



# Supporting private capital to invest with confidence in defence

A strategic framework for institutional investors navigating ethical considerations and growth opportunities in European defence spending

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**Elpis Impact**

DELIVERING SUSTAINABLE IMPACT

# Defence: one of Europe's fastest growing investment sectors

## Rapid Growth in Defence Spending

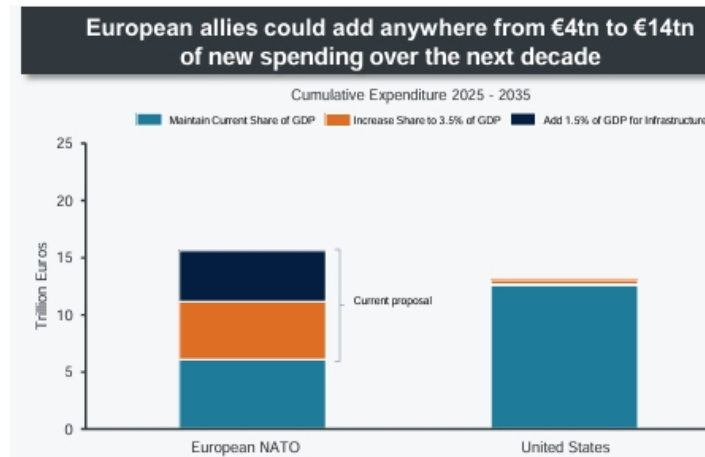
Europe plans to significantly increase defence budgets from 2026 to 2029, driving substantial market expansion.

Defence is a geo-political priority across Europe with the EU ReArm plan worth at least €800bn. JP Morgan estimate that European allies could spend between €4 trn - €14 trn over the next decade

## Opportunities for Non-defence Firms

BCG estimated a significant market for defence adjacent business:

- €500 billion for firms beyond traditional defence contractors.
- €220 billion in new demand identified for sectors such as software, aerospace, automotive, electronics, telecom, and logistics.



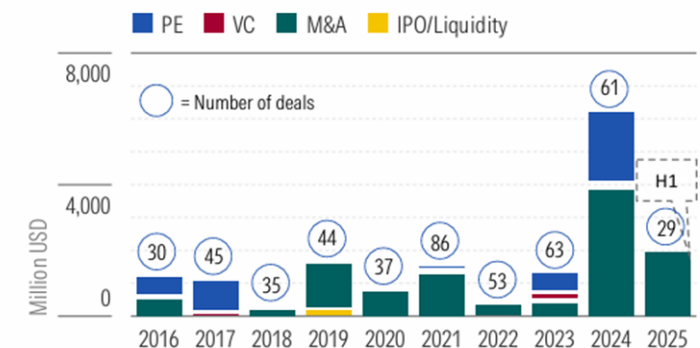
Private credit is emerging as a critical, non-bank funding source for the defence value chain, particularly in Europe, where it is closing the financing gap for SMEs and mid-caps.

EIB has tripled its financing for banks to provide liquidity to SMEs in the supply chain of Europe's defence industry.

JPMorganChase have allocated a \$1.5 trillion in a 10-year plan to facilitate, finance and invest in industries critical to national economic security and resiliency.

It has dropped defence exclusions for 129 funds including its Article 8 funds.

## US and Europe Activity Volume Increased 136% Since 2022



# Why a responsible approach to defence is needed

## The Geopolitical Reality

Class UK defence investments as ethical, Labour MPs urge banks

Europe already 'at war' with Russia, says Latvia's central banker

Europe's defence spending spree must fund domestic AI, official says

## But....its complicated!

**Sudan humanitarian disaster: UK must block arms sales to the UAE**

**Mexican cartels are sending criminals to Ukraine to train them in drone warfare**

**Why military 'drone swarms' raise ethical concerns in future wars**

# ESG policies need to evolve on defence investment

When a deal opportunity arises, GPs need to be able to assess risks quickly. A defence risk appetite framework, set out in advance and agreed at Board level, lets GPs assess the risk against a pre-determined level of risk appetite.

## Current ESG Landscape

Large pension funds, asset managers, and banks are actively reviewing their approach to defence financing.

### Top 20 European Pension Funds:

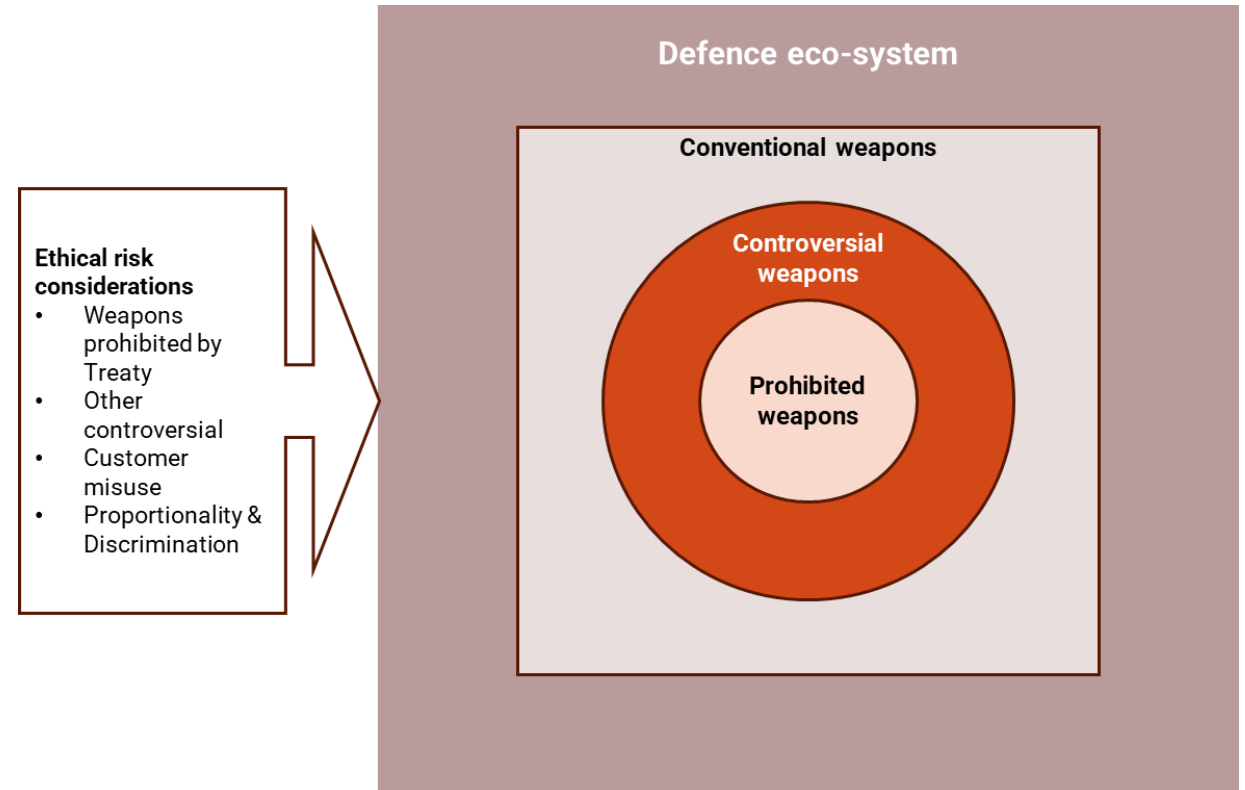


ESG regulations aren't telling investors what to think anymore. LPs are not telling GPs what they're allowed to do, they are leaving the hardest decisions to the managers.

**The uncomfortable truth: defence is a core aspect ESG investors' responsibility.**

## Defence Ethical Risk Categories

Ethical concerns associated with defence have different nuances and sensitivities for institutional investors.



# Firms need a strategic approach for setting risk appetite

A comprehensive three-phase framework enables organizations to systematically define, implement, and maintain their defence investment risk appetite while ensuring alignment with ESG commitments and stakeholder expectations.

01

## Define Ethical Boundaries

Establish clear red lines and risk appetite definitions specifically for defence investments, ensuring alignment with organizational values and regulatory requirements.

02

## Develop Risk Framework

Create a comprehensive risk appetite framework applicable to all investments, engaging stakeholders across the business to ensure buy-in and practical implementation.

03

## Implement and Integrate

Update risk management policies and procedures, train key staff, and embed the framework into business-as-usual operations for consistent application.

### Framework for determining ethical risk appetite

Consequentialism	Deontology
<ul style="list-style-type: none"> <li>What are the potential consequences of this action (sale, product development etc.)?</li> <li>Who could be harmed?</li> <li>Who will benefit?</li> </ul>	<ul style="list-style-type: none"> <li>What are the existing principles?</li> <li>What are the existing obligations?</li> </ul>

What is your ethical risk appetite?

Find	Fix	Track
<p><b>Description</b> Detect and identify potential targets using intelligence, surveillance, and reconnaissance (ISR).</p> <p><b>Example sectors</b> ISR, space, sensors, data analytics</p>	<p><b>Description</b> Confirm the target's identity, location, and activity</p> <p><b>Example sectors</b> Cyber, electronic warfare, geolocation</p>	<p><b>Description</b> Maintain continuous surveillance of the target's movement and status</p> <p><b>Example sectors</b> UAVs, aerospace, edge compute, networking</p>

### Defence Ethical Risk Appetite Framework in relation to PE attractiveness

Ethical risk ratings based on an overall assessment including the historical performance of governments and defence Primes.

Sector	PE Attractiveness	Rationale	Controversial Weapons - defined by treaty	Autonomy
Dual-Use Technologies	High	Growth + civilian/defence crossover, strong exit potential	Medium	
Cybersecurity & Intelligence	High	Recurring revenue, M&A-friendly, broad civil adoption	Low	
Supply Chain & Industrial Base	Medium-High	Reshoring & resilience tailwinds; capital intensive	Low	
Space & Strategic Infrastructure	Medium	Growing civil space market; capital intensive; government dependent	Medium	
Emergency Response & Resilience	Medium	Fragmented, public procurement heavy; moderate margins	Low	
Core Defence	Low	Dominated by primes; limited exits; high ESG sensitivity	High	

Low - light touch review    Medium - review required    High - significant review

### Examples dilemmas and trade offs



# We support clients to invest with confidence

Move forward with confidence through expert guidance on defence investment ethics and risk management

## Leadership Team



**Simon Abrams**

Founder Director of Elpisimpact.com, sustainability advisory focused on private markets. Senior ESG Advisor to Cinven. Former Senior Director at Baringa Partners and EY, where he built the PE ESG and Sustainable Finance practices.



**Dominic Hall**

Former Global Head of Ethical Business at BAE Systems with deep understanding of ethics, governance, and compliance risk in defence. Chaired IFBEC (International Forum for Business Ethical Conduct). Worked closely with MoD, NATO, and defence sector primes on ethics initiatives.

## Elpis Impact Service Offerings



### Executive Insight & Training

Facilitate insight sessions to improve understanding across the defence value chain to leadership teams and investment committees.



### Define Risk Appetite

Support clients to develop red lines and risk appetite definitions specifically for defence investments.



### Develop Risk Framework

Develop and support implement a comprehensive risk appetite framework applicable to all investments. Maturity assessment of current practices and exposure with high level recommendations



### Transaction Reviews

Conduct transaction reviews for supply chain, human rights, and ethical issues in potential investments where standard frameworks don't work.



### Reporting

Support the disclosure of defence exposure and supporting risks and controls in line with good practice for LPs and Banks



### Exit

Support portfolio companies towards exit readiness address potential investor concerns

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**"Time spent in reconnaissance is seldom wasted"**

– Arthur Wellesley, 1st Duke of Wellington



**Clients**



**CINVEN**

**17Capital**