June 2026

Compelling opportunities with ethical guardrails

Truffle Asset Management

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The global security environment is undergoing a profound transformation. As nations rush to modernise their militaries and replenish stockpiles, the defence sector has become a critical area of focus for investors. Truffle has been closely tracking these developments, recognising opportunities to invest in a growing sector and to drive meaningful long-term returns for our clients.

The growing global need for defence

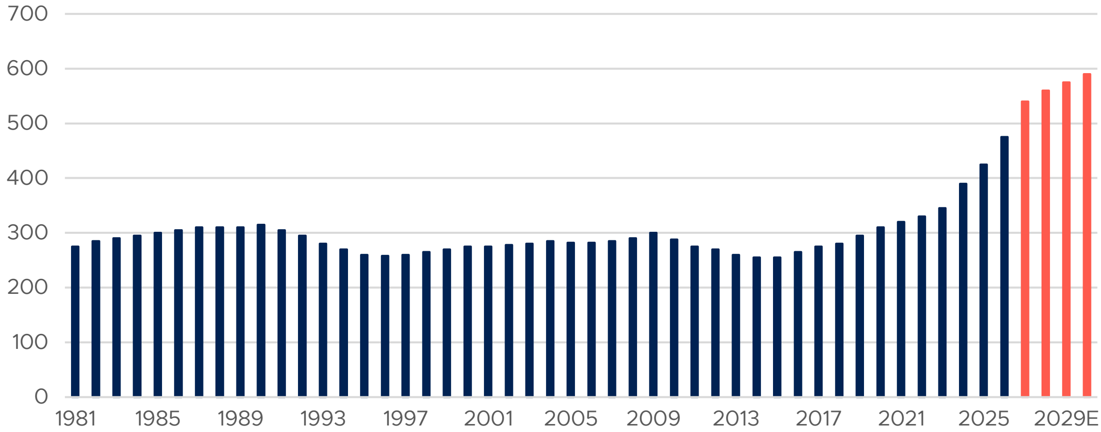
Few structural shifts in global markets over the past two years have been as consequential or as ethically complex as the resurgence of defence spending. For decades, defence budgets in developed economies were managed down as a post-Cold War peace dividend. That era is now over. The combination of the war in Ukraine, rising tensions in the Indo-Pacific, and a fundamental reassessment of collective security arrangements in Europe and beyond has placed defence firmly back at the centre of government expenditure and capital allocation decisions.

For Truffle as a responsible investor, this shift poses the question: how does one capture exposure to a sector with compelling structural growth dynamics while maintaining clear ethical boundaries and credible stewardship commitments? This article sets out our thinking, our policy framework, and our current portfolio positioning.

The scale of the spending shift

The year 2025 marked a historic turning point for global military expenditure. According to the International Institute for Strategic Studies (IISS), global defence spending reached a record $2.63 trillion in 2025, representing a 2.5% increase in real terms from the prior year. European spending is particularly notable: the continent now accounts for over 21% of the global total. As shown in the chart below. Goldman Sachs is expecting this to grow significantly going forward, and several NATO members are committing to sustained budgets of 3–5% of GDP in the years ahead — levels not seen since the Cold War

Chart: Annual European defence spending



Source: Goldman Sachs

This is not a short-term procurement cycle. The structural drivers, including ageing equipment inventories, renewed competition for power, and the integration of advanced technologies, including AI, cyber capabilities, and systems into modern warfare, point to an extended period of elevated defence expenditure. The investment implication is a sustainable demand backdrop for defence-oriented industrial companies, particularly those with established positions in European procurement programmes.

The defence sector: Truffle's investment approach

We recognise that national security is a legitimate and necessary function of democratic governments, and that the companies that provide the industrial base for that security play an economically and strategically important role. We believe that investing in a growing defence sector of this nature requires a responsible approach. This approach includes:

Absolute exclusions: We do not invest in companies that manufacture controversial weapons (such as cluster munitions, landmines, and chemical or biological weapons). Given that NGOs and other human rights organisations tend to publicly flag when a company produces these products, we can identify relevant companies.

Active monitoring: We invest in and actively monitor companies that manufacture conventional weapons and nuclear-adjacent products.

In monitoring, we keep track of controversies, assess adherence to the United Nations Global Compact (UNGC), and evaluate alignment with the UN Guiding Principles on Business and Human Rights (UNGPs). Where controversies arise, we assess materiality, management response, and trajectory before determining whether continued ownership is appropriate.

Truffle's exposure

As at 31 December 2025, the global carve-out of the Truffle SCI Flexible Fund held positions in six defence-exposed companies. The effective defence exposure is lower than our actual defence exposure of 14,8% because companies such as Airbus and Indra Sistemas derive most of their revenues from civil aviation and technology services, respectively, and contribute less to effective defence exposure than their portfolio weights alone would suggest.

Company	Portfolio weight*	Defence exposure	Nuclear weapons	Controversial weapons	Global norms	Active Controversies
Airbus	5.1%	15%	No	No	Pass	Crashes of civilian aircraft; UK investigation into export control compliance (minimal financial impact to date).
Indra Sistemas	4.7%	50%	No	No	Pass	Fines for delayed armoured vehicle delivery (minimal financial impact).
Dassault Aviation	1.7%	80%	No**	No	Pass	Historical disinformation allegations; past fatalities in test programmes. Under active monitoring.
Babcock International	1.5%	75%	No**	No	Pass	None identified. Partnerships with Israel exist; no arms supply to Israel confirmed.
Leonardo	1.0%	75%	No**	No	Pass	Historical supply of weapons to Israel; no supply since the onset of the Hamas conflict. Under active monitoring.
Qinetiq	0.8%	80%	No	No	Pass	Shareholder linked to political donation (Boris Johnson). No direct company involvement identified.
	14.8%					

Source: Truffle
**weight within global carve out*
***These companies do not manufacture nuclear warheads, but do produce delivery systems capable of carrying nuclear warheads*

As of December 2025, none of our holdings screen negatively on our norms-based criteria, though we remain vigilant, particularly regarding ongoing investigations and geopolitical sensitivities such as the use of equipment in conflict zones. The defence sector is no longer a niche corner of the market but has become central to geopolitical stability and a significant driver of government spending. With national defence budgets projected to remain elevated for the foreseeable future, investors face a complex landscape of opportunity and ethical responsibility.

Our approach reflects this duality. We acknowledge the growing necessity of a robust defence industrial base, particularly in Europe, where nations are rebuilding capabilities after decades of relative neglect. The companies in our portfolio, from Airbus to Qinetiq, are at the forefront of this transformation, providing critical technologies ranging from next-generation fighter jets to advanced AI-driven defence systems. At the same time, our absolute exclusion of companies involved in controversial weapons and active monitoring of holdings in this sector provides a clear ethical boundary.

Conclusion: principled exposure in a changing landscape

Looking ahead, we are mindful of new challenges for the sector. The integration of artificial intelligence into weapons systems represents the most significant emerging ethical challenge. The evolving nature of warfare will also require us to continually reassess our policies and holdings and ensure we remain good stewards of client capital when choosing to invest in a sector of this nature

The investment case for defence exposure is compelling and, in our assessment, sustainable. The ethical questions it raises are important and require active engagement rather than passive acceptance. Our approach of combining absolute exclusions of controversial weapons, transparent disclosure of nuclear-adjacent holdings, and ongoing monitoring of controversies and compliance with norms is designed to give clients confidence that our defence exposure is principled, not opportunistic.

We will continue to engage directly with portfolio companies on their governance practices, supply chain conduct, and alignment with international humanitarian norms. As the landscape changes, and in defence, it is changing rapidly, our stewardship commitments will change with it.

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Vuyolwethu joined Truffle in 2021 as an ESG Analyst, adding both equity research and ESG experience to the team. Vuyolwethu started her career in financial services in 2014, working in the manager research team of Nedgroup Investments. In 2017, she joined Perpetua Investment Managers as an equity analyst, where she was responsible for research coverage across various sectors, including Financials, Consumer Discretionary, and Paper and Packaging. During this time, she was also responsible for conducting ESG research and improving ESG processes within the firm's broader investment process.

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