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FOR PENSION MANAGEMENT

Defence Investment Through the Investible Window

Aligning National Security Goals with Institutional Capital Realities

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Defence Investment Through the Investible Window

Foreword

For most of the past three decades, defence sat at the edge of institutional portfolios: a small sector, often excluded on ethical grounds, and rarely discussed in boardrooms. That era has ended. Governments across the world are committing to the largest peacetime rearmament in generations, and they are explicitly looking to pension funds and sovereign wealth funds to help finance it.

This paper applies the framework of the ICPM paper *Unlocking Domestic Investment Opportunities* (September 2025) to the defence sector. This framework defines the investible window as the specific set of legal, financial and governance conditions that must simultaneously exist for institutional capital to flow while meeting fiduciary duty. In this follow-up piece, we ask what defence looks like when viewed through that window, which parts of the sector already sit inside it, and what governments and investors can do to bring defence assets into the window. The paper's central claim mirrors that of the 2025 report: **institutional capital does not respond to political priority; it responds to structure and incentives.**

The paper is written for two audiences at once: policymakers and military leaders who need private capital, and the boards and investment teams of long-term asset owners who are being asked to provide it. Each side tends to underestimate the constraints of the other. The paper is deliberately accessible rather than technical, and global in scope, although many of the examples are drawn from Europe. We outline how governments can bring defence assets into the funds' investible window and how investors can revisit their approach to defence.

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Executive summary

Security has become an investment issue. World military expenditure reached USD 2,887 billion in 2025, an eleventh consecutive annual increase and, at 2.5 percent of world GDP, the highest burden since 2009.² At the June 2025 Summit in The Hague, NATO allies committed to spend 5 percent of GDP on defence and security by 2035.³ The European Union has mobilized up to EUR 800 billion under its Readiness 2030 agenda.⁴ Public budgets cannot carry this alone, so governments are turning to institutional capital, a demand NATO made explicit with its July 2026 Call to Action to financial institutions.⁵

Viewed through the investible window, defence is not one asset but many. Listed prime contractors, the supplier base, dual-use technology ventures and the enabling industrial and physical infrastructure each score differently on risk-return alignment, scale and liquidity, governance and development stage. Parts of the sector already sit comfortably inside the window, while others can be brought inside by design. The examples in this paper illustrate how this can be done: ATP's minority stake in Terma, anchored by a 30-year framework agreement with the Danish Defence;⁶ the PensionDanmark consortium selected as full-line supplier of the Danish Navy's new vessels;⁷ the EUR 1 billion NATO Innovation Fund backed by 24 allies;⁸ and pooled vehicles such as Tikehau's defence strategies that create scale and access for smaller investors.⁹

Innovation is where government de-risking is needed. Defence-technology venture funding roughly doubled in 2025 to about USD 49 billion globally, while European defence, security and resilience startups raised a record USD 8.7 billion.^{10,11} Mission-driven public models of the DARPA type in the US remain the proven way to de-risk the earliest stage. Institutional capital fits later, at the scale-up and industrial build-out stages that follow proven demand.

Governments should first decide what they want from private capital in defence: which capabilities, what control, what horizon, what exit. Once governments have articulated those goals, they can then build appropriate pathways through which they can bring defence assets into the funds' investible window. The conditions required to attract institutional capital include: aggregated demand, long-term procurement commitments, bankable structures, stable rules and development-stage de-risking.

Investors should periodically review exclusion frameworks in light of changing security conditions, legal requirements, fiduciary duties and beneficiary expectations. Since 2022, funds across Denmark,

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Sweden, Finland and beyond have either narrowed or lifted conventional-weapons exclusions, reframing defence as a condition for the societies their beneficiaries retire into. Danish funds alone more than doubled defence holdings to around EUR 19 billion in fifteen months.¹² Norway has commissioned a formal review of its sovereign fund's ethical guidelines.¹³ Exclusions of controversial weapons remain firmly in place almost everywhere, and the governance of any policy change matters as much as the change itself.

National security and retirement income security are not necessarily competing goals. Although poorly designed policy can set them against each other, well-designed partnerships can align them. The investible window framework helps identify where government objectives and investor requirements align.

1 — Why Defence, Why Now

Three developments explain why defence has moved from the periphery of investment policy to the center of it.

Demand has changed structurally, not cyclically. Russia's war against Ukraine, instability in the Middle East, and intensifying strategic competition in the Asia-Pacific have driven eleven consecutive years of global military spending growth. The 2025 total of USD 2,887 billion is 41 percent higher in real terms than a decade earlier, with double-digit increases in countries as diverse as Belgium, Spain, Norway, Denmark, Germany, Poland and Canada.¹⁴ NATO's Hague commitment of June 2025 (at least 3.5 percent of GDP for core defence plus up to 1.5 percent for defence-related and security spending, by 2035) locks in a decade of rising budgets.¹⁵

The spending gap exceeds fiscal capacity. Most governments face aging populations, high debt and competing priorities. The European Commission estimates a defence capability investment gap of roughly EUR 800 billion to 2030, against member-state spending of EUR 343 billion in 2024.^{16,17} NATO's 1.5 percent tranche explicitly covers critical infrastructure protection, cyber defence, civil preparedness, innovation and the industrial base: categories in which private capital has always played a role.¹⁸ The question is no longer whether institutional investors will be approached, but on what terms.

The demand for private capital is now explicit alliance policy. At the NATO Summit Defence Industry Forum in Ankara in July 2026, allies launched a Call to Action urging financial institutions to increase lending and equity investment in defence, security and resilience. Allies themselves are expected to strengthen domestic financing mechanisms and support public-private co-investment models. The institutions welcoming the initiative reported having mobilized USD 217 billion for defence and security; NATO's Secretary General called it not nearly enough.¹⁹

Defence investment opportunities are multiplying. Defence equities are among the strongest performing sectors globally since 2022. The number of thematic defence funds in Europe roughly doubled during 2025 to thirty, with assets reaching a record EUR 29.5 billion and net inflows of EUR 2.5 billion in the first two months of 2026 alone.²⁰ Venture funding for defence technology nearly doubled in 2025.²¹ Funds that maintained blanket exclusions have watched peers reverse course. This creates its own pressures: on ethics frameworks, on valuations, and on the quality of governance surrounding fast policy change.

2 — The Defence Industry as an Investment Landscape

2.1 What makes defence different from other infrastructure investments

Policymakers sometimes describe defence as if it were simply another infrastructure sector. It is not. Five features distinguish it, and each has important investment consequences.

1. **A single, political buyer.** Governments are usually the only customer. Demand depends on budgets and elections, not on markets. This is both a strength for investment (contracted, often inflation-linked cash flows over decades) and a weakness (policy reversals, cancelled programs, payment delays).
2. **Long cycles, lumpy capital.** Major platforms take ten to twenty years from design to delivery and remain in service for decades. Building production capacity ahead of firm orders is a bet on political durability.
3. **Restricted markets.** Export controls, security clearances, foreign-ownership screening and classified information limit who can invest, in what, and how exits work. Liquidity is structurally lower than in comparable industrial assets.
4. **Elevated scrutiny.** Few sectors attract comparable public, media and beneficiary attention. Reputational risk is real on both sides: for investing, and increasingly, in some countries, for refusing to invest in defence.
5. **A widening dual-use frontier.** Drones, AI, space, cyber, sensors and advanced materials serve civilian and military markets simultaneously. This blurs the boundary of what counts as a defence investment and creates commercial revenue that pure weapons programs lack.

2.2 Market structure: primes, neo-primes, suppliers, and the enabling base

The investible universe has four layers, each of which offers a distinct risk-return profile for investors.

1. **Prime contractors.** Large, mostly listed system integrators (e.g., Rheinmetall, Lockheed Martin). Liquid and accessible, but trading at demanding valuations after three years of exceptional performance.
2. **Neo-primes and dual-use ventures.** Software-first, venture-backed challengers such as Anduril in the US (valued around USD 30 billion after its 2025 Series G) and Helsing in Europe (around EUR 12 billion after its June 2025 round) have shown that battlefield-proven technology can scale at commercial speed.
3. **The supply chain.** Thousands of component makers, many of them SMEs and family-owned firms, which are the actual bottleneck in rearmament (ammunition, propellants, electronics,

castings, optics). This is where growth capital, private credit and consolidation capital are scarce, and where the Draghi report located Europe's most acute financing gap.²²

4. **The enabling base.** Production facilities, test ranges, military mobility corridors, ports and airfield upgrades, secure energy and data infrastructure, logistics and cyber resilience. Familiar risk, dual civil-military use, and eligible under NATO's 1.5 percent tranche. The EU's next budget proposal includes EUR 15.7 billion for military mobility alone, a tenfold increase.^{23,24} Much of this looks like classic infrastructure and real assets: the natural habitat of pension capital, and less exposed to the ethical questions attached to weapons themselves.

2.3 Defence as a growth and fast-evolving industry

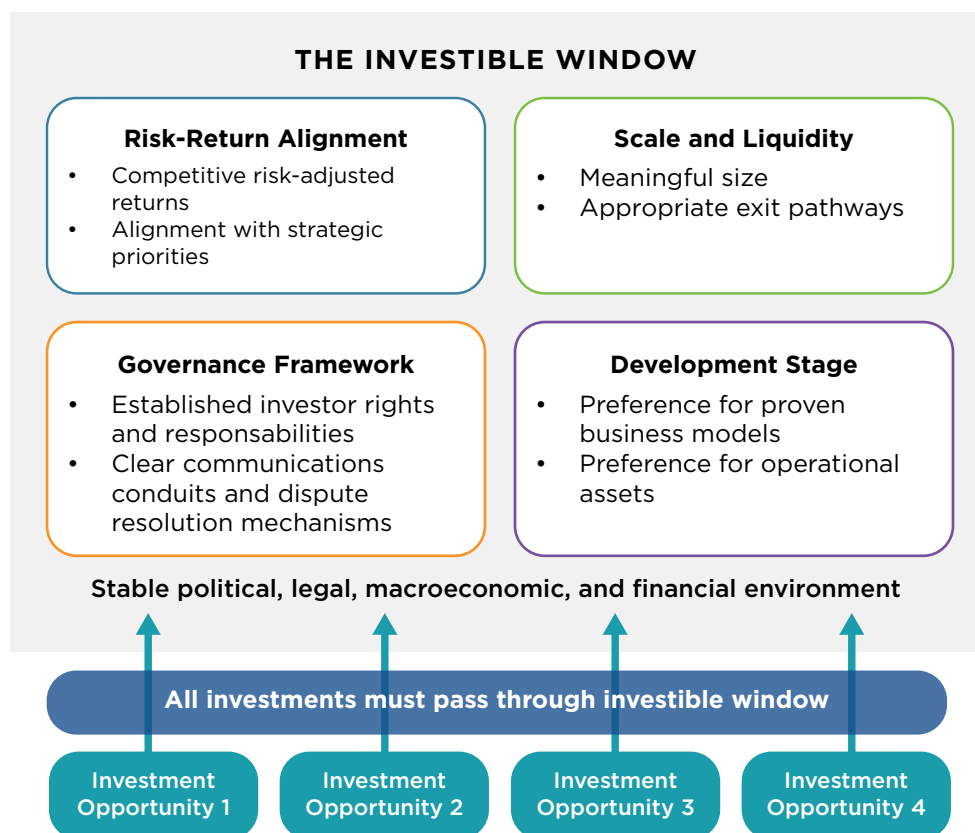
Modern deterrence is increasingly decided by software, autonomy, sensing and space, domains where innovation cycles are measured in months, not decades. The US has prioritized defence R&D over all other military spending categories since 2014.²⁵ Ukraine has functioned as a proving ground that compresses development cycles further. Any country that cannot connect its research base, startups and armed forces will buy tomorrow's capability from someone else, with its pension savings financing someone else's industrial base.

3 — Defence Through the Investible Window

3.1 The framework, briefly

The 2025 ICPM report defines the investible window as the specific set of legal, financial and governance conditions that must simultaneously exist for institutional capital to flow to a particular asset while meeting fiduciary duty. The window, shown in Figure 1, has four dimensions inside an outer layer of political, legal and macroeconomic stability.²⁶ In this section we walk through the window, dimension by dimension, and ask what it takes to bring defence assets into the window.

Figure 1: Investible Window Framework



3.2 Risk-return alignment

The strategic importance of defence does not justify sub-commercial returns; the risk must be compensated. On the evidence of the past four years, it has been, generously, for early movers: PFA's defence holdings returned roughly 370 percent between January 2022 and October 2025, against about 38 percent for the broad world index.²⁷ Contracted, government-backed and often indexed cash flows can anchor the downside. Against these protections stand single-buyer risk, program cancellation risk, and entry valuations that already price years of budget growth. The conclusion is that defence clears this dimension selectively, structure by structure, not as a sector call.

For governments, however, the relevant question is not simply whether defence equities generate strong returns, but whether capital is translating into additional capacity. Strong returns are good for investors but do not necessarily benefit governments directly. To the extent they reflect secondary-market gains, they reward existing shareholders and can lower the cost of new capital, but by themselves they do not add a new factory. Capacity grows only when capital reaches the primary market through new issuance, credit, and greenfield investment. A rising defence index is therefore not, by itself, evidence that the underlying financing problem is being solved.

3.3 Scale and liquidity

Fragmentation is a key challenge in the defence sector. A EUR 50 million ammunition supplier is invisible to a EUR 500 billion investor, and security-driven ownership restrictions narrow exit routes. Three mechanisms can move defence assets into the window at scale:

1. **Pooled national vehicles.** In December 2025, AkademikerPension, PensionDanmark and AP Pension anchored ETNA, a dedicated defence private-markets fund, explicitly framed as combining societal responsibility with long-term returns for members.²⁸
2. **Manager platforms open to smaller balance sheets.** Tikehau Capital has built a dedicated aerospace, defence and cybersecurity strategy since 2021, with industrial partners such as Airbus and Dassault Aviation investing alongside. In 2025 it extended access to insurers and retail savers through an evergreen fund (see Section 4.4).²⁹
3. **Public anchor capital.** The European Investment Fund's Defence Equity Facility takes cornerstone positions in specialist funds (EUR 175 million expected to mobilize around EUR 500 million). Multi-sovereign structures such as the NATO Innovation Fund create scale where no single national market could (see Section 4.3).

Proposals for state or European defence bonds, raised by the Danish pension association among others, extend the same logic to core fixed income.³⁰

3.4 Governance framework

In defence, the state is simultaneously customer, regulator, security authority and sometimes co-shareholder. That concentration of roles is exactly what the governance dimension exists to test: established investor rights, clear communication conduits, and credible dispute resolution. The transactions that have succeeded gave investors real governance, not promises. ATP took a board seat alongside its minority stake in Terma (see Section 4.1). The Danish naval consortium was co-created with the procurement agency around a contract model both sides could live with for decades (see Section 4.2). Where the state reserves the right to change terms after capital is committed, the opportunity for institutional investment closes.

3.5 Development stage

Institutional investors prefer proven business models and operational assets. Defence offers a full spectrum of options: at one end, companies with decades of delivery and long framework contracts (inside the window for many funds today); in the middle, greenfield capacity that becomes investible the moment credible offtake exists; at the far end, early-stage technology that most pension funds cannot underwrite directly.

The far end is precisely where government mission agencies such as DARPA in the US play a key role in de-risking early-stage technology for investors. The model's essential features are: (i) a sharply-defined unsolved problem, (ii) parallel funding of competing solution routes, (iii) rapid reallocation from failing routes to succeeding ones, (iv) empowered program directors, and (v) government acting as first customer. When DARPA spent roughly USD 14 million on its autonomous-vehicle Grand Challenges, no market for self-driving technology existed. The private capital that followed was measured in tens of billions.³¹

3.6 The outer layer: can politics hold still for twenty years?

All four dimensions sit inside the outer requirement of a stable political, legal and macroeconomic environment. Defence demand is unusually policy-made and therefore unusually exposed to being policy-unmade: the NATO trajectory will be reviewed in 2029, elections change priorities, and procurement history is rich in reversals.³² Treaty-level commitments, cross-party agreements and contractual protections are the instruments that make the outer layer credible. Governments that want a decade of private capital must act, contractually and politically, as if their own commitments bind them.

4 — Case Studies

We present four recent case studies illustrating different ways in which defence assets can be successfully brought into the funds' investible window.

4.1 ATP and Terma (Denmark, 2024)

In June 2024, ATP, Denmark's DKK 710 billion statutory pension fund, made a 'single-digit billion' DKK unlisted equity and loan investment in Terma, the country's largest defence company, previously wholly owned by a foundation, taking a minority stake and a board seat through its Long-Term Danish Capital unit.³³

Read through the investible window: the development-stage test was passed by a 75-year-old company with proven products and, crucially, a 30-year framework agreement on integrated air and missile defence signed with the Danish Defence in 2023, converting political demand into contracted cash flow. The governance test was passed by board representation and a long-term partnership with the foundation owner. ATP framed the deal squarely as return-driven with a societal contribution alongside, not instead of, return.³⁴

4.2 Danske Flaadeskibe (Denmark, 2023-2026)

In June 2023, the Danish defence procurement agency DALO selected Danske Patruljeskibe K/S, a consortium founded by defence firm Terma, ship designer OMT and PensionDanmark, as full-line supplier for the Navy's new multifunctional patrol vessels, under what the parties called a groundbreaking cooperation model designed to guarantee security of supply. The consortium, joined by Semco Maritime and renamed Danske Flaadeskibe, is now preparing to build Denmark's new Arctic vessels and potential future frigates.³⁵

The window logic is explicit in the design. The program provides immediate scale benefits, as a national program is large enough to matter. In terms of governance, the pension fund is a founding partner providing financial strength, inside the structure from day one rather than invited after terms were fixed. The program is designed to manage early development stage risk: it is a staged agreement, starting with design, so capital exposure grows only as the program de-risks. Finally, the program rests on a broad, multi-party parliamentary agreement, insulating it from single-election reversal.³⁶

For governments, this is what 'co-creation from the start' looks like in defence.

4.3 The NATO Innovation Fund (2022)

The NATO Innovation Fund, launched in 2022 with more than EUR 1 billion from 24 allied governments, is the world's first multi-sovereign venture capital fund. It leads initial investments of up to EUR 15 million in deep tech for defence, security and resilience, backs specialist fund managers to build capacity in under-served regions, and offers portfolio companies something no private fund can: structured access to the governments and armed forces of 24 nations as customers, over horizons of up to 15 years.³⁷

In window terms, the fund converts the least investible end of the spectrum into future institutional assets. Sovereign backing extends time horizons past private fund norms. Market access reduces the single-buyer problem to a distribution advantage. Additionally, the fund's partnership with the European Investment Fund is designed to crowd private capital into the sector behind it.^{38,39}

Complementary EU instruments follow the same logic at other stages: the Defence Equity Facility anchors specialist funds, and the Scaleup Europe Fund pairs Commission and private investors in late-stage strategic technology.^{40,41}

4.4 Tikehau Defence and Security (France, 2025)

Since 2021, Tikehau Capital has run a dedicated aerospace, defence and cybersecurity private-equity strategy with a team of around 30 professionals and a portfolio of more than 30 European companies, investing alongside industrial partners including Airbus, Dassault Aviation, Thales, Safran and the state investment bank Bpifrance.⁴²

In June 2025 it launched Tikehau Defence and Security with Société Générale Assurances, CNP Assurances and CARAC Group: an initial EUR 150 million committed equally by the three insurers, structured as an evergreen ELTIF 2.0 vehicle with regular liquidity windows and distributed through life-insurance and retirement-savings products, opening to other insurers and professional investors from 2026 onward.⁴³

The window logic: strategies previously accessible only to large institutions are repackaged to fit the scale, liquidity and governance constraints of smaller balance sheets and household savers. It is a reminder that financial engineering, done transparently, can help to make large, illiquid assets investible to smaller investors.

5 — Moving forward: how can governments bring assets into the investible window?

5.1 What do governments want?

Governments have multiple pathways through which they can bring defence assets into the funds' investible window. Each pathway requires a clear discussion about what governments want in terms of control, outcomes, duration and exit.⁴⁴ A key message from the ICPM 2025 report is that governments frequently seek private capital without having first articulated what they want. In defence the ambiguity is acute because ministries simultaneously want sovereignty (no ownership complications), capacity (build fast), price discipline (no war profiteering) and flexibility (freedom to cancel). No structure can deliver all four to the maximum. Saying 'we want private investment in defence' is not a policy; choosing which trade-offs to accept is.

Table 1 outlines potential pathways based on the government's primary objective. The table shows that seeking institutional capital amounts to choosing an ownership structure, not just raising money.

Table 1: Government objectives and possible pathways. The mapping is indicative, not exclusive.

Primary government objective	Possible pathway	Example
Retain national control of a strategic firm	Offer minority stakes to domestic institutional investors along with strong governance rights and long-horizon contracts	ATP and Terma (Section 4.1)
Expand industrial capacity fast	Develop large-scale production partnerships that make greenfield capacity bankable	Danske Flaadeskibe (Section 4.2)
Build an innovation ecosystem	Deploy mission agencies and venture and scale-up vehicles with public anchors	NATO Innovation Fund (Section 4.3)
Build a robust enabling base	Encourage infrastructure-style equity and private credit in defence-adjacent real assets (military mobility, secure energy and data, logistics). This can be achieved through the development of public-private partnerships, regulated business models, and concession models.	Case studies from ICPM 2025 report

5.2 Where institutional capital fits

Governments should recognize that pension and sovereign funds are rarely natural seed investors, as early-stage defence venture is small, specialized and binary. Their role begins where mission-agency models end. This points to four areas where institutional capital can play a more natural and scalable role:

1. **Scale-up and growth equity.** Global defence-tech venture funding roughly doubled in 2025 to USD 49.1 billion, with exits of USD 54.4 billion.^{45,46} Anchor commitments to specialist managers and co-investment alongside them are the realistic institutional entry points.
2. **Industrialization capital.** Once technology is proven and contracted, someone must finance factories, working capital and supply chains. This is bankable, large-ticket and time-critical: precisely the profile institutional investors seek.
3. **Dual-use technologies.** Cyber, space, quantum, advanced materials and autonomy offer exposure to the defence sector with commercial revenue streams, easing both concentration risk and remaining ethical constraints.
4. **Enabling base.** As discussed earlier, defence-adjacent infrastructure and real assets are a natural fit for pension capital. Greater pension fund investment in these areas can free up government resources to invest in other parts of the defence ecosystem.

Integration usually beats isolation. For most funds, the practical route is to let defence and dual-use exposure run inside broader industrial, technology, infrastructure and private-markets mandates rather than carving defence out as a separate asset class. Dedicated vehicles have a role in creating scale and expertise, but a pure defence fund is by construction less diversified, and treating the sector as a special case invites exclusion-first framing on both sides of the table. The same logic applies within funds: military, dual-use and civilian technology often belong in a single strategy, as do military and civilian infrastructure.

6 — Moving forward: how can institutional investors revisit their approach to defence?

6.1 Reassessing defence within responsible-investment frameworks

Before 2022, many asset owners treated conventional weapons much like tobacco: legal but excluded. Russia's full-scale invasion of Ukraine, repeated hybrid incidents across Northern Europe, and doubts about the durability of US security guarantees have transformed that consensus. Several funds have concluded that national security and deterrence form part of the long-term social conditions in which retirement outcomes are delivered. These funds now explicitly frame defence investment as part of their social responsibility.⁴⁷

6.2 Lines that hold, and governance that matters

The relaxation of exclusion rules should come with guardrails. Exclusions of controversial weapons remain firmly in place almost everywhere, and the governance of any policy change matters as much as the change itself.

- **Be precise about what is actually prohibited.** The umbrella term 'controversial weapons' often obscures important legal and policy distinctions. Some weapons are subject to clear international prohibitions, while others fall into more contested categories where investor approaches vary. Rather than relying on broad exclusions, funds should adopt a clear framework that distinguishes between prohibited activities, higher-risk exposures, and areas requiring case-by-case judgment. Independent legal review can help anchor the taxonomy and take the heat out of the debate.⁴⁸
- **Conduct still counts.** Lifting a sector exclusion does not suspend norms on corruption, export destinations, human rights and international humanitarian law. Defence holdings arguably require more active ownership, not less.
- **Process protects legitimacy.** Funds that changed policy consulted beneficiaries, documented the reasoning, and separated the ethical judgment from the return opportunity. Funds that appear to chase performance with ethics as an afterthought invite backlash.

For policymakers, the practical implication is patience and precision: pressuring funds to drop exclusions wholesale is less effective than clarifying legal frameworks (for example, confirming that financing legal defence activity is compatible with sustainable-finance regulation) and offering investible structures that do not force funds across their remaining red lines.

6.3 Insights from the Nordics and the UK

Funds from the Nordic region have been particularly pro-active in revisiting their policies on defence investing. PFA (Denmark) lifted its exclusions of large European arms producers in 2022. Its defence investments grew almost tenfold after the revision.⁴⁹ Danish funds collectively more than doubled defence investments to around EUR 19 billion in the fifteen months to April 2025.⁵⁰

AkademikerPension (Denmark) relaxed its rules to lift exclusions on major European arms manufacturers and later on nine companies linked to European nuclear programs, while adding others tied to US and Chinese programs. This change represents a recalibration, not an abandonment, of the fund's ethics framework.⁵¹ In Sweden, KPA Pension allows defence investments from 2026, retaining exclusions of controversial weapons and offering members a defence-free option.⁵²

The Government Pension Fund Global (Norway) has excluded producers of key nuclear-weapons components for two decades. Rather than reversing by decree, the Norwegian parliament has commissioned a review of the fund's ethical guidelines to weigh alignment with national security interests, with a decision expected in 2027.⁵³ The process is slower than the Nordic peers' but is itself the point: for a USD 2 trillion fund whose legitimacy rests on broad consensus, how the ethics change matters as much as whether they do.

In the UK, Nest, the auto-enrolment scheme investing for millions of members, offers a member-voice variant of the same lesson. In 2026, the fund convened a member assembly that voted on the recommendation to continue default-fund investment in defence, including nuclear, while excluding only the controversial weapons prohibited under UK legal requirements. Members backed the policy, with none strongly disagreeing. Their comments spanned the full spectrum that boards must weigh: from defence investment as a condition for safety to calls for a higher ethical bar than the legal minimum. Whether through parliament, as in Norway, or through direct member consultation, as at Nest, the legitimacy of a defence policy rests on the quality of the process that produced it.⁵⁴

Across all cases, we observe the same patterns: exclusions narrowed with documented reasoning; treaty-based red lines were kept; and member choice or consultation was built in.

6.4 Risks of an unreviewed approach

Taking a passive approach to defence can expose the funds to key risks:

- **Defence assets are widespread across the investment universe.** Many firms have both civilian and defence activities. Airbus, for example, is the world's largest commercial plane manufacturer but also manufactures a wide range of military equipment such as combat jets and armed military helicopters. As a result, constructing a globally diversified portfolio that is completely free of defence can be difficult. Funds with blanket defence exclusions may therefore still face stakeholder scrutiny or backlash if they are found to hold companies with material defence activities, even if those activities are not the primary reason for the investment.
- **Defence is an increasingly important sector.** Funds that maintain blanket exclusions may miss important investment opportunities, particularly as defence-related technologies and innovations increasingly find applications in the broader economy.
- **Government pressures will persist.** Governments may seek to mobilize institutional capital for national defence priorities regardless of whether funds engage proactively. Funds that define their approach early are therefore better positioned to shape the terms of their involvement and avoid being pushed into investments on sub-commercial terms.

7 — Conclusions

Five recommendations for governments and defence ministries

1. **Articulate goals first.** Specify which capabilities need private capital, what control the government retains, what horizons and exits look like. Publish it as a pipeline, not as a press release.
2. **Create scale.** Pool programs nationally and multi-nationally until ticket sizes match institutional scale.
3. **Sell certainty, not sentiment.** Multi-year procurement commitments, first-customer contracts for innovation, and availability-based structures convert political will into bankable cash flow. Treat investor agreements with the seriousness of alliance commitments.
4. **Co-create structures early.** Bring investors early into program design rather than presenting fixed terms. Equip defence ministries with financial-market expertise, drawing on colleagues in finance ministries, before making public statements about mobilizing capital markets.
5. **Fix the plumbing.** Clarify that financing legal defence activity is compatible with sustainable-finance regulation; streamline clearances and foreign-investment screening for allied long-term investors.

Five recommendations for institutional investors

1. **Review the ethics framework.** Review exclusions against today's security reality, with beneficiary consultation and documented reasoning. Hold the line on treaty-prohibited weapons, adopt a clear framework for grey areas, and strengthen conduct-based ownership.
2. **Build sector capability before allocating.** Defence has genuine specificities (single-buyer, program risk, controls). Do not import infrastructure assumptions unexamined.
3. **Enter where structure fits mandate.** For most funds, this means starting with pooled vehicles, growth-stage funds, and defence-adjacent infrastructure before moving into production partnerships and direct early-stage investments.
4. **Price the boom honestly.** Structural demand is real but so is momentum. Discipline on entry valuations is what distinguishes a strategic allocation from a cycle-top mistake.
5. **Engage early, pro-actively, and collectively.** Early investor involvement in program design helps to convert government priorities into investible initiatives. Investor coalitions also convert individual vulnerability into negotiating strength.

A closing observation

Defence is not exceptional because it deserves special treatment from investors. It is exceptional because it demonstrates, more clearly than almost any other sector, that strategic ambition succeeds only when governments design investments that satisfy institutional fiduciary requirements. Where that design work has been done, in Aarhus, in Amsterdam, or in the NATO Innovation Fund's boardroom, capital has followed within months. When governments rely on urgency and appeals instead, capital does not follow. The productive path, for both sides, is to expand the common playing field rather than revisit existing disagreements. The investible window is not an argument for or against defence investment. It is a framework for determining when and how institutional capital can participate while preserving the primacy of fiduciary duties.

Notes

¹ ICPM Domestic Investments Working Group, Unlocking Domestic Investment Opportunities: Aligning Public Goals with Pension Fund Realities, September 2025.

² SIPRI, Trends in World Military Expenditure 2025, Fact Sheet and press release, April 2026.

³ NATO, The Hague Summit Declaration, 25 June 2025; NATO, Defence investment and NATO's 5% commitment, 2025.

⁴ European Commission, ReArm Europe Plan / Readiness 2030 and White Paper on European Defence, March 2025.

⁵ NATO, "NATO launches call to action to increase private investment in defence", NATO Summit Defence Industry Forum, Ankara, 7 July 2026, [www.nato.int/en/news-and-events/articles/news/2026/07/07/nato-launches-call-to-action-to-increase-private-investment-in-defence]; NATO, "NATO Innovation Scale-Up Package", 8 July 2026.

⁶ ATP and Terma press releases, 19 June 2024; IPE, ATP takes stake in major Danish defence firm Terma, June 2024. The 30-year framework agreement with the Danish Defence was announced by Terma in 2023.

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