

Defence funds on the rise

Geopolitical hostilities drive surge in military spending

1. Introduction

Bleak as the prospect is for people caught up in conflict on the ground, a new era of geopolitical tension as war continues in Ukraine, the Middle East and North Africa is creating investment opportunities in the defence sector. Europe is no exception, not least due to US pressure to ensure European members increase their spending commitments to NATO.

Buoyant share prices of quoted defence and security companies suggest that investors are confident the trend will last for some time, hence growing interest among fund-managers in thematic investment strategies that focus specifically on security-related sectors.

Products with a geographical focus – Europe, Indo-Pacific – are increasingly coming to market after an initial round of globally oriented defence funds. Most of these funds are set up as passive ETFs, with a few actively managed funds also available.

Drawing much of the investments are companies active in the defence, security and armaments sectors. These include, for example, companies that manufacture weapons and military vehicles, develop aerospace technology, cyber-defence systems, sensors, security-related software or a combination of these products. The companies often benefit from government contracts, are heavily involved in international security networks and are often directly implicated in current geopolitical developments. Some of these shares have recently recorded significant price increases, suggesting much future growth is already priced in, which raises valuation questions – and the need for investors to exercise caution.

This study of the sector in Germany focuses on a current market overview of the available funds, an analysis of the stock selection and an assessment of their performance – even though data for many funds is limited due to their short history.

2. Current market overview

Global military spending reached a record high of USD 2.72trn in 2024, up 9.4% from the previous year, according to the report "Trends in World Military Expenditure 2024" by the Stockholm International Peace Research Institute (SIPRI). This marks the largest annual increase since the end of the Cold War.

These developments are also reflected in the capital markets: interest in thematic funds focusing on security and defence has grown significantly. While such funds were still considered niche products a few years ago, they are increasingly becoming an integral part of many institutional and private portfolios.

Although exact figures are difficult to obtain, as many funds do not specialise exclusively in armaments but pursue broad strategies that also include investments in armaments companies, our analysis shows clear growth: Funds with a clear "defence" focus now manage EUR 13.3bn (as of 3 September 2025). Investors can currently choose from 20 funds.

Since the launch of the first defence fund in March 2023, the market has expanded significantly. By the end of February 2025, there were eight funds with a clear defence focus and global orientation. Particularly noteworthy are the products from VanEck (VanEck Defence ETF) and HANetf (Future of Defence ETF), which have established themselves as heavyweights with assets under management of EUR 5.8bn and EUR 2.4bn as of 2 September 2025.

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In the six months to end-August 2025, 12 additional funds were launched, all but one focusing on European defence companies and one focused on the Indo-Pacific region. The WisdomTree Europe Defence ETF stands out as the first ETF with a clear European focus, reaching a volume of EUR 3bn within a few months. The HANetf Future of European Defence has just under EUR 150m and the Amundi Stoxx Europe Defence just under EUR 130m, while all other funds currently manage less than EUR 100m each.

The range of defence funds includes both ETFs and actively managed funds, including LBBW Sicher Leben with a fund volume of over EUR 120m and Deka-Security and Defence, which has now exceeded the EUR 330m mark. The latter is currently the only fund in this segment with a Scope rating (grade "B").

The running costs of ETFs range from 0.18% to 0.65%, while actively managed defence funds are naturally more expensive, with annual costs of 1.20% to 1.95%. It remains to be seen whether this cost premium can be justified by better performance. In fact, due to the higher number of portfolio positions, active funds offer broader diversification – and thus have a potentially lower risk from fluctuations in individual stocks than the passive products currently available.

Table 1: Overview of defence-related thematic equity funds

Fund	Company	ISIN	Inception	Assets (in EUR m)	Number of holdings	Ongoing charges	Region	Active vs. ETF
VanEck Defence	VanEck	IE000YYE6WK5	31 Mar 2023	5,839	31	0.55	Global	Passive ETF
Future of Defence	HANetf	IE000OJ5TQP4	03 Jul 2023	2,411	60	0.49	Global	Passive ETF
iShares Global Aerospace & Defence	BlackRock	IE000U9ODG19	05 Feb 2024	680	59	0.35	Global	Passive ETF
Global X Defence Tech	Global X	IE000JCW3DZ3	10 Sep 2024	278	42	0.50	Global	Passive ETF
Invesco Defence Innovation	Invesco	IE000BRM9046	29 Oct 2024	36	56	0.35	Global	Passive ETF
First Trust Indxx Global Aerospace & Defence	First Trust	IE000NVDQXE1	11 Dec 2024	43	49	0.65	Global	Passive ETF
LBBW Secure Living	LBBW	DE000LB6B0M7	27 Dec 2024	124	approx. 80	1.74	Global	Active
Deka-Security and Defence	Deka	LU2941481082	03 Feb 2025	333	approx. 75	1.60	Global	Active
WisdomTree Europe Defence	WisdomTree	IE0002Y8CX98	04 Mar 2025	3,092	24	0.40	Europe	Passive ETF
Future of European Defence	HANetf	IE000I7E6HL0	07 Apr 2025	144	33	0.39	Europe	Passive ETF
Amundi Stoxx Europe Defence	Amundi	LU3038520774	12 May 2025	127	22	0.35	Europe	Passive ETF
BNPPE Bloomberg Europe Defence	BNP Paribas	LU3047998896	19 May 2025	91	27	0.18*	Europe	Passive ETF
Global X Europe Focused Def Tech	Global X	IE000WRQ9RR1	20 May 2025	4	17	0.40	Europe	Passive ETF
iShares Europe Defence	BlackRock	IE000IAXNM41	23 May 2025	62	27	0.35	Europe	Passive ETF
SPDR S&P Europe Defence Vision	State Street	IE0008GRJRO8	03 Jun 2025	11	30	0.15**	Europe	Passive ETF
European Defence Fund	M.M. Warburg	DE000A40X8V3	01 Jul 2025	37	approx. 45	1.54	Europe	Active
DPAM L Equities Europe Defence	Petercam	LU3076252298	03 Jul 2025	8	28	1.20	Europe	Active
CPR Invest Europe Defence	CPR AM	LU3079548858	17 Jul 2025	15	N/A	1.95	Europe	Active
Future of Defence Indo-Pacific ex-China	HANetf	IE000C7EUDG1	29 Jul 2025	2	N/A	0.59	Indo-Pac. ex-China	Passive ETF
Xtrackers Europe Defence Techn.	Xtrackers/DWS	LU3061478973	12 Aug 2025	2	N/A	0.25	Europe	Passive ETF

As of 2 September 2025; source: ScopeExplorer, asset managers, justETF, finanzfluss
 * Only in the first year after launch, likely to be higher thereafter; ** From June 2026: 0.30%

3. Preferred stocks

To determine which equities the funds are particularly heavily invested in, we looked at the available data from a total of 14 of the 20 funds. The cut-off date for the data was 30 June 2025. These 14 funds currently represent cumulative assets under management of EUR 13.2bn. The analysis thus reflects almost the entire fund volume in the segment (approx. 99%) and provides valuable insights into the preferred equity positions within this specialised investment area.

As is usual with thematic investment strategies, there is considerable overlap among the top 10 positions in the portfolios – especially among companies with high thematic relevance and a pure-play character. Currently, six companies – Rheinmetall, BAE Systems, Rolls-Royce, Thales, Saab and Leonardo – are in the top 10 of more than half of the defence funds analysed. These companies have achieved an average performance of 100% since the beginning of the year (as of 3 September 2025, 13:00; local currency).

Table 2: Top holdings of defence funds

#	Name	Quantity*	Share in %	Max. weight in %	Min. weight in %	Average In %	Share price YTD performance	Average performance YTD	Market capitalisation in EUR bn
1	Rheinmetall	11	79	15.0	3.5	9.4	+185%	+100	80
2	BAE Systems	10	71	15.0	3.8	8.9	+54		61
3	Rolls Royce	9	64	11.3	2.1	6.5	+88%		104
4	Thales	8	57	13.6	4.2	9.4	+59%		45
5	Saab	8	57	13.0	2.4	7.7	+127%		26
6	Leonardo	8	57	11.2	3.7	9.1	+89		28
7	Saffron	7	50	11.1	4.8	7.0	+32%	+65%	117
8	Airbus Group	7	50	10.4	2.1	5.8	+16%		141
9	RTX Corporation	5	36	9.6	3.6	6.6	+37		181
10	Palantir	5	36	7.8	2.2	5.0	+108%		320
11	GE Aerospace	4	29	13.5	2.2	6.2	+65%		250
12	Hensoldt	4	29	5.7	2.2	3.7	+168%		10
13	Boeing	3	21	7.8	2.9	5.2	+34%		154
14	Babcock International	3	21	6.2	3.1	4.4	+106		6
15	Kongsberg Gruppen	3	21	5.6	3.7	4.9	+17		23

As of 30 June 2025, except for share prices YTD as of 3 September 2025, 13:00; source: ScopeExplorer, asset managers, Koyfin
* Frequency of appearance in the top 10 positions of the funds examined

Rheinmetall has performed the strongest, with its share price rising 185% since the beginning of the year. It is among the top 10 in 79% of the funds, reaching a maximum weighting of 15% and averaging 9.4% of the respective fund assets. The strong price performance can be explained, among other things, by increased demand due to the war in Ukraine and the associated rearmament in Europe. The company is benefiting from a record order backlog and a clear focus on the defence business. Analysts at major investment houses continue to highlight positive market expectations and are raising their price targets, even though the share is already expensive with a high price-earnings ratio of 49.

Furthermore, nine companies – Airbus, Babcock International Boeing, GE Aerospace, Hensoldt, Kongsberg Gruppen, Palantir, RTX, Safran – are among the top 10 holdings of 20% to 50% of the defence funds analysed. These companies have achieved an average performance of 65% since the beginning of the year (as of 3 September 2025, 1:00 p.m.; local currency).

Within this group, Hensoldt (168%), Palantir (108%) and Babcock International (106%) stand out. Due to their comparatively low market capitalisation of EUR 10bn and EUR 6bn respectively, Hensoldt and Babcock International are benefiting particularly strongly from high investor demand. In

contrast to significantly larger companies with market capitalisations of over EUR 100bn, their share prices are much more sensitive to cash inflows.

Palantir has not only benefited from the signing of major military contracts this year but is also considered by many investors to be one of the clearest investment stories in the field of artificial intelligence. A look at the valuation shows that the capital market is clearly focusing on Palantir's future growth prospects: with a price-earnings ratio of 210, the company's valuation is far above the market average.

4. Performance analysis

Performance analysis of defence funds is currently difficult. Due to the short history of these funds, only limited reliable key figures are available. No product in this segment has a three-year history, let alone a complete five-year track record.

With the VanEck Defence UCITS ETF, the HANetf Future of Defence ETF and the iShares Global Aerospace & Defence ETF, there are at least three UCITS-compliant funds available whose performance is comparable over a 12-month period. With performance figures of 62.5%, 49.2% and 35.1% (as at 2 September 2025), all three funds significantly outperformed the MSCI World, which rose by only 8.5% over the same period.

Table 3: Performance comparison: defence funds over a one-year period

Fund	Company	ISIN	Inception	Assets (in EUR m)	Perf. 1 year
VanEck Defense	VanEck	IE000YYE6WK5	31 Mar 2023	5,839	62.5%
Future of Defence	HANetf	IE000OJ5TQP4	03 Jul 2023	2,411	49.2%
iShares Global Aerospace & Defence	BlackRock	IE000U9ODG19	05 Feb 2024	680	35.1%

As of 2 September 2025; Source: ScopeExplorer, asset managers, justETF

The significant differences in the performance of these funds can be attributed to various structural characteristics – particularly the composition of the indexes, the weighting of individual securities and the regional and sectoral focus. The VanEck Defence ETF benefited from its strong weighting in growth-oriented US defence and technology stocks such as Palantir, Leidos and Thales, which recorded large price gains over the past 12 months. The HANetf Future of Defence ETF also achieved strong returns, partly due to European stocks such as Rheinmetall, but lagged the VanEck ETF. The iShares Global Aerospace & Defence ETF performed less well, due partly to broader diversification, its aerospace weighting, and fewer high-growth tech stocks.

A similar picture emerges when looking at the six-month performance. During this period, all defence funds clearly outperformed the MSCI World. At the same time, it is particularly clear how much the performances differ from one another. While the Global X Defence ETF achieved the highest return at 35%, the weakest fund only managed 16.1% during the same period.

Table 4: Performance comparison: defence funds over a six-month period

Fund	Company	ISIN	Inception	Assets (in EUR m)	Perf. 6 months
Global X Defence Tech	Global X	IE000JCW3DZ3	10 Sep 2024	278	35.0%
VanEck Defence	VanEck	IE000YYE6WK5	31 Mar 2023	5,839	31.5%
First Trust Indxx Global Aerospace & Defence	First Trust	IE000NVDQXE1	11 Dec 2024	43	24.9%
Invesco Defence Innovation	Invesco	IE000BRM9046	29 Oct 2024	36	23.3%
Future of Defence	HANetf	IE000OJ5TQP4	03 Jul 2023	2,411	19.3%
iShares Global Aerospace & Defence	BlackRock	IE000U9ODG19	05 Feb 2024	680	16.9%
LBBW Secure Life	LBBW	DE000LB6B0M7	27 Dec 2024	124	16.1%

As of 2 September 2025; source: ScopeExplorer, asset managers, justETF

This wide dispersion can again be explained by differences in focus. Funds with a clear focus on high-growth defence tech companies and a pronounced US bias benefited significantly, as the relevant stocks were in particularly high demand. Funds with a more diversified focus or a focus on traditional aviation, on the other hand, performed less dynamically.

In the case of defence ETFs, each fund tracks its own, sometimes very specific index – a clear difference from the classic passive ETF logic, which involves cost-effectively replicating broad, established indices. Precisely because there is no uniform standard, the composition of the index is of central importance: it determines which companies, regions and sub-sectors of the defence industry are represented in the fund – and thus has a decisive influence on future performance.

Table 5: Overview of ETFs and their benchmark indices

Fund	Inception	Assets (in EUR m)	Region	Index name
VanEck Defense	31 Mar 2023	5,839	Global	MarketVector Global Defence Industry
Future of Defence	3 Jul 2023	2,411	Global	EQM NATO+ Future of Defence
iShares Global Aerospace & Defence	5 Feb 2024	680	Global	S&P Developed BMI Select Aerospace & Defence 35/20 Capped
Global X Defence Tech	10 Sep 2024	278	Global	Mirae Asset Defence Tech
Invesco Defence Innovation	29 Oct 2024	36	Global	S&P Kensho Global Future Defence
First Trust Indxx GI Aerospce & Dfnc	11 Dec 2024	43	Global	Indxx Global Advanced Aerospace & Defence
WisdomTree Europe Defence	04 Mar 2025	3,092	Europe	WisdomTree Europe Defence UCITS
Future of European Defence	7 Apr 2025	144	Europe	VettaFi Future of Defence Ex US
Amundi Stoxx Europe Defence	12 May 2025	127	Europe	STOXX Europe Total Market Defence Capped
BNPPE Bloomberg Europe Defence	19 May 2025	91	Europe	Bloomberg Europe Defence Select
Global X Europe Focused Def Tech	20 May 2025	4	Europe	Mirae Asset Europe Defence Tech
iShares Europe Defence	23 May 2025	62	Europe	STOXX Europe Targeted Defence
SPDR S&P Europe Defence Vision	03 Jun 2025	11	Europe	S&P Europe Defence Vision
Future of Defence Indo-Pacific ex-China	29 Jul 2025	2	Indo-Pacific ex-China	VettaFi Future Def Indo-Pc ex-China TR USD
Xtrackers Europe Defence Techn.	12 Aug 2025	2	Europe	STOXX Europe Total Market Defence, Space and Cybersecurity Innovation

As of 2 September 2025; source: ScopeExplorer, asset managers

Even though initial differences in returns between defence funds are becoming apparent, it is still too early to name clear winners or losers – the segment is still dynamic and in many areas still in its infancy. Although most products are designed as passive ETFs, investors still need to make active decisions when selecting them, as the weighting, composition and regional focus of the funds and underlying indices can vary significantly. Data will improve over the next 12 months, enabling more informed assessments and targeted recommendations.

5. Conclusion and outlook

In a tense geopolitical environment, the defence fund segment has developed from a niche topic into a dynamically growing investment area. The sharp rise in defence spending by many countries, especially since the escalation of Russia's war against Ukraine, is creating a favourable market environment for companies in the defence, defence technology and cybersecurity sectors – which has benefited numerous share prices and, consequently, the corresponding funds. US pressure to ensure European members increase their spending commitments to NATO is another factor.

However, there is no such thing as a classic "defence fund". The strategies within the segment differ significantly, whether in terms of regional focus, stock selection or technological priorities. Some products focus purely on defence stocks, while others combine defence with cybersecurity, aerospace or security infrastructure. This heterogeneity makes direct comparisons difficult – and makes accurate analysis more important for investors.

In addition, what we are currently seeing in many thematic funds is a certain amount of hype. Even with security-related investments, capital flows are often strongly trend-driven – with a corresponding impact on share prices. Some stocks have risen above average in recent months, which has led to lofty valuations in some cases. This means that risks such as price corrections, profit-taking or overheating of individual stocks are increasingly coming into focus.

The evaluation shows that ETFs focusing on companies with high thematic relevance and a pure-play character, and with a high weighting of individual growth stocks, have achieved outstanding returns to date. At the same time, the wide dispersion of performance results highlights the importance of the underlying index composition and regional focus.

Another key aspect is the choice between passive ETFs and actively managed defence funds. While ETFs score points with lower running costs and clearly defined indices, active defence funds offer potential advantages in targeted stock selection and risk management – especially in a volatile market environment. They often rely on broadly diversified portfolios and can respond more flexibly to market changes. However, we will have to see if the higher cost structure is justified in the long term by a better risk-adjusted return. Reliable long-term data is still lacking.

Today's geopolitics are likely to continue to ensure stable to rising defence budgets in the future – but whether this will continue to be reflected to the same extent in rising stock market prices is questionable. Much growth has been priced in, and selective risks are increasing.

Defence funds, however, are here to stay. The combination of geopolitical reality, growing investor interest and an increasing variety of products is cementing this segment's share of fund flows, but investors still need to carefully weigh up returns, risk, responsibility and product selection.

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