Rolls-Royce, yet none matches its 23.3% index weighting, reflecting both UCITS diversification limits and active portfolio construction decisions.

As a result, active share is structurally elevated when measured against this benchmark. Nevertheless, it remains a useful indicator of how portfolio managers differentiate themselves from both the index and their peers.

Sector Funds Offer the Clearest Route to Europe's Value Opportunity

To help make sense of the defense fund universe, we can group funds into several groups.

The largest group of defense funds we can loosely call **sector** funds. While not all of them officially track a recognized sector, they are usually built around a well-recognized core basket of listed traditional aerospace and defense companies.

They tend to have the lowest active share versus the **Morningstar Developed Markets Europe Aerospace & Defense Index.** Their strategies give the largest European primes a substantial role, with the Big Five often making up more than half of exposure.

WisdomTree Europe Defence ETF allocates 49% of its portfolio to our current analyst best picks* in defense. **State Street SPDR S&P Europe Defense Vision ETF** is close behind at 48%. Those are the two highest shares among the European-focused, European-domiciled funds in the table.

They are both suitable vehicles to play the current undervaluation story.

*4- and 5-star ratings indicate that analysts see a share price below their estimate of fair value

Broader Defense and Tech Funds Have Less Current Value Exposure

We can also identify two categories of defense funds with broader mandates:

Defense & Autonomy Funds

Funds such as **CPR Invest Europe Defense** extend beyond traditional defense companies to invest in broader strategic-autonomy themes, including European tech champions such as ASML. As a result, they typically exhibit higher active share and lower allocations to the sector's largest stocks.

Defense Technology Funds

Advances in drones, communications, logistics, and information warfare are reshaping modern defense. While only two Europe-focused funds explicitly target defense technology, their portfolio exposures differ significantly, as discussed in the following section.

Both categories have lower exposure to Europe's most undervalued defense stocks, making them less suitable for capturing the near-term European defense rerating story. However, as the defense landscape evolves, their broader mandates may prove increasingly valuable.

The Policy Opportunity Is Widening

At the 2025 Hague Summit, NATO allies committed to invest 5% of GDP annually by 2035, including up to 1.5% in broader defense- and security-related areas.

This could expand opportunities beyond traditional defense contractors to providers of secure communications, cybersecurity, resilient infrastructure, and other dual-use technologies.

However, the 1.5% allocation is not a dedicated technology budget, and national spending plans and procurement decisions will ultimately determine who benefits.

As a result, autonomy- and technology-focused funds may enjoy a long-term tailwind, but the more immediate opportunity remains in established European defense names.

Defense and Technology

Fund Investors Face a Trade-Off Between Traditional Defense and Defense Tech Exposure

When evaluating defense funds globally, one of the key differentiators is their level of technology exposure.

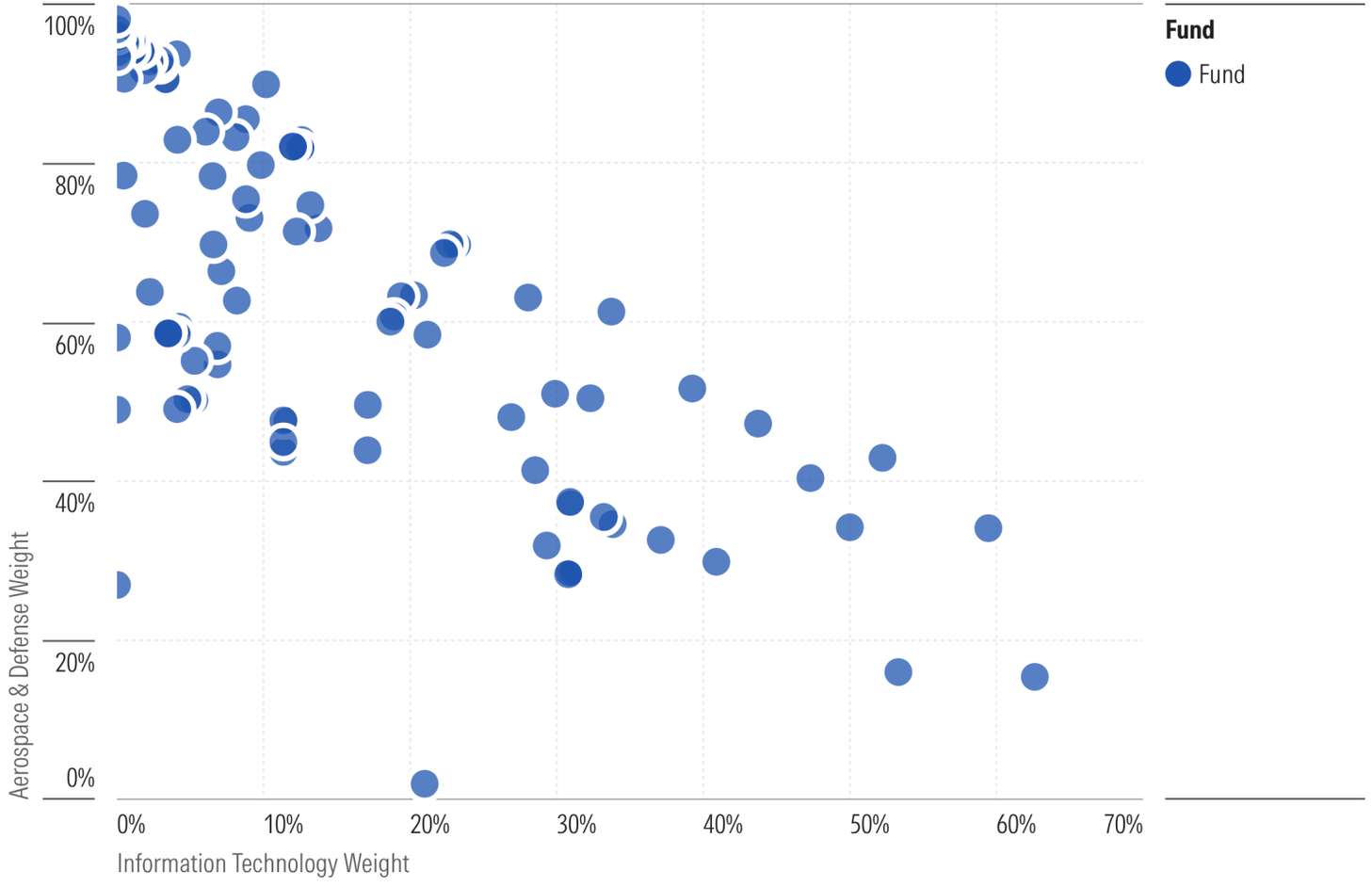
Funds such as **WisdomTree European Defense ETF** invest exclusively in the aerospace and defense sector, with portfolios concentrated in the Big Five European Defense names.

These sector-focused traditional defense strategies tend to cluster in the upper left of the graph and appear particularly attractive given current valuations.

By contrast, strategies such as the **Global X Europe Focus Defense Tech ETF** take a broader, more thematic approach, explicitly reflecting the growing role of technology in modern warfare. These funds typically appear toward the bottom right of the exhibit.

Defense Fund Investors Face a Trade-Off Between Traditional and Tech Defense Exposures

Globally Domiciled Defense Funds Exposure to Aerospace and Defense Versus Information Technology



See Important Disclosures at the end of this report.

Source: Morningstar Direct. Holdings and portfolio weightings are from each fund's latest available portfolio, mostly on or after June 30, 2026.

The Tech Names Held by Defense Managers Reflect Evolving Defense Landscape

Despite defense technology's growth potential, its stocks are currently less attractively valued than traditional defense names.

Technology's growing role in defense is reflected in fund holdings. **Palantir**, owned by more than a third of defense funds globally, provides platforms that integrate operational data and support analysis and decision-making. Morningstar analysts view the stock as close to fair value.

Other widely held names span the digital defense value chain: **Bittium** (secure communications), **Teledyne** (defense electronics), **Parsons** (IT services), and **CrowdStrike** (cybersecurity). Again, **CrowdStrike** currently trades above our fair value estimate.

Defense Fund Investors Face a Trade-Off Between Traditional and Tech Defense Exposures

Most Frequently Held Technology Stocks by Defense Funds Domiciled Globally

Name	Ticker	% of Defense Funds	Sector	Industry	Sub Industry
Palantir Technologies Inc Ordinary Shares - Class A	PLTR	34%	Technology	Software & Services	Enterprise and Infrastructure Software
Bittium Corp	BITTI	28%	Technology	Communication Equipment	n/a
Leidos Holdings Inc	LDOS	28%	Technology	Software & Services	IT Consulting
Teledyne Technologies Inc	TDY	24%	Technology	Technology Hardware	Electronics Equipment
Parsons Corp	PSN	23%	Technology	Software & Services	IT Consulting
CACI International Inc Class A	CACI	22%	Technology	Software & Services	IT Consulting
Indra Sistemas SA SHS Class - A-	IDR	22%	Technology	Software & Services	IT Consulting
Invisio AB	IVSO	20%	Technology	Technology Hardware	Communications Equipment
CrowdStrike Holdings Inc Class A	CRWD	19%	Technology	Software & Services	Enterprise and Infrastructure Software
Palo Alto Networks Inc	PANW	16%	Technology	Software & Services	Enterprise and Infrastructure Software

Source: Morningstar Direct. Data as of October 2026. Holdings and portfolio weightings are from each fund's latest available portfolio.

Fund Investors Face a Trade-Off Between Traditional Defense and Tech Exposure

Europe's limited defense universe and small pool of homegrown technology champions leave few opportunities for pure-play defense-tech exposure in public markets. The region's two defense-tech ETFs take notably different approaches.

Global X Europe Focused Defense Tech UCITS ETF targets companies deriving at least 50% of revenue from defined defense-tech themes.

Because issuers need not be European, the fund has around 18% exposure to non-European firms, making it a highly differentiated vehicle for investors seeking targeted defense-tech exposure.

Global X Provides a Differentiated Tech ETF

Comparison Between the 2 European Defense Tech ETFs

Fund	Ticker	Holdings	Non-European exposure	Estimated Technology Exposure	Largest Holding	Active Share
Global X Europe Focused Defence Tech UCITS ETF	EDEF	25	18%	61%	Saab (16.0%)	84.1
Xtrackers Europe Defence Technologies UCITS ETF	XDEF	34	0%	24%	Rolls-Royce (11.4%)	29.5

Xtrackers Europe Defense Technologies ETF draws from European-listed companies with revenue or patent exposure to defense, space, or cybersecurity.

Despite its broader mandate, the fund's holdings largely overlap with the Morningstar benchmark, leaving it looking more like a broad defense-sector fund than a dedicated defense-tech strategy.

Source: Morningstar Direct. Data as of October 2026.

Defense and Sustainability

European Sustainable Funds Have Increased Exposure to Defense Stocks Since Ukraine Invasion

Key sustainability/defense related events:

1. **Feb 2022—Russia invades Ukraine.** Triggers a fundamental reassessment of defense within European sustainable investing.

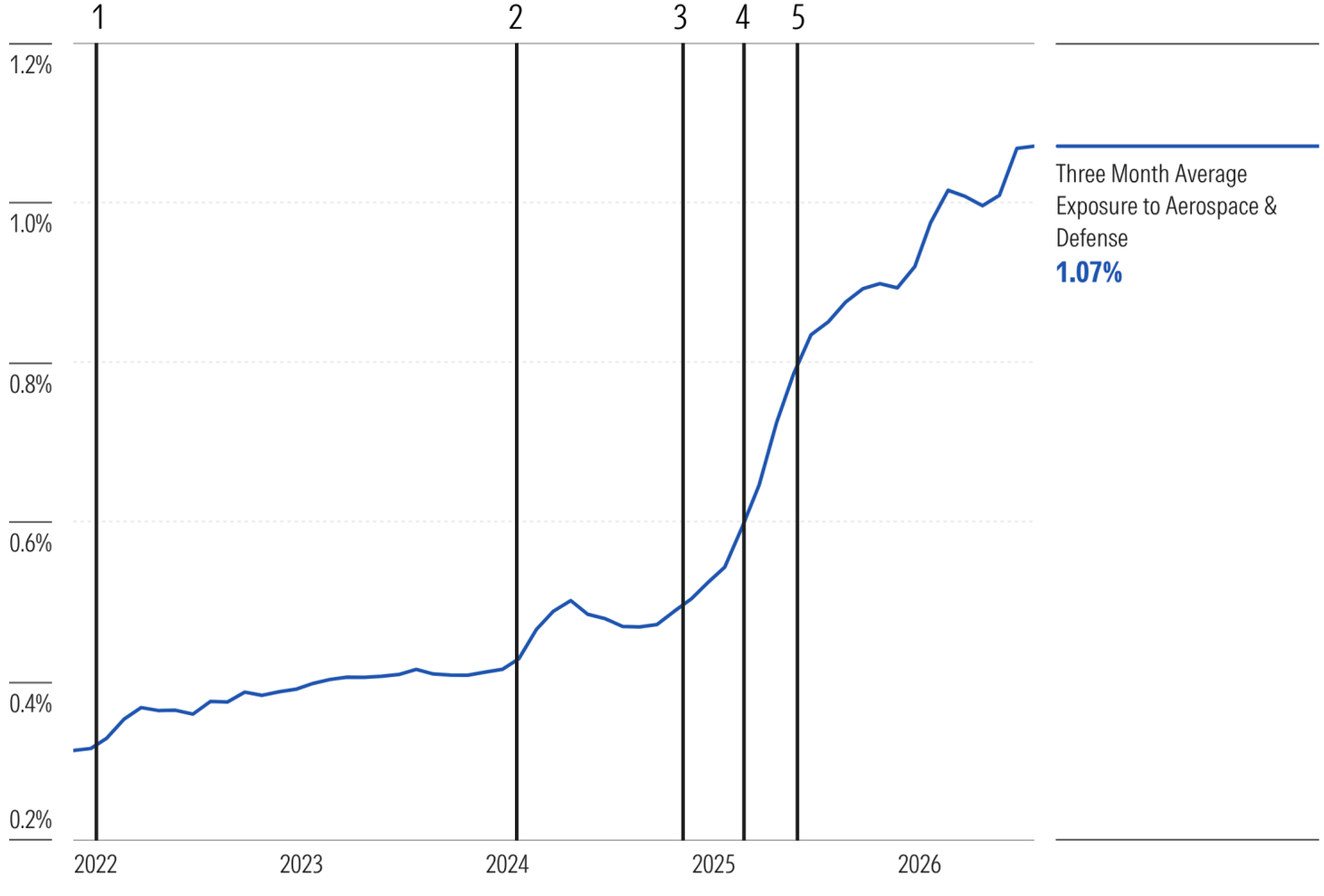
2. **Feb 2024—First defense fund becomes Article 8.** Finserve Global Security becomes the first European defense-focused fund classified as Article 8.

3. **Dec 2024—ESMA clarifies controversial weapons rules.** Distinguishes conventional defense from weapons subject to exclusion under ESG fund-naming rules.

4. **March 2025—EU launches ReArm Europe.** Up to EUR 800 billion of potential defense investment firmly moves rearmament into the European policy mainstream.

5. **June 2025—EU clarifies defense and sustainable finance.** EU Commission confirms sustainable-finance rules do not impose a blanket exclusion on conventional defense investment.

Aerospace & Defense Stock Weightings in European Sustainable Equity Funds



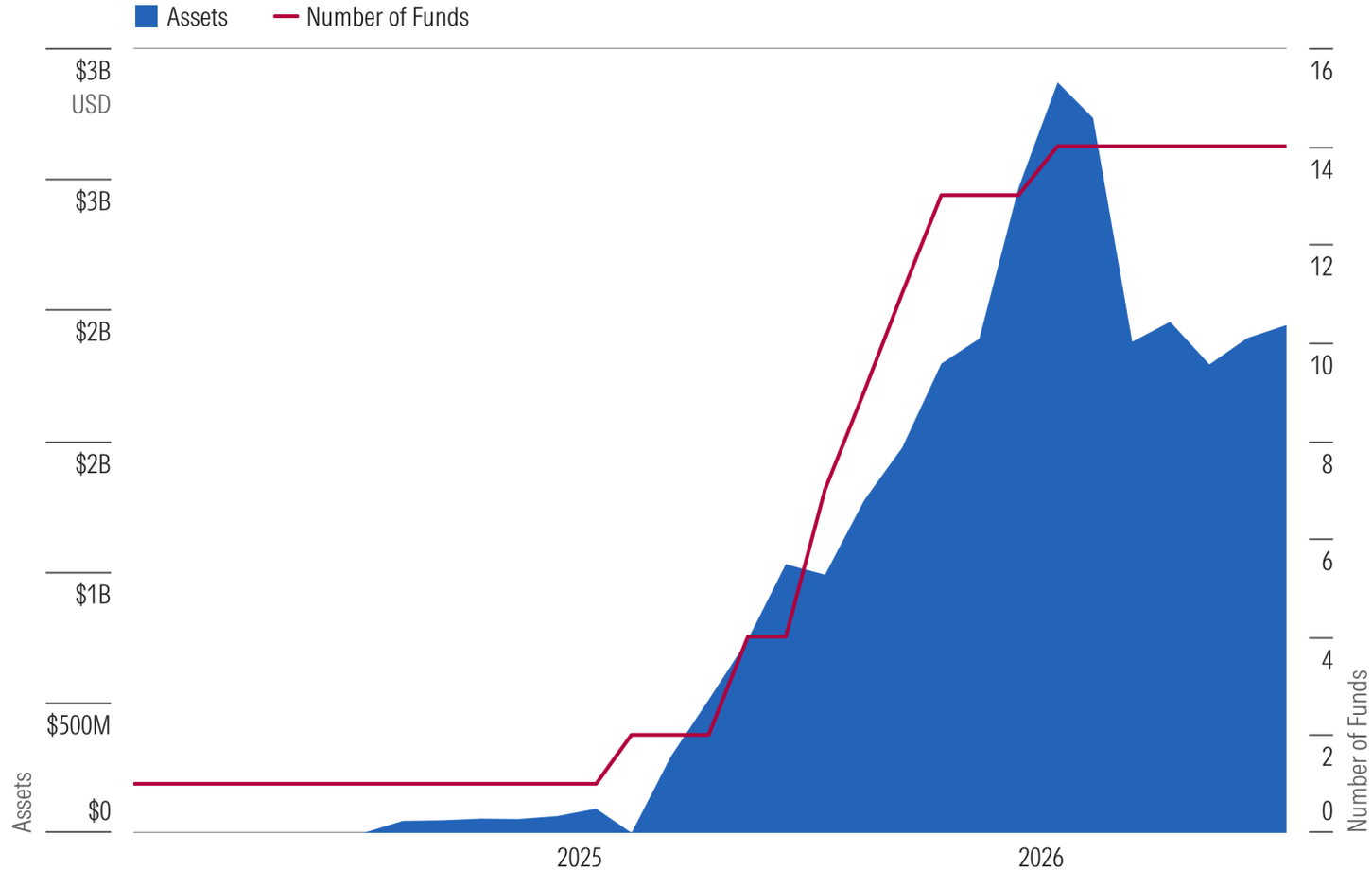
Source: Morningstar Direct.

Defense's ESG Transformation Is Reflected in the Rise of Article 8 Funds

- Investors have historically viewed defense as incompatible with sustainability objectives, excluding the sector from sustainable portfolios and funds.
- Russia's invasion of Ukraine and Europe's rearmament efforts have prompted a reassessment, leading to broader acceptance of defense investments within sustainable portfolios.
- Most significantly, the European Commission clarified that sustainable finance regulations do not prohibit sustainability-focused investors from financing defense companies.
- This shift is evident in the growing number of defense funds self-classifying as Article 8 funds, meaning they promote environmental and/or social characteristics.
- Since the first defense fund adopted the label in 2024, 13 others have followed.

The Number of Article 8 Defense Funds Has Spiked Since 2024

Size of the European Article 8 Defense Fund Universe



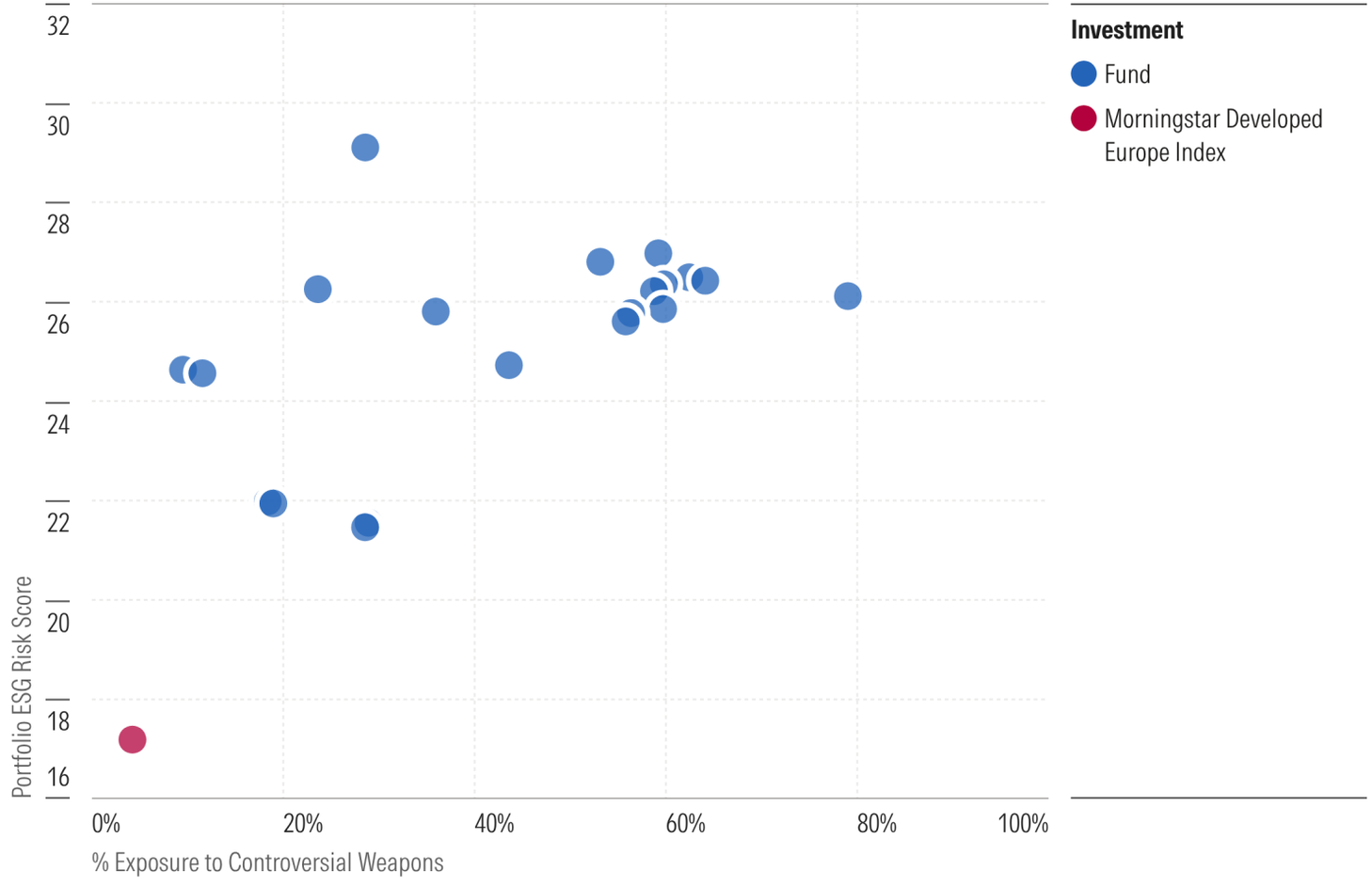
Source: Morningstar Direct.

Defense Becomes Kosher, but ESG Risks Remain Material

- Even as defense becomes more acceptable to some investors, ethical concerns remain and the sector's underlying ESG risks have not diminished. With renewed interest in defense, understanding these risks is more important than ever.
- As the exhibit shows, defense portfolios retain elevated exposure to financially material ESG risks. Key diligence areas include business ethics in government contracting, product quality as production accelerates, cybersecurity, and supply-chain traceability.
- The exhibit also highlights elevated exposure to controversial weapons among European defense funds. These holdings generate revenue from, or are linked through supply chains to, cluster munitions, antipersonnel landmines, and biological or nuclear weapons.
- For many ethically focused investors, this remains a significant concern, reinforcing the view that defense has no place in their portfolios.

Defense Funds Have Elevated ESG Risk and Exposure to Controversial Weapons

European-Focused Defense Funds Exposure to Controversial Weapons and ESG Risk Score



Source: Morningstar Direct. October, 2026. Holdings and portfolio weights are from each fund's latest available portfolio.

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