



Investing in the Defence Industry: what are the risks, really?

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To Defence or not to Defence – an ESG growth dilemma

Defence is one of the fastest growing investment opportunities for funds in Europe. The EU ReArm plan is worth €800bn, and BCG have identified a €500bn growth opportunity for non-defence firms alone.

Headlines make uncomfortable reading

UK vows to spend 5% of GDP on national security by 2035

EXCLUSIVE

Rachel Reeves: Russia behind some of recent UK cyber attacks

Britain may already be at war with Russia, former head of MI5 says

Eliza Manningham-Buller points to extent of cyber-attacks and other hostile activity orchestrated by Moscow

News | Russia-Ukraine war

EU to develop 'drone wall' amid regional airspace violations

But defence issues – 'it's complicated'



ESG policies are being blamed for lack of investment in defence

Boards need to determine their defence ethical risk appetite framework to enable them to quickly assess the risks they are dealing with for a particular opportunity, and an agreed level of appetite for that risk

- Large Pensions funds, asset managers and banks are in the process of **reviewing their approach to defence financing** in the light of government commitments and increasing global commitments.
- Our assessment of the top 20 European Pension Funds found that **100% excluded controversial weapons, however only 50% were tied to UN Treaties**. Also **40% excluded conventional defence sectors**, so had quite broad exclusions.



The ethical concerns associated with defence have different nuances and ethical sensitivities for investors.

Risk category area	Example risk
Controversial weapons (covered by treaty)	Product may contravene international law or treaties (e.g. Ottawa treaty)
Autonomy / AI	Delegating lethal decision-making to machines (lack of meaningful human control)
Dual use / misuse	Civil-designated technology used for military purposes, defence technology used on civilians (export control restrictions)
Proportionality & discrimination	The technology does not have the ability to discriminate between combatants and civilians (Jus in bello)
Human Rights	The use of the product undermines fundamental rights (IHL, UNGP)

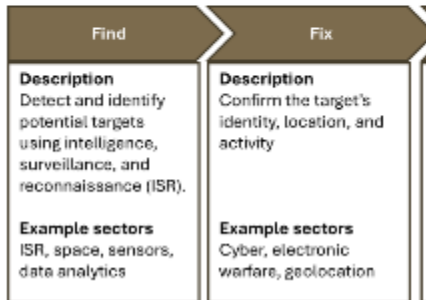
Firms need to adopt a strategic approach for setting risk appetite

Framework for determining ethical risk appetite

Consequentialism

- What are the potential consequences of this action (sale, product development etc.)?
- Who could be harmed?
- Who will benefit?

What is your



Defence Ethical Risk Appetite Framework in relation to PE attractiveness

Ethical risk ratings based on an overall assessment including the historic views of sector investors, NGOs, governments and defence Primes.

Sector	PE Attractiveness	Rationale	Controversial Weapons –	Autonomy / AI	Customer dual use /	Proportionality &	Human Rights
Dual-Use Technologies	High	Growth + civilian/de strong exit potential					
Cybersecurity & Intelligence	High	Recurring revenue, high civil adoption					
Supply Chain & Industrial Base	Medium-High	Reshoring & resilient intensive					
Space & Strategic Infrastructure	Medium	Growing civil space intensive; government					
Emergency Response & Resilience	Medium	Fragmented, public moderate margins					
Core Defence	Low	Dominated by prime ESG sensitivity					

Low – light touch review

Illustrative defence ethical scenarios

Examples highlight the challenges and dilemmas of working through the implications of the risk appetite framework



Team and offerings

Simon Abrams



- Founder director of Elpisimpact.com sustainability advisory focused on private markets and portfolio companies.
- Senior ESG Advisor to Cinven
- Senior Director Baringa Partners - Private Equity ESG practice
- Senior Director EY. Started and built the EY PE ESG practice and the Sustainable Finance business at EY FS. On the European sustainable private market leadership team, European Sustainable Finance leadership.

Dominic Hall



- Formerly Global Head of Ethical Business at BAE Systems, Dominic has a deep understanding of ethics, governance and compliance risk in the Defence sector.
- Dominic also chaired IFBEC (International Forum for Business Ethical Conduct) – the ethics body for the Defence industry.
- He has worked closely with the MoD, NATO and Defence sector primes on ethics and governance initiatives, including ethical principles for AI, and the NATO Building Integrity program.

Elpis Impact service offerings

- 1. Sustainability & ethical strategy, roadmap and implementation** - bringing clarity out of ambiguity, enabling C - Suite to set and communicate tailored ambitions internally and externally
- 2. Board training** - Customised Executive level training/ briefings including ethical dilemmas workshop around defence, supply chain considerations and implications
- 3. Policy and controls programme implementation** - delivering tailored programmes to mitigate risk, enable appropriate governance and build confidence at Exec level
- 4. Enhanced defence ethics and supply chain due-diligence**
- 5. Sustainability and compliance disclosures** - providing internal and external confidence on external disclosures and data
- 5. Exit Readiness** – support management teams to manage reputational risk, and understand disclosure requirements and engagement strategies to maximise value at exit to their desired next home e.g. PE/ Trade/ IPO

“Time spent in
reconnaissance is seldom
wasted”

Arthur Wellesley, 1st Duke of Wellington

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