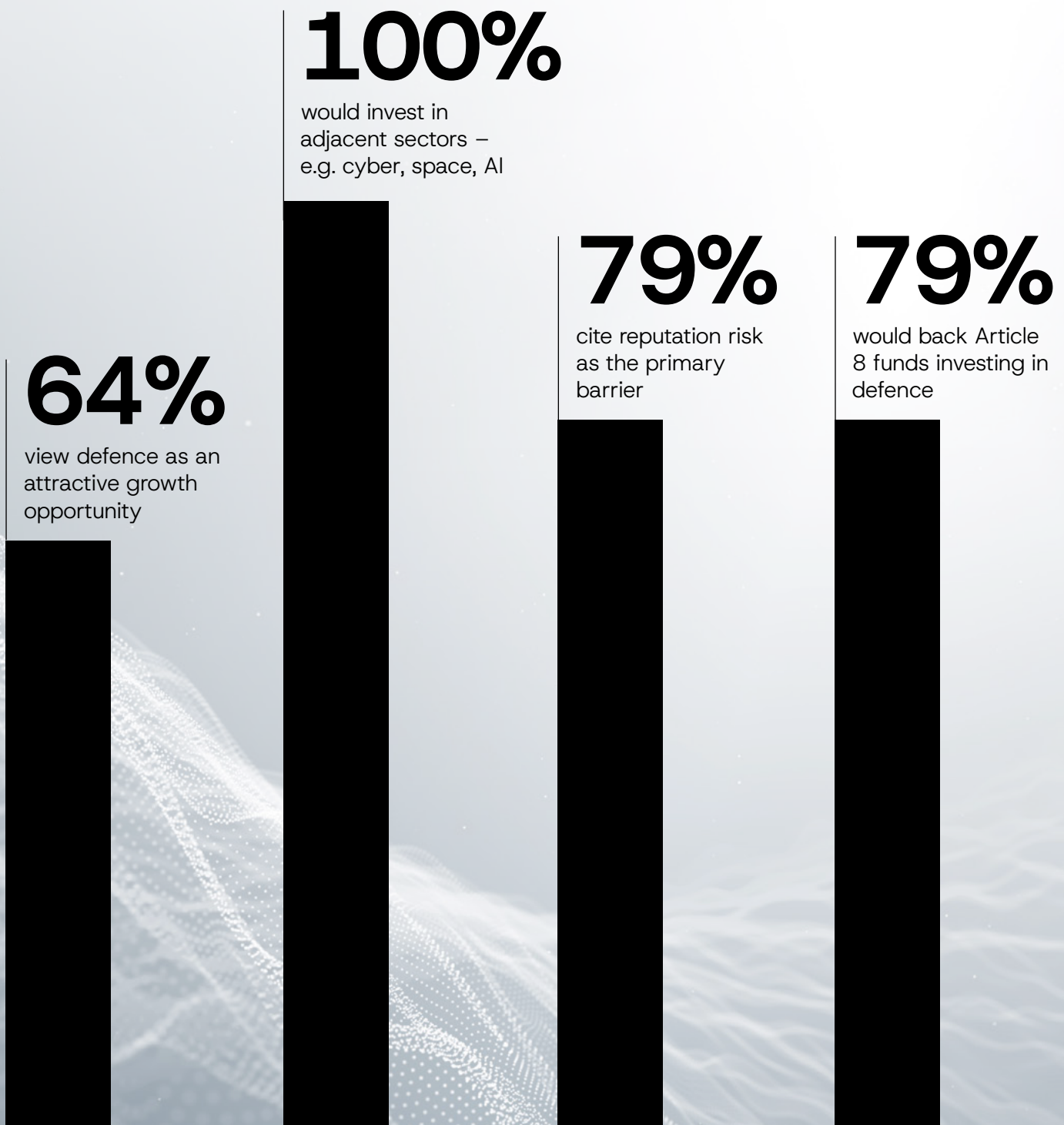




INVESTING IN DEFENCE

How European private markets are
opening up to defence investment

The fundamentals are strong. The geopolitical backdrop is clear. The government spending is coming. Private capital is looking at defence and finding it very hard to look away.



About this research



This report presents findings from a structured survey of senior private market decision-makers, conducted jointly by Blakeney and Elpis Impact in May and June 2026.

This report examines how private market investors are approaching defence and defence-adjacent sectors in the current geopolitical environment – what they will and won't invest in, what is holding them back, how their responsible investment frameworks are changing, and what the sector needs to do to unlock capital.

Respondents represent a cross-section of European private capital – buyout funds, growth equity investors, infrastructure managers, and private credit firms.

All responses are anonymised in reporting. Figures are expressed as a proportion of those who answered each question. Percentages may not sum to 100% due to rounding.

“Potatoes for the cookhouse or bullets for the battlefield – both are defence investments. We just haven't agreed where between the two we're prepared to go.”

– FROM OUR INVESTORS

Executive summary

Europe's security environment has changed more dramatically in the past three years than in the preceding three decades. And with it, the investment case for defence has moved from something most institutional investors actively avoided to one of the most compelling growth stories in private markets.

For most of the past two decades, defence was simply off the table for the majority of serious institutional investors. ESG frameworks – which now govern how most institutional capital is deployed – treated it as a sector to be excluded. The logic was clean and rarely questioned: responsible investors don't fund harm, weapons cause harm, don't invest in weapons.

Following Putin's invasion of Ukraine (and the shift in the ethics dynamic from overseas sales to the defence of Europe), those same investors are looking at a sector with strong tailwinds – surging NATO spending commitments, urgent government procurement backlogs, deep technology transformation across cyber, space, and dual-use industries – and asking a different question entirely. Not "should we invest?" but "how do we invest in a way that works within our existing ESG commitments?"

That is the central tension this report explores. The investors in this survey are not reconsidering defence because they have abandoned their ESG principles. They are reconsidering it because the sector has become too attractive, and too strategically important, to leave on the exclusion list without a much harder look.

Five headline findings

01

No one is ruling defence out.

64% of investors already see it as an attractive growth opportunity. The remainder are still deciding – but not one respondent said no.

02

Investors will back technology, not weapons.

100% would invest in cyber, space, AI and dual-use sectors. Only 7% would invest in companies that make lethal systems.

03

The barrier isn't financial – it's reputational.

Only 21% say they're uncertain about the returns. 79% say their biggest concern is how it looks to their LPs, the media, and the public.

04

Most investors don't yet have the right frameworks in place.

Only 21% have a properly developed process for evaluating defence investments. The majority are building one as they go.

05

Article 8 and defence can coexist.

79% would back a defence fund structured as Article 8 (the EU's responsible investment classification) if the governance framework was robust and transparent enough.

Section 1:

How investors see defence today

Not a single respondent said the sector holds no appeal. The real question – and the more revealing one – is what kind of appeal, and for whom.

When asked whether they currently view defence and defence-adjacent industries as attractive growth opportunities, 57% said Yes and 36% said Unsure or under review. Even the most cautious respondents are not so much dismissing the sector as they are managing their way towards it.

Do you view defence as an attractive growth opportunity?

Yes — attractive growth opportunity

64%

Unsure / under review

36%

No

But caution dominates. 71% of respondents describe their overall stance on defence, through a responsible investment lens, as 'cautious or highly selective'. Two respondents described themselves as 'strongly supportive', one of whom – a Central and Eastern European growth equity manager – was already investing across the full defence spectrum, including lethal systems. Their stance reflects geography as much as conviction: proximity to the Russian border concentrates the mind.

Overall stance on defence (responsible investment lens)

Cautious / highly selective dominant investor posture across the cohort

71%

Generally supportive willing to engage across most sub-sectors

7%

Strongly supportive investing across the full spectrum, inc. lethal

14%

Neutral no strong view either way

7%

Caution is not the same as reluctance. What most respondents are cautious about is *how* they engage with the sector. Not *if*.

The overall picture is of a market in transition, not one that has made up its mind.

Section 2:

Where capital will and won't go

Investor appetite is highly differentiated by sub-sector and company type. The overwhelming preference is for adjacent and technology-intensive segments over core or lethal-systems.

100% of investor respondents say they would invest in adjacent sectors – cyber, space, AI, and dual-use technology. 7% say they would invest in companies producing lethal systems. Everyone else draws the line well short of weapons manufacturing.

This is not quite what it appears at first glance. The line between 'adjacent' and 'lethal' is not always clean. A company that produces drone navigation software sits in the adjacent category. A company that produces targeting software, or manufactures the drone itself, does not. But the same underlying technology serves both. It is possible that some investors in this cohort are already funding the industrial base that makes lethal systems possible, they just prefer not to frame it that way.

Sub-sector interest breaks down as follows:

Dual-use technologies civilian and military application in the same product

86%

Cybersecurity & intelligence electronic warfare, data protection, signals

79%

Resilience & emergency response civil preparedness, critical infrastructure

79%

Defence supply chain components, logistics, maintenance

64%

Space & strategic infrastructure satellite, comms, navigation systems

43%

Core defence systems platforms, weapons, military hardware

21%



Company type willingness – who will invest in what:

Adjacent sectors – cyber, space, AI, dual-use

100%

Non-lethal equipment & services only

64%

Supply chain to lethal manufacturers

29%

Direct manufacturers of lethal systems

7%

The dual-use category is doing an enormous amount of work in this survey. For many investors, it functions as a permission structure – a way to engage with defence economics without engaging with defence identity.

64% of investors would back companies that make non-lethal equipment and services for defence – military communications and logistics software, infantry body armour, training systems, medical supplies. These aren't weapons businesses, but they are defence businesses: they exist primarily to serve military customers.

The 29% who said they would invest in supply chain companies – those making components for the companies that make the weapons – is probably an undercount. Several respondents who described themselves as 'adjacent only' investors acknowledged in their survey responses that they already hold, or are actively considering, positions in companies that supply parts to major defence manufacturers. What people say they will invest in and what they are actually investing in don't always match. The real appetite here may well be higher than the headline figure suggests.

Space sits at 43% – lower than you might expect given how central satellite capability, navigation systems, and secure communications have become to both military and civilian security. The reason, based on the profile of respondents, is largely practical: space companies right now tend to be large, capital-intensive, and still maturing – a better fit for infrastructure funds or specialist deep-tech vehicles.

“We know we need guardrails. Right now, we're operating without them.”

– FROM OUR INVESTORS

Section 3:

Barriers to deployment – what is holding capital back

The gap between where investors want to go and where they currently are is not primarily a financial gap. It is a narrative gap.

Asked to identify barriers to investing in defence, respondents gave answers that should reframe how the sector thinks about investor relations. Reputation is the dominant concern, cited by 79% of respondents. Internal values or mission alignment comes second at 43%. Regulatory and policy constraints are cited by 36%. Financial return uncertainty was cited by just 21%.

External reputation risk

79%

Internal values / mission alignment

43%

Regulatory or policy constraints

36%

Financial return uncertainty

21%

79%

What does 'external reputation risk' actually mean in practice?

For some it will mean media and public exposure – a concern about appearing in a headline that frames a buyout fund as an arms dealer. For others it will mean LP pressure e.g. pension fund LPs, university endowments, or charitable foundations that have explicit exclusions or public commitments around defence. For others, it will be about the reputational impact on portfolio companies, whose own customers, employees, or partners may object to defence association.

The internal values figure – 43% – is worth examining carefully. This is not necessarily about individuals having moral objections to defence, but about the institutional vocabulary that funds have built over the past decade or so of ESG growth. Many funds have made public commitments (e.g. to net-zero portfolios or social impact metrics) that were designed without the current defence landscape in mind. Those commitments now create internal friction when opportunities arise.

Regulatory constraints at 36% reflect a real and underappreciated complexity. Defence investment is not straightforwardly governed – export control regimes, dual-use regulations, government security clearances, and fund mandate restrictions all create friction. Several respondents noted that even where they wanted to invest, the procedural requirements for doing so responsibly were unclear.

The 21% figure for financial return uncertainty is the most important number in this section. It means that in 79% of cases, investors who are not yet investing in defence are not holding back because they doubt the economics. What they're managing is everything that surrounds the economics – the stakeholder risk, the narrative risk, and the infrastructure required to deploy responsibly.

“One LP stated that a red flag is a GP that shows no regard to the broad and evolving ethical and social risks.”

– FROM OUR INVESTORS

The defence sector's primary capital markets challenge is more reputational than it is financial. Fixing it requires strategic communications and stakeholder strategy, not better financial modelling.



Section 4:

Responsible investment frameworks – building the plane whilst flying it

Most of the investors in this survey are already moving into defence – or are about to – without having properly updated the rules that govern how they invest.

Only 21% have a fully developed framework for evaluating defence investments. 57% describe theirs as a work in progress. 21% have nothing meaningful in place at all. And yet most of the cohort is already investing, or planning to within the next six months.

This is not unusual. In fast-moving markets, capital often moves before the rule books catch up. But it does create real exposure. If a portfolio company's products turn out to be used in a way that causes controversy – sold to a government the LP didn't expect, or deployed in a conflict that attracts public attention – the fund manager will need to explain and defend the investment quickly, and with a framework that may not yet be robust enough to stand up to scrutiny. And as governments across Europe pay closer attention to foreign ownership of defence assets, regulatory questions that didn't exist two years ago are starting to arise.

The opportunity is that the funds who get their frameworks right now – who build proper assessment processes, document their decision-making, and communicate clearly with LPs – will be better placed than those who are still improvising when something goes wrong.

Has your organisation updated or does it plan to update its policy?

Moving to a risk-based approach

29%

Have relaxed restrictions

7%

Update in progress – within 6 months

29%

Policy left the same

7%

No change to policy needed

21%

Have tightened restrictions

7%

The shift toward risk-based approaches is the most significant structural trend in this data. Historically, many PE funds maintained simple exclusion lists – weapons manufacturers, cluster munitions, any company deriving more than a certain percentage of revenue from defence, and so on.

That approach is giving way to something more nuanced. Instead of asking “is this a defence company?” – and stopping there – investors are starting to ask a series of more specific questions. What does this company actually make? Who does it sell to? What happens to the product once it leaves the factory? Are its government customers NATO members and democratic allies, or does it sell more broadly? 29% of respondents have already made this move formally. More are heading in that direction.

For defence businesses, this change matters enormously – because it means the investor universe is no longer determined by what sector you’re in. It’s determined by how well you can answer those questions. A company that can produce a clear register of its export licences, a transparent account of its end customers, and a credible policy on who it will and won’t sell to is a fundamentally more attractive investment proposition than one that can’t.

That kind of documentation, which most defence companies have historically treated as a legal or compliance matter, is fast becoming a commercial asset.

Framework maturity for evaluating defence investments

Evolving – in active development

57%

Well-developed and tested

21%

Early stage – not yet meaningful

21%

RI policy changes required to invest in defence:

None – existing policy is sufficient

43%

Minor clarifications needed

36%

Material changes required

14%

The 43% who say they don’t need to change their RI policies to invest in defence shouldn’t necessarily be read as a sign of strong conviction. It may mean that their existing policy was written broadly enough – or vaguely enough – that defence investments can slip through without requiring a formal sign-off.

The more significant group is the 57% whose frameworks are still evolving. These are funds that have decided they want to invest in defence, and are in the process of building the internal architecture to do it properly.

Section 5:

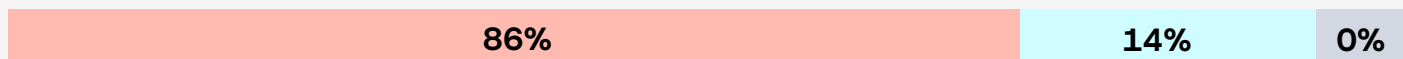
Rearmament, responsibility, and 'Europe-washing'

The investors in this survey broadly accept that Europe needs to invest in its own defence, and that private capital has a role to play in that. Where it gets more complicated is when you ask whether any individual fund sees that as their specific responsibility to act on.

Attitudes toward defence and responsible investment

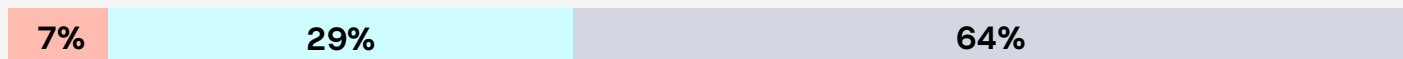
Respondents were asked to rate their agreement with three statements:

"Responsible investors should avoid defence due to ethical concerns"



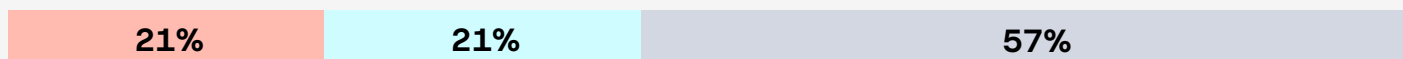
Net: Net disagree: 86%

"Responsible investors should support defence because democracy requires security"



Net: Net agree: 64%

"Investors have a responsibility to support companies genuinely building European defence capacity"



Net: Net agree: 57%

Scale: ■ Disagree ■ Neutral ■ Agree

"Responsible investors should avoid defence due to ethical concerns."

Net disagree: 86%

This is the clearest result in the entire survey. The overwhelming majority of respondents – including many who describe themselves as cautious or ESG-focused – reject the proposition that responsible investment and defence engagement are inherently incompatible.

"Investors should support defence because democracy requires security."

Net agree: 64%

A majority agree – but the 29% neutral figure is notable. Several respondents agreed with the principle but were uncertain about whether their specific fund was the right vehicle to express it.



“We’re interested. But in this particular sector, ‘we need to be able to defend our decisions’ isn’t just a figure of speech.”

– FROM OUR INVESTORS

“Investors have a responsibility to support companies genuinely building European defence capacity.” – Net agree: 57%, but the disagree camp (21%) is larger than for either other statement.

The phrase ‘genuinely building European defence capacity’ is doing significant work here. The word ‘genuinely’ signals a concern – that much of what presents itself as European defence capacity may not be. And ‘responsibility’ is a stronger claim than ‘opportunity’. Some investors are comfortable saying they see an investment case in European defence; fewer are comfortable saying they have a duty to make it.

Europe-washing: a risk not yet fully priced

We asked investors how concerned they are about ‘Europe-washing’ – non-European companies overstating their European credentials to attract investment directed at European rearmament. 73% said they are not currently concerned.

Not concerned about Europe-washing

50%

Slightly concerned

36%

Somewhat concerned

14%

The importance of European rearmament to investment strategy reveals a further split: 14% consider it very important, 36% slightly important, 14% moderately important, 21% not important, and 14% not applicable. The low importance rating among those to whom it is applicable suggests the rearmament narrative has reached the investment committee but has not yet translated into active strategy.

Section 6:

Fund structuring and governance

Two findings in this section have direct structural implications for how defence companies should approach investor relations and how fund managers should design new vehicles.

Article 8: a structural breakthrough in the making

Under EU rules, Article 8 funds are those that promote environmental or social characteristics, and they have traditionally been seen as incompatible with defence investment. This is important because a large and growing proportion of institutional LP capital now sits inside Article 8 vehicles. If those funds can't hold defence assets, a significant pool of capital is structurally blocked from the sector.

We asked whether investors would support Article 8 funds investing in defence, conditional on a robust and transparent risk framework. 79% said Yes. 14% said Possibly, with conditions. Only 7% were unsure.

Yes – would support Article 8 funds in defence

79%

Possibly – with conditions

14%

Unsure

7%

Does a target company's government customer base influence your decision?

Yes – significantly influences the decision

79%

Yes – marginally influences the decision

14%

No – customer base makes no difference

7%

Your customer base is your values statement. The 79% of investors who weight it significantly are telling you what they need to see before they can say yes.

Companies in the defence sector need to carefully consider their end customer. This goes beyond export controls. There is a difference between supplying surveillance or targeting equipment to a liberal democracy, and supplying the same equipment to an autocratic regime with a track record of human rights violations. A mistake here can have serious reputational implications.

Section 7:

Risk appetite and asset class preference

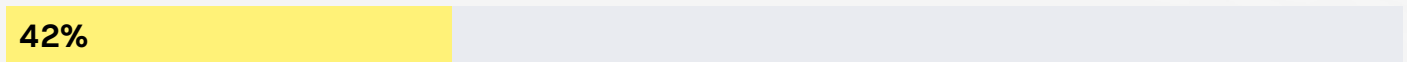
What shapes the underwriting decision when everything else is equal?

The primary risk factor

We asked what single factor most strongly shapes risk appetite when underwriting defence-related investments. Regulatory and political risk leads at 33%, followed by values alignment and end-use at 20%. Liquidity and exit pathways, technology and execution risk, and reputational risk each sit at 7%.

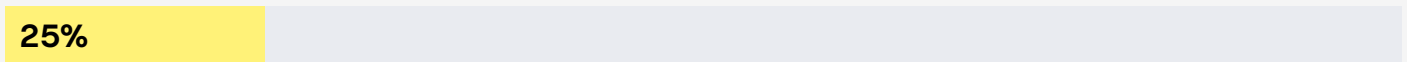
Regulatory & political risk

42%



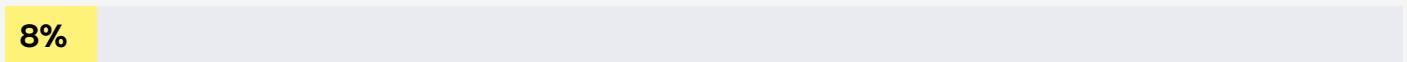
Values alignment & end-use what the product does, who uses it, to what effect

25%



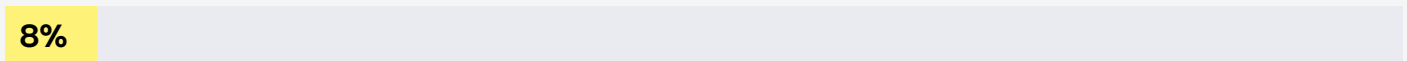
Liquidity & exit pathways

8%



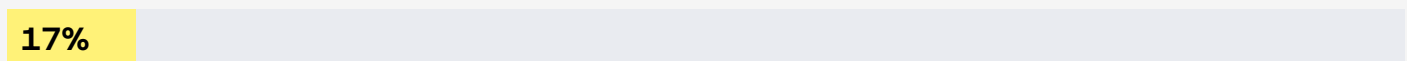
Technology & execution risk

8%



Reputational risk separate from values – this is stakeholder optics

17%



The dominance of regulatory and political risk is revealing. These investors are not primarily worried that the technology won't work, or that the market won't grow. They are worried that the regulatory environment will shift under their feet. This creates a clear implication: the most valuable thing governments can do to unlock private capital for defence is to create stable, predictable regulatory frameworks.

The values alignment figure at 25% is closely related to the customer base finding in the previous section. In investors who list this as their primary risk factor are specifically asking: Is this a product I can defend to my LPs? Who uses it? Does the end-use align with the values framework we've communicated to investors?

Asset class preference and timeline

No clear asset class preference emerges strongly. 43% have no strong view. Among those with a preference, PE Buyout leads at 36%, followed by PE Growth at 14%. Infrastructure sits at 7%.

Most attractive risk-adjusted opportunity set:**No clear preference****43%****PE – Buyout****36%****PE – Growth****14%****Infrastructure****7%****Investment timeline:****Already investing****57%****Near term – within 6 months****29%****Medium term – 6 to 12 months****7%****Long term – 12+ months****7%**

Almost six in ten investors in this survey are already deploying capital into defence. A further 29% expect to within the next six months. That means around 86% of this cohort will be active in the sector before the end of 2026.

Where this leaves us

What this report describes is a market at an inflection point. The direction is settled – private capital is moving into defence, and it is moving faster than has perhaps been registered. What is not settled is the quality of that movement: whether it happens in a way that is well-governed, values-aligned, and built to last, or whether it happens in a rush that creates reputational and regulatory problems down the line. The investors and businesses that do this work now – before they need to – will be in a fundamentally stronger position than those who are still building the plane when something goes wrong.

Continue the conversation



Elpis Impact

Elpis Impact – a boutique ESG consultancy with a defence specialism – works with investors and companies at the intersection of responsible investment and security, helping clients navigate defence exposure with frameworks that are both rigorous and credible with the investment community.

elpisimpact.com
simon@elpisimpact.com

Blakeney

Blakeney is a strategic communications and public affairs consultancy working at the intersection of business, policy, and reputation. We advise clients on how to build the stakeholder relationships that enable growth – including in sectors where the narrative environment is high stakes and complex.

theblakeneygroup.com
kristie.stockdale@theblakeneygroup.com



“LPs aren’t telling us to avoid defence. They’re telling us to prove we’ve thought it through. That’s a very different conversation.”

– FROM OUR INVESTORS