M.M.WARBURG & CO
BANK

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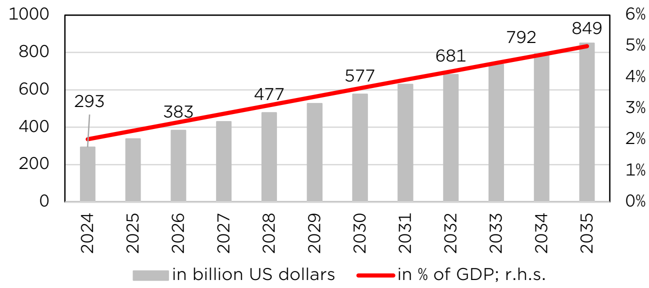
Europe’s security transition as an investment opportunity

The geopolitical world order has shifted dramatically in recent years. What was once considered an unlikely scenario is now a tangible reality: Europe must massively increase its defense spending to secure strategic autonomy and strengthen its own industry. This historic realignment opens up a structural opportunity of a century for investors to profit from a long period of rising defense spending and technological innovation. At a time when Europe is fundamentally redefining its defense capabilities, our **newly launched European Defence Equity Fund (EDEF)** is pursuing an innovative strategy that offers significant advantages over passive ETF approaches.

The new benchmark: five percent of gross domestic product

At the NATO summit in The Hague, NATO countries committed to an unprecedented commitment: to expand their defense budgets to five percent of GDP by 2035. 3.5 percent of the national economic output of the 32 NATO member states are to be allocated to traditional defense spending by 2035, with a further 1.5 percent earmarked for military infrastructure and cybersecurity. For all NATO countries, this represents nearly a doubling of current spending from 2.71 percent to 5.0 percent of gross domestic product. For the European NATO members and Canada, which allocated approximately 2.02 percent of their real economic output to defense spending in 2024, the increase is even more significant. In absolute terms, this represents an additional volume of just over €1.2 trillion for Europe alone compared to today. This creates a politically secured demand base that extends far beyond traditional economic cycles.

EU defense spending in billion US dollars and as a percentage of gross domestic product



Source: NATO, own calculations

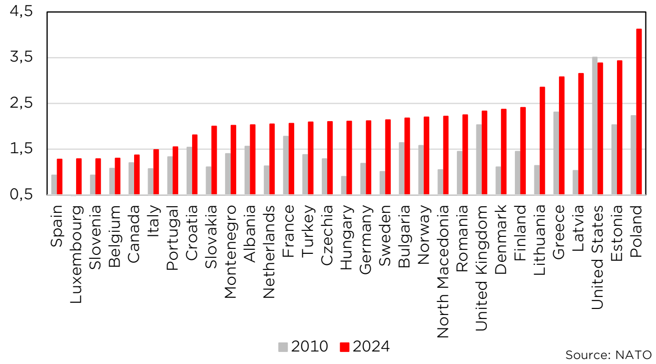
"Europe must grow up. We must assume responsibility," warned German Defense Minister Boris Pistorius back in March. These words are now proving prophetic: a loan-financed special fund of €500 billion was approved, which will be used for additional investments in infrastructure. At the same time, the debt brake in the Basic Law was relaxed for the defense sector. This means that defense spending will be exempt from the debt brake in the future.

Other European countries have also announced plans to increase their defense spending. For example, French President Macron, with the emphatic words "To be free in this world, you must be feared," called for an increase in French defense spending over the next two years.

Parallel to the NATO decision, the European Commission presented the "ReArm Europe/Readiness 2030" program. At its core is the combination of up to €650 billion in additional fiscal flexibility through the activated national escape clause in the Stability and Growth Pact and a €150 billion loan facility (SAFE) that promotes targeted joint procurement. A total of around

€800 billion can thus be mobilized – the largest continental defense stimulus since the end of the Cold War. The SAFE funds are designed as long-term, low-interest loans and are linked to national procurement plans that must include at least two member states. The political message: European states should invest jointly, more quickly, and within their own value chains to reduce import dependence. The combination of political will, secured financing, and technological innovation creates a unique investment environment.

NATO: Defense spending as a percentage of gross domestic product



Source: NATO

Why invest in the European Defence Equity Fund (EDEF) now?

In our view, there are four compelling reasons to invest in the EDEF:

1. **Multi-year defense supercycle**

A multi-year defense supercycle generates reliable revenue streams in a traditionally high-margin sector.

2. **Dual-use innovations with future potential**

Dual-use innovations, from artificial intelligence to quantum technology, benefit from government-funded research and development and offer leverage for civilian applications.

3. **Political planning security**

The alliance between NATO and the EU firmly anchors defense spending in the regulatory framework and reduces regulatory uncertainty.

4. **Portfolio protection through low correlation**

Defense stocks have historically had a low correlation with cyclical consumer goods or tech stocks, thus offering portfolio protection during volatile periods. Although most defense stocks are traditionally classified as "cyclical" and thus sensitive to economic cycles, they tend to be "defensive," i.e., relatively independent of the economy, due to the three arguments mentioned above.

5. **Challenges**

Despite the positive outlook, European defense companies face several challenges. One critical issue is the dependence on rare earth elements, which are used, for example, in the production of combat aircraft, ground vehicles, and targeting systems. Import restrictions could disrupt production plans. Furthermore, there is currently still a significant dependence on defense equipment from third countries, particularly the United States. It will be important to rapidly increase production capacity in the defense sector, which could also pose problems given the existing and future shortage of skilled workers.

Our advantages over ETFs

While ETFs available on the market focusing on European defense struggle with serious structural problems, our active approach offers decisive advantages:

- **Better Diversification**

Our European Defense Equity Fund invests in 40 individual stocks, thus avoiding the extreme concentration risks of ETF competitors. Alternative products consist of only around 25 to 30 positions, with the ten largest stocks often accounting for between 75 and 90 percent of the total volume. In contrast, the ten largest positions in the Warburg fund add up to around 35 percent. The largest individual position is currently limited to just under four percent – a safety net that ETFs, with their individual positions accounting for up to 15 percent, cannot offer. The maximum weighting will remain largely unchanged in the future due to the special nature of the portfolio construction. This balanced portfolio mix ensures that no single company dominates the fund's risk – a clear advantage over ETFs. Unlike ETFs, our equity fund invests in carefully selected European companies across the entire defense value chain. The focus is on end products, but companies from the logistics sector and suppliers also have their share in the portfolio.

- **Innovative weighting methodology**

Our systematic weighting approach ensures that even smaller companies with a weighting of at least 1.5 percent have a measurable impact on performance. In ETFs, however, smaller positions practically disappear in the noise of the heavyweights. However, the lower weighting of the sector heavyweights can also lead to lower fund performance if the stocks heavily weighted in the ETFs experience above-average price increases.

Active management increases options for action

While passive ETFs must rigidly follow their benchmarks and have no options for reaction, the Warburg fund can react flexibly to market changes. Geopolitical developments, quarterly figures, incoming orders, or even changes in the investment universe can be immediately translated into portfolio adjustments – a decisive advantage in such a dynamic sector.

Conclusion: Opportunities for investors

The European Defence Equity Fund (ISIN R-Tranche, no minimum investment: DE000A40X8V3 and I-Tranche, minimum investment €250,000: DE000A40X8U5) offers institutional and private investors access to a professionally managed portfolio that overcomes the weaknesses of passive approaches. The combination of innovative weighting methodology, true diversification, and flexible portfolio management creates a fund that is ready for the challenges and opportunities of a new era of European defense. The European defense industry is at the beginning of a multi-year supercycle. Investors can benefit from rising defense budgets and industrial capacities without taking excessive risks on individual stocks. This is because the defense sector remains one of the few structural growth markets in Europe. Government planning security for 10 years or more, full order books, and high barriers to entry create attractive cash flows and corporate profits that are not reflected in the current valuations of the stocks contained in the fund. For investors, this represents a rare opportunity to benefit from a long-term, macroeconomically secured trend while simultaneously supporting a socially relevant goal – Europe's security. Those who want not only to observe the security transition but also help shape it will find now the right time to position themselves.

Carsten Klude

Market data

Stock marktes	As of 18.07.2025 09:39	Change versus 11.07.2025 -1 week	17.06.2025 -1 month	17.04.2025 -3 months	17.07.2024 -1 year	31.12.2024 YTD
Dow Jones	44484	0,3%	5,4%	13,6%	8,0%	4,6%
S&P 500	6349	1,4%	6,1%	20,2%	13,6%	7,9%
Nasdaq	20886	1,5%	7,0%	28,2%	16,1%	8,2%
DAX	24454	0,8%	4,3%	15,3%	32,6%	22,8%
MDAX	31122	-0,7%	4,7%	14,6%	21,9%	21,6%
TecDAX	3969	1,4%	4,5%	16,3%	18,5%	16,1%
EuroStoxx 50	5393	0,2%	2,0%	9,3%	10,3%	10,2%
Stoxx 50	4521	0,0%	0,7%	6,8%	1,1%	4,9%
SMI (Swiss Market Index)	12002	0,5%	0,0%	2,9%	-2,7%	3,5%
Nikkei 225	39819	0,6%	3,3%	15,8%	-3,1%	-0,2%
Brasilien BOVESPA	135565	-0,5%	-2,4%	4,6%	4,7%	12,7%
Indien BSE 30	81656	-1,0%	0,1%	4,0%	1,2%	4,5%
China CSI 300	4059	1,1%	4,9%	7,6%	15,9%	3,1%
MSCI Welt	4061	0,3%	4,1%	16,9%	12,6%	9,5%
MSCI Emerging Markets	1241	1,0%	3,7%	16,3%	11,7%	15,4%
Bond markets						
Bund-Future	129,83	66	-93	-188	-266	-361
Bobl-Future	117,48	25	-32	-209	77	-38
Schatz-Future	107,22	9	-2	-41	147	23
3 Monats Euribor	2,02	0	0	-16	-166	-69
3M Euribor Future, Dec 2025	1,81	-4	-2	18	-70	-9
3 Monats $ Libor	4,41	0	-1	7	-102	4
Fed Funds Future, Dec 2025	3,94	4	1	44	30	3
10 year US Treasuries	4,44	2	6	10	29	-13
10 year Bunds	2,69	1	16	26	32	33
10 year JGB	1,53	5	6	25	52	45
10 year Swiss Government	0,46	0	15	4	-10	18
US Treas 10Y Performance	611,72	-0,3%	-0,2%	0,2%	1,9%	3,4%
Bund 10Y Performance	559,64	0,5%	-0,6%	-0,8%	0,6%	-0,9%
REX Performance Index	458,24	0,2%	-0,2%	0,2%	2,9%	1,2%
IBOXX AA, €	3,08	-5	-1	8	-25	4
IBOXX BBB, €	3,40	-4	-5	-12	-45	-6
Commodities						
MG Base Metal Index	421,77	-0,9%	0,0%	5,3%	-1,0%	4,0%
Crude oil Brent	69,76	-0,9%	-8,7%	2,6%	-17,7%	-6,7%
Gold	3347,80	-0,5%	-1,1%	1,3%	36,1%	27,5%
Silver	32,54	0,0%	0,0%	0,8%	7,3%	9,6%
Aluminium	2574,72	-1,0%	0,8%	10,5%	9,9%	1,9%
Copper	9607,79	-0,3%	-1,9%	4,9%	1,2%	11,0%
Iron ore	97,18	0,5%	2,4%	-2,9%	-10,8%	-6,2%
Freight rates Baltic Dry Index	2030	22,1%	4,0%	61,0%	7,4%	103,6%
Currencies						
EUR/ USD	1,1624	-0,5%	0,5%	2,3%	6,3%	11,9%
EUR/ GBP	0,8652	-0,1%	1,4%	0,9%	3,0%	4,6%
EUR/ JPY	173,01	0,7%	3,4%	6,8%	1,1%	6,1%
EUR/ CHF	0,9329	0,2%	-0,8%	0,4%	-3,8%	-0,9%
USD/ CNY	7,1789	0,1%	-0,1%	-1,7%	-1,2%	-1,8%
USD/ JPY	148,62	0,8%	2,3%	4,3%	-4,8%	-5,5%
USD/ GBP	0,74	0,6%	0,6%	-1,4%	-3,1%	-6,7%

Source: LSEG Datastream

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