

Transition Investing

Unlocking opportunities in strategic defence

Thematic Investing

Defence – the tip of the inflow’s iceberg

Geopolitical tensions and surging global defence spending has put the sector into sharp focus – Defence ETFs have recorded more inflows YTD than all other thematic strategies. But how to reconcile defence and sustainability? Some investors are reevaluating exclusion frameworks, others are opting for mainstream products. Either way, the opportunities across defence tech and the value chain are becoming hard to ignore. We estimate c.\$70bn in incremental sustainability flows with mandate revisions.

Sustainability funds' mandate expansion = \$70bn inflows...

Sustainability holdings in A&D have almost doubled in a year but it's mostly old money concentrated in key dual-use tech and aerospace stocks. Our scenario analysis suggests that if mandates expand and benchmark weights are adjusted at least within funds with broad SRI mandates, this could unlock up to \$70bn in incremental equity inflows, see Exhibit 21. Moreover, any sustainable finance regulatory shifts would mean new inflows.

...On top of \$370bn incremental spending

On top of the flows, NATO is expected to raise spending targets to 5% of GDP at the upcoming summit. With commitments from several EU countries, BofA's EU defence analyst estimates c.\$370bn of incremental spending in the next seven years.

Opportunities in innovative defence technology

Governments are placing greater emphasis on advanced defence tech that offers innovative alternatives to traditional systems and expands civilian dual use of products. National security priorities include critical infrastructure protection, in relation to space: drones, mobility, cyber, artificial intelligence and electronic warfare. We estimate the defence tech potential market cap at \$1.2tn across these themes, see Exhibit 22

Unlocking value in supply chains amid reshoring

Increased defence spending creates tailwinds for the broader value chain. And with growing focus on reshoring, companies will likely materially increase their share of domestic spending, creating investment opportunities in domestic supply chains across semis (radar, communications), software (AI, autonomous systems) and component manufacturers (radar, surveillance), see Exhibit 24.

What's next? Regulatory clarity and policy revisions

Some regional label rules restrict exposure not only to controversial but also conventional weapons, see Exhibit 8. In addition, many investors apply their own exclusion criteria and rely heavily on index providers; we've compiled companies linked to such exclusions in Exhibit 9. The upcoming SFDR clarification, along with regulatory shifts in other regions, may introduce flexibility – particularly for companies focussed on national security and non-lethal defence systems.

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Refer to important disclosures on page 19 to 21.

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Equity and Quant Strategy
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Transition Investing

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Rethinking national security – it's about the 'S' in ESG

Developing greater self-sufficiency in strategic sectors such as Energy and Defence is becoming an increasingly important aspect of resilience at the national level. Geopolitics is driving defence budgets, which are being prioritized over other long-term investments, such as healthcare, education, and infrastructure. About 86% of respondents in a recent World Economic Forum Chief Economists Outlook survey thought governments would increase public borrowing to move the needle on defence spending – compared with just 25% who saw tax increases as likely.

Reconciling ESG mandates with defence exposure

Amid a shifting geopolitical landscape and strong stock performance, over 20 new defence-focussed ETFs have launched since last year. All are categorized as non-ESG or Article 6, reflecting the challenge of justifying a full defence allocation under ESG classifications. Notably, one of these ETFs has seen more than \$2bn of inflows YTD – the highest among all thematic strategies.

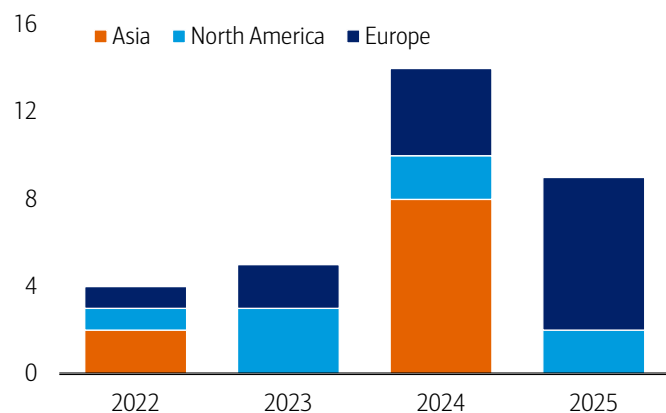
Feedback from investors suggests a divergence in approach:

- Some are revisiting exclusion frameworks, exploring paths to integrate defence exposure.
- Others are opting for Article 6-labeled products to manage reputational risk in light of uncertain and evolving rules and increased client demand.

In this report, we address the most frequently asked questions from investors around the intersection of defence and sustainability including the surge in global defence spending, its geopolitical catalysts, a summary of various ESG rules, a list of companies flagged for controversial weapons exposure by leading data providers and emerging pathways to finance defence capabilities through technology infrastructure and critical supply chains.

Exhibit 1: Defence ETFs (in Europe) on the rise ...

#of global defence equity ETF launches, 2022-YTD'25, as of 06/04/2025

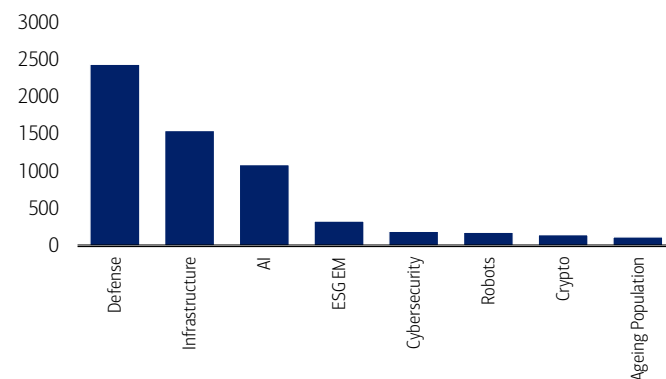


Source: BofA Global Research, Bloomberg.

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Exhibit 2: ... recording the highest inflow YTD relative to other thematic strategies.

Global thematic Equity ETFs YTD flows (mn EUR), as of 06/04/2025



Source: BofA Global Research, Bloomberg. Note: Using 15 equity thematic ETFs with largest inflows YTD from Bloomberg

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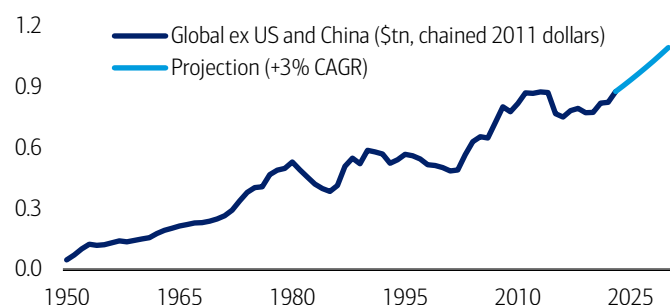
Geopolitics drives defence surge: from 2% to 5% of GDP

World military expenditure rose to \$2.7tn (or 2.5% of GDP) in 2024, up 9.4% – the steepest YoY rise since the Cold War. Increasing geopolitical tensions has led to climbing military expenditure in all five of the world's geographical regions, with the steepest rise of 17% in Europe. The US and China accounted for almost half of world military expenditure in 2024 (source: SIPRI).

NATO is expected to raise its defence spending target to 5% of GDP (at the upcoming summit on June 23-24). The base-case proposal is expected to include a 3.5% target for hard defence spending and 1.5% for defence-related outlays (infrastructure for military mobility). According to NATO's annual report in Apr'25, only 23 nations (out of 32) have reached the current spending target of 2% so far.

Exhibit 3: Global defence spending is expected to grow 3%/yr

Global defence spending, excluding the US & China



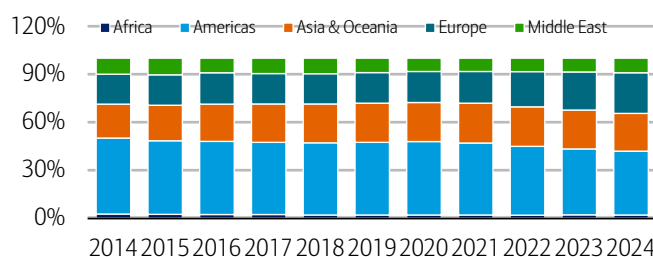
Source: BofA Global Research, Stockholm International Peace Research Institute, Maddison

Project: 3% CAGR = average annual defence spending growth since 2020. As of Feb'25

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Exhibit 4: The US and China accounted for almost half of world military expenditure in 2024

Military expenditure by region in constant US dollars



Source: BofA Global Research, Stockholm International Peace Research Institute

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Where we stand on budgets – the medium-term outlook

Trump's election and the new US administration's approach have driven a paradigm shift in Europe's approach to Defence. The Munich Security Conference clearly showed that Europe will ramp up defence spending beyond 2030. Several European countries have already expressed their commitment to reach 3/3.5% through the next 5-7 years.

Exhibit 5: Some of the most relevant updates on European Defence budgets

France, Poland and Sweden are among the countries that have announced the steepest increases in defence budgets.

In Europe	Key numbers
France	France spent c.2.05% in 2024 and President Macron has highlighted France wants to reach 3-3.5% although no timeline has been given yet.
Germany	Germany wants to spend mid to long term 3.5% on Defence + 1.5% in Defence-related outlays (Cyber, Infra etc) vs c.2.1% in 2024
Italy	Italy is aiming to reach 2% by 2025 through accounting changes (vs currently at 1.49% in FY24 – NATO estimates). It remains to be seen if Italy will reach levels >2% mid-term
UK	UK plans to increase its Defence spend to c.2.5% of GDP in 2027 (UK is at c.2.33% in FY24e on NATO estimates) and further to 3% although no timeframe has been specified yet
Poland	Poland's government is set to spend over 4.7% of GDP in Defence for 2025 (vs c.4.1% in 2024), one of the highest shares among NATO Allies
Sweden	Sweden is planning to reach 2.6% of GDP by 2028, vs 2.14% in 2024 as per NATO estimates. For 2025, Sweden is targeting 2.4% while it aims to reach 3.5% by 2030.
Spain	Spain is expected to reach 2% in 2025e (vs 1.28% in 2024e). It remains to be seen if Spain will reach levels >2% mid-term

Source: BofA Global Research estimates, NATO

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Germany, as one of the biggest European economies, has expressed the firmest commitment to ramping up defence spending materially through the next 6-8 years by reaching 3.5% in defence and 1.5% in defence-related outlays. Importantly, it has removed defence from the debt break, which will support the spending ramp.

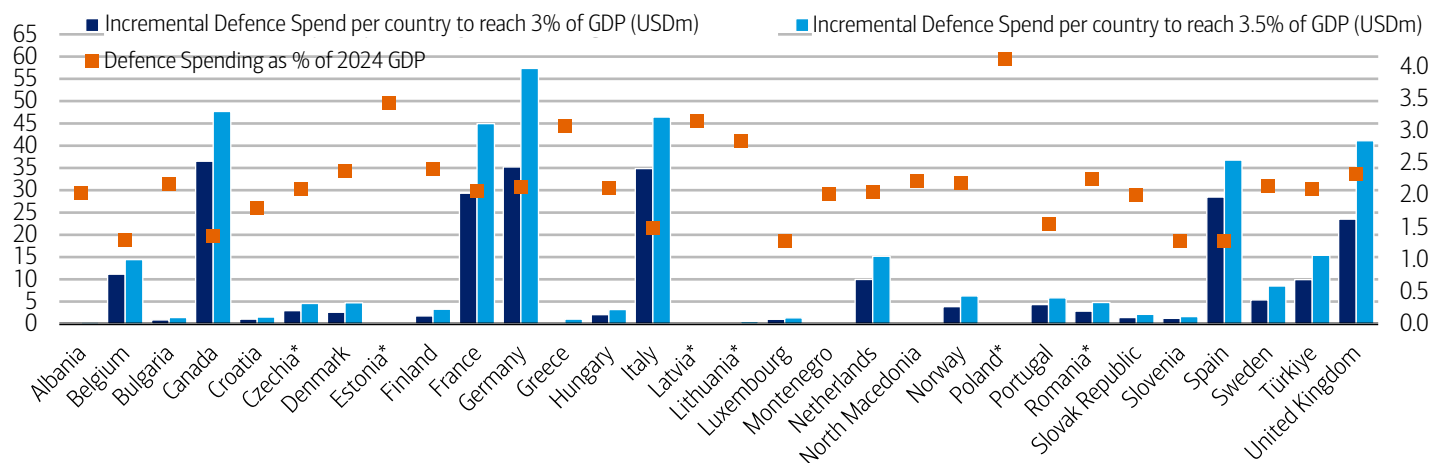
France wants to reach 3% but how it will finance the increased spending will be a key focus of debate into 2H25, in our view. The consensus view is that Southern European countries will likely not reach the new NATO target mid to long term. We believe this is a fair assumption, but we also think that the Spanish and Italian budgets are probably the European budgets (among the largest economies) that are likely to see the highest incremental defence spending through 2030

Expect >\$370bn of incremental defence spending

Our Aerospace & Defence analyst estimates c.\$371bn of incremental defence spending if all NATO members were to spend 3.5% (or \$251bn if 3%) vs 2024, see [Aerospace & Defence Update: Expect 3.5% + 1.5% at the NATO summit 02 June 2025](#)

Exhibit 6: Incremental defence spend (\$bn) should all NATO members reach 3% or 3.5% based on 2024 GDP estimates (LHS) and % of GDP spent on Defence (RHS)

We see c.\$371bn of incremental Defence spending (vs 2024) if NATO members ex US were to reach 3.5% based on 2024 GDP estimates

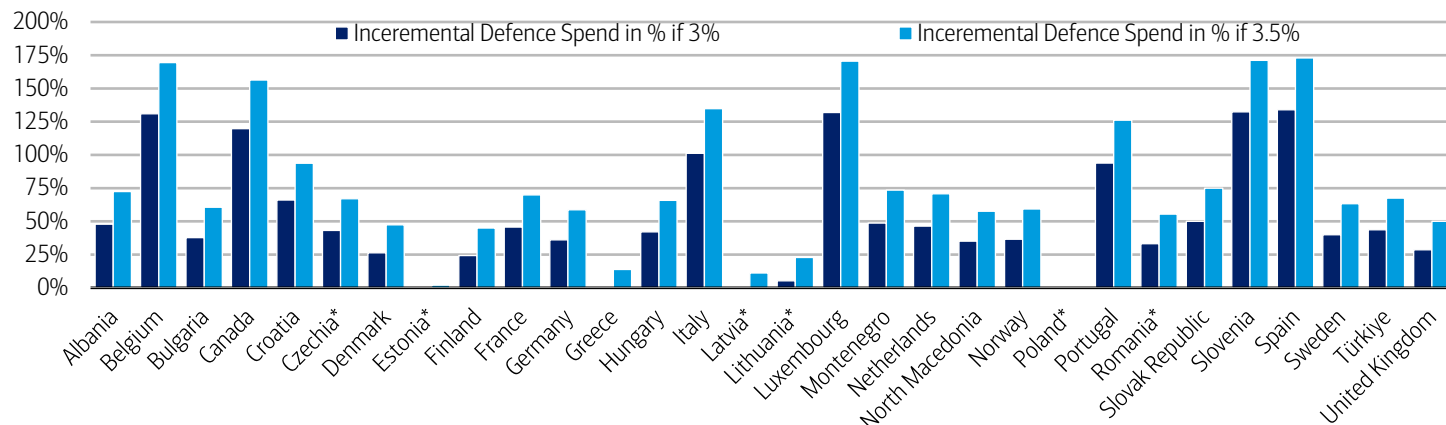


Source: BofA Global Research estimates, NATO

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Exhibit 7: Incremental Defence Spend in % should all NATO members reach 3% or 3.5% based on 2024 GDP estimates

We estimate Spain would need to increase its Defence budget by c.134% (vs 2024) if reaching 3% based on 2024 GDP estimates



Source: BofA Global Research estimates, NATO

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Are European sustainable finance rules a hurdle?

What are the current rules for regulators, investors and index providers?

The EU's sustainable finance rules do not prevent defence investments, but there are restrictions on financing companies involved in the production of 'controversial weapons', defined as "those referred to in international treaties and conventions, United Nations principles and, where applicable, national legislation" (Regulation (EU) 2020/1818). Some regional ESG/SRI labels also have exclusions for conventional weapons while climate benchmark rules, and ESMA fund naming guidelines for funds with "sustainability-related terms" in their names are also not allowed to invest in companies exposed to controversial weapons.

Exhibit 8 recaps where we are in terms of ESG/SRI rules for the defence industry across EU member states.

Exhibit 8: Regulatory constraints for ESG portfolios

ESG regulations across EU member states, this is an indicative list of rules and not an exhaustive list

Regulations	Region	Controversial weapons exclusions	Conventional weapons exclusions	Military equipment exclusions
EU Paris-Aligned Benchmark	European Union	✓	NA	NA
EU Climate Transition Benchmark	European Union	✓	NA	NA
ESMA Fund Naming	European Union	✓	NA	NA
Ecolabel UZ 49	Austria	✓	✓	✓
Towards Sustainability	Belgium	✓	✓	✓
FNG-Label	Germany	✓	✓	✓
Nordic Swan Ecolabel	Nordics	✓	✓	NA
ISR Label	France	✓	NA	NA
AMF Doctrine	France	✓	NA	NA
Greenfin Label	France	✓	NA	NA
LuxFLAG ESG Label	Luxembourg	✓	NA	NA

Source: BofA Global Research, Stoxx, Official websites for labels

Investors have their own rules

Beyond exclusions applied according to the above labels, investors have their own rules, for example:

- excluding companies developing, producing, using, maintaining, offering for sale, distributing, storing, or transporting controversial weapons including: Anti-personnel mines, Biological weapons, Chemical weapons, Cluster munition, Depleted Uranium weapons, White phosphorus weapons and Nuclear weapons outside or inside of the Non-Proliferation Treaty (NTP)
- besides controversial weapons, various types of weapon-related exclusions are applied to several products mainly based on the weapons typology (nuclear, conventional, and civilian) and/or revenues.
- and some extend the exclusions to A&D supply chains as well.

Index and data providers play a major role

The ESG framework can help identify and mitigate potential risks associated with national security, such as human rights violations, corruption, or environmental damage. Investors rely heavily on index and data providers for decision making when it comes to controversial weapons, in particular. Our observations across a few index providers indicate different assessment methodologies and hence inconsistent exclusion screening across companies.

Using the universe of MSCI World A&D companies we screened for those that feature in the list of at least one of the three data providers (MSCI, Sustainalytics and ESG book)



for involvement in controversial weapons. The data was sourced either from Bloomberg or through benchmark analysis using index providers benchmarks that exclude companies with controversial weapons.

The exhibits below are screens and not recommended lists either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions. The screen is intended to be indicative metrics only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This screen was not created to act as a benchmark

Exhibit 9: Global companies that feature in the list of data providers for involvement in controversial weapons

Based on data sourced from Bloomberg across three data providers, as of 02/06/2025

Ticker	Company	Country	Industry	Mkcap(\$mn)	MSCI	SUSTAINALYTICS	ESG Book
BA UN	Boeing Co/The	United States	Aerospace/defence	158,944	X	X	X
LMT UN	Lockheed Martin Corp	United States	Aerospace/defence	112,858	X	X	X
GD UN	General Dynamics Corp	United States	Aerospace/defence	74,206	X	X	X
LHX UN	L3Harris Technologies Inc	United States	Aerospace/defence-Equip	45,665	X	X	X
RTX UN	RTX Corp	United States	Aerospace/defence	185,831		X	X
AIR FP	Airbus SE	France	Aerospace/defence	149,165		X	X
SAF FP	Safran SA	France	Aerospace/defence-Equip	128,171		X	X
RR/ LN	Rolls-Royce Holdings PLC	Britain	Aerospace/defence	101,268		X	X
BA/ LN	BAE Systems PLC	Britain	Aerospace/defence	78,742		X	X
NOC UN	Northrop Grumman Corp	United States	Aerospace/defence	70,440		X	X
LDO IM	Leonardo SpA	Italy	Electronics-Military	34,642		X	X
AM FP	Dassault Aviation SA	France	Aerospace/defence	28,138		X	X
TXT UN	Textron Inc	United States	Diversified Manufact Op	13,643		X	X
HO FP	Thales SA	France	Electronics-Military	61,323		X	

Source: BofA Global Research, Bloomberg, MSCI, Sustainalytics. Note: The data is sourced either from Bloomberg or through benchmark analysis using index providers benchmarks that exclude companies with controversial weapons

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EU to clarify ESG rules for defence financing

In its recent White Paper for European Defence, Readiness 2030, the EU Commission recognizes that defence-related initiatives will also require private capital for defence projects. This would open up new opportunities for the EU financial sector. The Commission proposes several measures to improve access to capital for the EU defence industry, including:

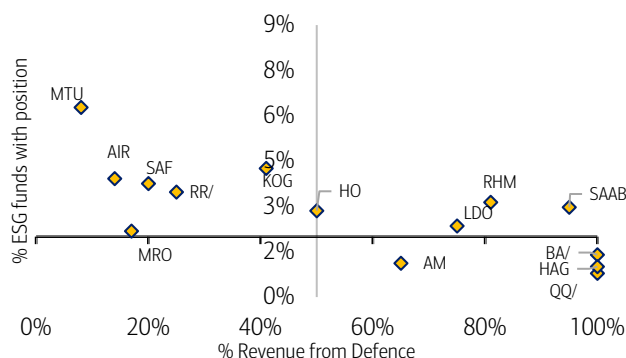
- opening investment policies for defence projects, eg, by limiting the European Investment Bank's exclusion policy for defence investments (guiding private financial institutions' internal policies);
- clarifying how the EU's Sustainable Finance Disclosures Regulation (SFDR) applies to defence companies, and amending sustainability rules impeding defence sector investment as part of the Defence Omnibus (expected June'25); and
- incentivising European pension funds and insurers to make defence investments, as detailed in the Commission's Savings and Investment Union strategy.

Over 260 funds now hold A&D, all increased exposure in 2025

- **Who is investing in Defence companies?** About 260 or 15% of European equity ESG funds we track hold one or more Stoxx 600 Aerospace & Defence company (Exhibit 10). Of these, 7 in 10 have broad ESG mandates, mostly Article 8, and the majority of AUMs are French, Luxembourg and UK-domiciled (Exhibit 16).
- **It's mostly old money:** All the existing funds increased their holdings of A&D stocks, and only c.4% of additional funds gained exposure to the theme this year contributing c.18% to the total AUMs invested in the industry. **LDO** and **KOG** saw the biggest YTD increase in fund positions, while **SAF** saw most new money and have highest share of AUMs.
- **A&D companies with dual use of products also enable and transition environmentally sustainable activities:** Taxonomy data for some EU A&D companies suggest their involvement in enabling environmentally sustainable activities like manufacturing of renewable energy, energy efficient technologies and equipment, construction, extension and operation of water collection, treatment and supply systems, data-driven solutions for GHG emissions reductions and more. Hence **MTU Aero Engines** is the most held company – with the highest taxonomy revenue, capex and also ESG scores.

Exhibit 10: About 15% of ESG funds hold at least one European A&D stock

FY24 defence revenue vs. % European ESG funds with position in Stoxx 600 A&D companies as at 04/30/2025

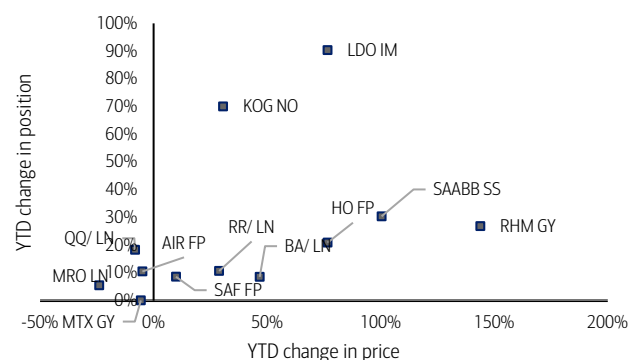


Source: BofA Global Research, Bloomberg, FactSet Ownership

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Exhibit 11: LDO and KOG saw most increase in positions YTD

YTD change in price vs change in positioning in Stoxx 600 A&D companies as at 04/30/2025



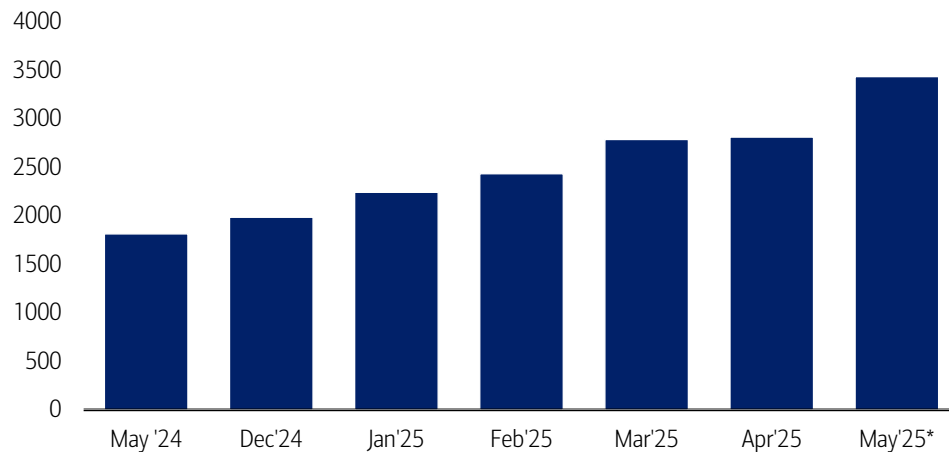
Source: BofA Global Research, Bloomberg, FactSet Ownership.

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Exhibit 12: Sustainability holdings market value in European A&D almost doubled in a year, driven by the strong performance

European ESG funds holdings MV (EURmn) in Stoxx 600 A&D companies

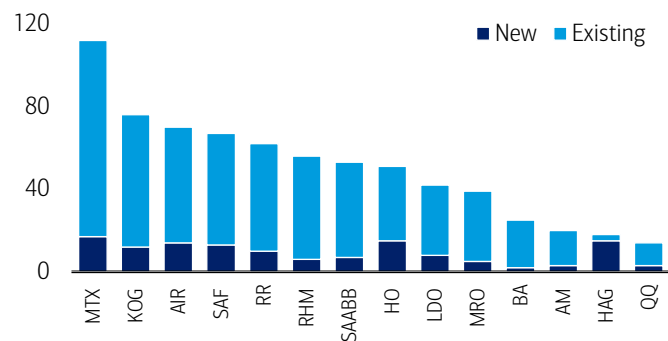


Source: BofA Global Research, Bloomberg, FactSet Ownership. Note: May AUM is calculated using funds as of April end.

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Exhibit 13: About 4% more European equity ESG funds added A&D stocks to their portfolios, this year

of new vs existing funds investing in Stoxx 600 A&D companies, as at 04/30/2025

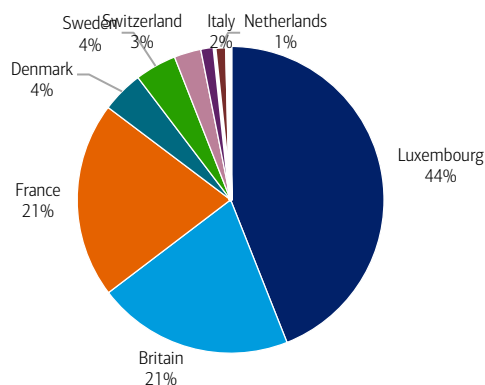


Source: BofA Global Research, Bloomberg, FactSet Ownership. Note: New funds include those in our ESG fund base as of April '25 but not in 2024.

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Exhibit 15: Luxembourg, French and UK funds added most YTD

Share of YTD change in MV of ESG holdings in Stoxx 600 A&D companies by region, as at 04/30/2025

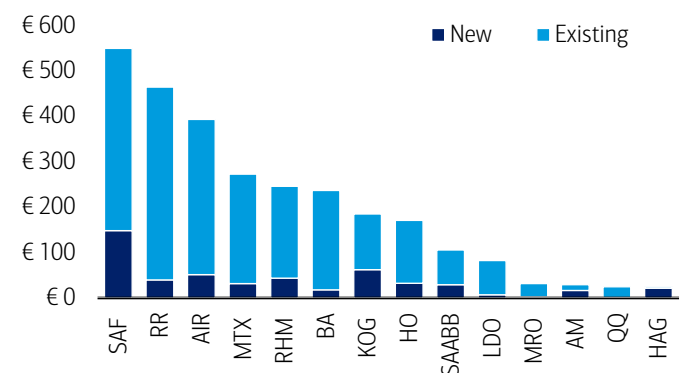


Source: Source: BofA Global Research, Bloomberg, FactSet Ownership. Note: European ESG equity funds with a geographical focus on Europe and Global but domiciled in UK and Eurozone area

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Exhibit 14: SAF saw most new money and have highest share of AUMs

New money vs old money in Stoxx 600 A&D companies as at 04/30/2025

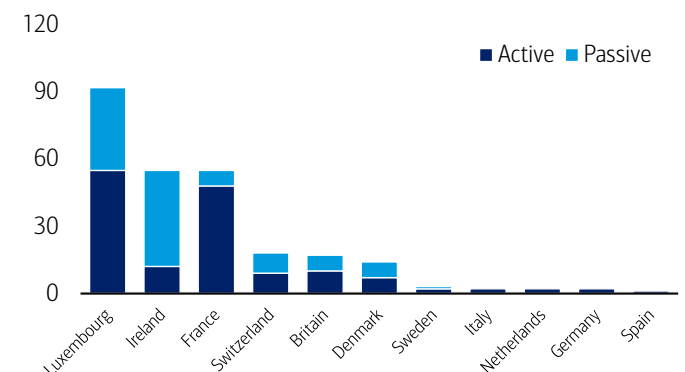


Source: BofA Global Research, Bloomberg, FactSet Ownership. Note: New funds include those in our ESG fund base as of April '25 but not in 2024.

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Exhibit 16: About 1 in 2 funds investing in Defence companies are French or Luxembourg-domiciled

ESG funds exposed to A&D, by country of domicile as at 04/30/2025



BofA Global Research, Bloomberg, FactSet Ownership. Note: European ESG equity funds with a geographical focus on Europe and Global but domiciled in UK and Eurozone area

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Exhibit 17: European ESG funds are still U/W the industry. MTU Aero Engines is the most held – with the highest taxonomy revenue, capex and also ESG scores.

EU-domiciled ESG funds' weight relative to Stoxx 600 Index 04/30/25. Highlighted Defence companies

Ticker	Name	Mkcap(\$mn)	Sub- Industry	Relative Weights	%of ESG Funds with Position	% ESG funds with position - YTD Change	EU Taxonomy Aligned Revenue Percent	EU Taxonomy Aligned Capex Percent	Bloomberg ESG Score Percentile
MTX GY	MTU Aero Engines	21,789	Aircraft & Parts	0.45	6%	-0.3%	16.00	17.00	98.5
KOG NO	Kongsberg Gruppen	31,820	Shipbuilding	0.41	4%	0.6%	0.00	0.00	94.0
QQ/ LN	QinetiQ	4,061	Defence	0.30	1%	0.2%	NA	NA	42.9
HO FP	Thales	61,323	Defence	0.20	3%	0.4%	3.00	7.00	79.6
SAAB SS	Saab	29,072	Defence	0.21	3%	-0.1%	0.40	2.30	59.2
AM FP	Dassault	28,138	Defence	0.14	1%	-0.1%	0.00	0.00	40.8
RR/ LN	Rolls-Royce	101,268	Aircraft & Parts	0.17	3%	0.5%	NA	NA	81.6
SAF FP	Safran	128,171	Aircraft & Parts	0.17	4%	-0.2%	0.00	2.00	90.4
MRO LN	Melrose	8,052	Aircraft & Parts	0.14	2%	0.4%	NA	NA	77.9
AIR FP	Airbus	149,165	Aircraft & Parts	0.12	4%	0.4%	0.00	0.00	94.1
BA/ LN	BAE	78,742	Defence	0.11	1%	-0.1%	NA	NA	65.3
RHM GY	Rheinmetall	92,963	Defence	0.10	3%	0.5%	0.93	3.01	51.0
LDO IM	Leonardo	34,642	Defence	0.12	2%	0.7%	0.00	0.21	98.0
HAG GY	Hensoldt	13,034	Defence	0.16	1%	NA	0.00	3.00	72.2

Source: BofA Global Research, FactSet Ownership, Bloomberg

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ESG investors are underweight Defence companies in the US and Asia too
Exhibit 18: US ESG funds slightly increased exposure to Axon among defence but are still underweight others

North American-domiciled ESG funds relative weight to S&P 500 index on 04/30/25

Ticker	Name	Mkcap(\$mn)	Sub- Industry	Relative Weights	%of ESG Funds with Position	Relative Weights - YTD Change	% ESG funds with position - YTD Change	Bloomberg ESG Score Percentile
AXON UW	Axon Enterprise	61,646	Defence	1.25	14%	0.20	2.8%	46.9
GE UN	GE	272,600	Aircraft & Parts	0.58	13%	-0.01	0.1%	81.6
HWM UN	Howmet Aero	70,792	Aircraft & Parts	0.41	11%	0.05	1.9%	95.6
RTX UN	RTX	185,831	Defence	0.28	5%	-0.05	0.2%	73.5
LHX UN	L3Harris Tech	45,665	Defence	0.26	4%	0.03	0.6%	93.9
TXT UN	Textron	13,643	Aircraft & Parts	0.22	3%	-0.01	-0.2%	85.3
TDG UN	TransDigm	82,335	Aircraft & Parts	0.20	6%	0.01	1.0%	69.1
HII UN	Huntington Ingalls	8,887	Defence	0.22	2%	0.03	-0.2%	69.4
NOC UN	Northrop Grumman	70,440	Defence	0.16	5%	-0.01	0.1%	67.3
LMT UN	Lockheed	112,858	Defence	0.15	4%	-0.02	-0.1%	95.9
GD UN	General Dyn	74,206	Defence	0.14	4%	0.01	-0.1%	100.0
BA UN	Boeing	158,944	Aircraft & Parts	0.07	2%	0.00	-0.2%	79.4

Source: BofA Global Research, FactSet Ownership, Bloomberg

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Exhibit 19: Asian ESG funds increased exposure to Aerospace names YTD and are still underweight defence companies

APAC domiciled ESG funds relative weight to MSCI APAC index on 04/30/25

ISIN Number	Name	Mkcap(\$mn)	Sub-Industry	Relative Weights	%of ESG Funds with Position	Relative Weights - YTD Change	% ESG funds with position - YTD Change	Bloomberg ESG Score Percentile
CNE000000RM5	Aecc Aero-Engine	3,588	Aircraft & Parts	38.87	3%	3.51	1.1%	64.7
CNE000000JW1	Aecc Aviation	13,065	Aircraft & Parts	32.36	3%	2.89	0.8%	66.2
CNE0000015V6	Avicopter	4,216	Aircraft & Parts	25.91	2%	-0.37	0.3%	35.3
CNE1000018P0	Kuang-Chi	11,918	Specialty Chemicals	19.69	5%	-0.15	-0.4%	1.7
KR7012450003	Hanwha	31,575	Defence	0.37	2%	-0.06	0.0%	62.2
SG1F60858221	Singapore Tech Engineering	18,450	Defence	0.14	3%	-0.07	0.5%	71.4
INE263A01024	Bharat Electronics Ltd	33,297	Defence	0.08	2%	-0.01	0.0%	85.7
CNE1000001Y8	Avichina Industry	4,074	Aircraft & Parts	0.02	1%	-0.02	0.3%	75.0
KR7047810007	Korea Aerospace	6,414	Defence	0.01	1%	0.00	0.0%	38.8
INE066F01020	HAL	38,902	Defence	0.00	0%	0.00	0.0%	75.5

Source: BofA Global Research, FactSet Ownership, Bloomberg

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Mandate expansion & re-weighting = c.\$70bn of incremental ESG inflow in EU defence

ESG adoption of defence has been cautious and selective. In our database, currently Article 8 funds with c. €206bn (\$236bn) AUM hold about 1.6% of their AUMs in European A&D – of which about 85% have broad SRI mandates.

Our scenario analysis, in Exhibit 21, suggests if all Article 8 funds with broad SRI mandates and European/global geographical focus (esti. c. €1.4tn AUMs for Article 8 broad SRI equity funds using Morningstar SFDR fund universe) start investing the same, this implies €22bn (\$25bn) of incremental money, or 3% of A&D market cap.

On a conservative basis, if only those that invest today adjust to Stoxx 600 benchmark weight, this would still imply an incremental €8.3bn (\$9.5bn).

And if along with mandate expansion, a reallocation to benchmark weight (4.8% of AUM) would mean c. €61bn (\$70bn) of incremental money or 9% of A&D market cap. If the ESG rules change further, then the potential inflow could be much larger.

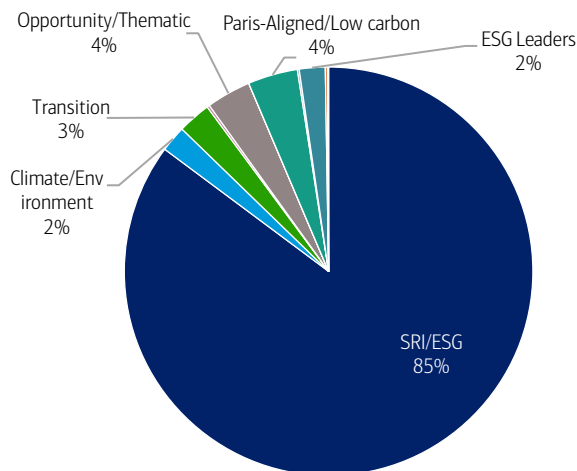
Assumptions for scenario analysis:

We acknowledge that the funds in scope have different investment mandates including various exclusions criteria and benchmark methodologies. However, for the purpose of this simplified scenario analysis, we have applied a uniform approach for Article 8 classified funds with broad ESG/SRI mandates and by using a broad EU benchmark weight adjustment across all active and passive funds. Additionally, we have looked at what would happen if mandates were to be relaxed, specifically if A&D exclusions were removed, in line with the other funds in the database.

Fund allocations were based on data from our internal database and methodology (see Ownership Methodology) and extrapolated using a larger but comparable dataset from Morningstar, to ensure broader coverage in the analysis. These figures should be considered approximations, intended to provide directional insight rather than precise outcomes.

Exhibit 20: About 85% of AUMs invested in A&D are labelled as Article 8 with broad SRI strategies

European ESG AUMs invested in Stoxx 600 A&D by ESG fund strategies, as at 05/31/2025



Source: BofA Global Research, FactSet Ownership, Bloomberg. Article 6 and about eight Article 9 funds are excluded from this calculation

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Exhibit 21: We see c.\$70bn (€61bn) of incremental ESG allocation in defence if mandates expand and benchmark weights are adjusted within Article 8 broad SRI funds

Scenarios analysis for incremental A&D inflow (€mn) should all Article 8 broad SRI funds expand mandate and invest as much as Stoxx 600 benchmark weight, as of 05/31/2025

With Article 8 SRI equity AUMs of c. €670bn				Estimated allocation for a broader database (Article 8 SRI equity AUMs of €1.4trn)				
Ticker	Name	Market Cap (€mn)	Current allocation (for existing investments by Article 8 broad SRI funds)	Current allocation (for existing investments by Article 8 broad SRI funds)	Benchmark adjustment (for existing investments by Article 8 broad SRI funds)	Mandate Relaxation (for all Article 8 broad SRI funds)	Mandate relaxation and benchmark adjustment	% of Mcap
				Article 8 broad SRI funds)	by Article 8 broad SRI funds)	Article 8 broad SRI funds)		
AIR FP	Airbus	130,996	366.4	763.7	1,707.9	2,829.7	10,866.5	8%
SAF FP	Safran	112,559	661.5	1,378.6	1,158.9	5,108.5	10,561.5	9%
RR/ LN	Rolls-Royce	88,933	487.8	1,016.7	1,250.9	3,767.6	9,653.5	11%
RHM GY	Rheinmetall	81,639	266.5	555.4	1,608.6	2,058.0	9,627.5	12%
BA/ LN	BAE	69,151	249.2	519.4	1,240.6	1,924.5	7,762.3	11%
HO FP	Thales	53,854	154.8	322.7	345.4	1,195.6	2,820.8	5%
LDO IM	Leonardo	30,422	132.0	275.1	291.9	1,019.4	2,393.1	8%
MTX GY	MTU Aero Engines	19,135	195.4	407.2	81.7	1,509.0	1,893.3	10%
SAABB SS	Saab	25,394	67.3	140.2	242.3	519.4	1,659.7	7%
KOG NO	Kongsberg Gruppen	27,944	154.6	322.3	31.1	1,194.3	1,340.5	5%
MRO LN	Melrose	7,071	31.6	65.9	107.8	244.2	751.4	11%
HAG GY	Hensoldt AG	11,446	24.0	50.0	93.5	185.2	624.9	5%
AM FP	Dassault	24,711	23.4	48.8	102.9	180.8	665.0	3%
QQ/ LN	QinetiQ	3,566	26.4	55.0	19.2	203.9	294.2	8%
Total		686,822	2,841	5,921.0	8,282.7	21,940.1	60,914.2	9%

Source: BofA Global Research, FactSet Ownership, Bloomberg. Note: Only allocations by Article 8 SRI mandates are included in this analysis, other Article 8 with thematic strategies, Article 9 and Article 9 funds are excluded from this calculation. To reflect the latest data May AUM is calculated using funds as of April end (as last available)

BofA GLOBAL RESEARCH

Capturing upside beyond weapons: through tech and supply chain

Focusing on defence technologies

The recent budget increases by EU member states include the national security priorities such as strategic enablers and critical infrastructure protection, in relation to space: drone, mobility, cyber, artificial intelligence and electronic warfare.

Defence technologies provide non-lethal alternatives to current products. They are expanding civilian dual use of products, moving away from products using conflict material to more advanced products with higher precision to reduce civilian casualties.

Strengthening cyber resilience

As discussed in [Navigating Cyber risks – can we tame the beast?](#), cyberattacks remain a major concern for governments and the private sector. The cyber threat is exacerbated by national security and critical infrastructure becoming more vulnerable to attacks. Cyberattacks can range from vandalism of websites or programs, Distributed Denial of Service attacks to cripple servers, compromising software and hardware with malicious software, hacking into networks to damage critical infrastructure, to conducting cyber espionage. Nation states and non-state actors like terrorist groups, criminal organizations and hackers are the major players in the domain. With the emergence of AI, it is easier for threat actors with limited programming skills to generate code for cyberattacks and destabilize political and economic markets. By 2027, 17% of total cyberattacks will involve generative AI (source: Gartner).

As discussed in our [Stay Safe! Future Security Primer](#), Defence firms currently work hand in hand with commercial information security companies to protect existing government information systems. The government buys commercial-off-the-shelf products (COTS) from hardware / software companies. Defence companies with cyberspace capabilities then integrate various systems the government uses to build a comprehensive



information security system. To integrate the information security systems, defence companies can provide three main products/services:

- Vulnerability assessment – to identify existing system weaknesses and test security systems
- System development – to plug holes in COTS and fix identified vulnerabilities
- Customized products – to provide proprietary hardware or software that commercial companies do not offer (products like insider monitoring, forensic analysis, reverse engineering, tracing and attribution, etc.)

Drones, drones, drones

Defence tech and unmanned systems were a common theme at BofA's 18th Great California Aerospace & Defence tour hosted in May'25. Post Ukraine, the military applications of technology seem to keep gaining momentum, attracting top talent and significant capital (both public and private). Drones are today what satellites and space were in the early 2020s. Many players are looking for cost-efficient methods of mass production to satisfy global demand. Dare we say a drone bubble may be forming? Potentially, just like the eVTOL and rocket launch bubbles. It does appear the market is being swamped with low-end drones. Many of the companies on the tour were directly or indirectly exposed to this trend, ranging from one-way autonomous ammunition-like drones to more sophisticated vehicles, to counter UAS solutions. See [Aerospace & Defence: 18th California tour: Focus on automation, tariffs, nat'l security and too many drones 27 May 2025](#)

Building space-based capabilities

Recently, President Trump announced that his administration had decided on an architecture for the planned Golden Dome missile defence system. The system is expected to be a layered approach, comprising land-, air-, sea- and space-based capabilities for defeating various threats including drones and hypersonic, ballistic, and cruise missiles. Golden Dome will leverage capabilities from both defence tech new entrants and legacy primes, with many capabilities based on existing technology. During the announcement, Indiana Senator Jim Banks and Alaska Senator Dan Sullivan noted expectations for companies like L3Harris (LHX), Lockheed Martin (LMT) and RTX to play key roles given strong capabilities in missile defence, while Senator Sullivan added that defence tech providers could add to innovate space-based capabilities in particular.

Our US Aerospace/Defence analyst continue to see opportunities across traditional and new defence providers given the breadth of capabilities to be fielded under the architecture. Targeted deployment of the system within three years, which seems aggressively unrealistic to us, would likely require procurement under existing contracts, benefiting those companies most exposed to missile defence today, see [Defence Update: Golden Dome moving forward with three-year, \\$175bn plan 21 May 2025](#)

20+ A&D companies with solutions around space, automation, smart and cyber security

BofA Global Research's Thematic team presents a list of BofA Global Research-covered companies with a combined market cap of c.US\$1.2tn which are exposed to future security, defence-related tech and infrastructure themes. These 23 Aerospace and Defence have High and Medium exposure to these themes. The team has mapped opportunities across multiple entry points for investors wishing to invest the theme.

For full lists including stocks with low exposure see reports: [Thematic Investing: Stay Safe! Future Security Primer 09 October 2023](#) and [Transforming World – Q2 2025 Thematic Primer Picks & Stocklist \(Global\) 04 April 2025](#).



Exhibit 22: Opportunities in A&D solutionsInformation presented below as of 02 April 2025, for full list see [Transforming World – Q2 2025 Thematic Primer Picks & Stocklist \(Global\) 04 April 2025](#)

Ticker	Company	Market Cap(\$mn)	AI - BIG DATA	ROBOTS	SPACE	TOTAL REALITY - METAVERSE	FUTURE HUMAN	OCEANTECH	SAFETY	FUTURE SECURITY	CYBERSECURITY	PRIVACY	FUTURE MOBILITY	PUBLIC INFRASTRUCTURE	SMART CITIES	ECOMMERCE	CLIMATE CHANGE - NET ZERO	ENERGY EFFICIENCY	WATER	Total
HO FP	Thales	61,323		M	M				M	H	M	M			M					7
TDY US	Teledyne Tech. Inc.	23,461	M	M	M	M		H	M				M							7
LDO IM	Leonardo	34,642		M	M				H	H										4
BAH US	Booz Allen Hamilton	12,822	H						M		H	M								4
CR US	Crane	10,217														M	M	M	M	4
NOC US	Northrop Grumman	70,440		M	H					H										3
HWM US	Howmet	70,792			M												M	M		3
LHX US	L3Harris	45,665			H				M		M									3
PSN US	Parsons	7,382							M		M									3
BAB LN	Babcock Int.	7,225						H	M	H				H						3
LMT US	Lockheed Martin	112,858		M	H															2
GD US	General Dynamics	74,206			M			H												2
GRMN US	Garmin	39,943					M		M											2
HXL US	Hexcel Corp	4,534															H	H		2
BA US	Boeing	158,944			H															1
AIR FP	Airbus	149,165			M															1
SAF FP	Safran	128,171			M															1
RR/ LN	Rolls Royce	101,268	M																	1
AXON US	Axon Ent. Inc	61,646							H											1
RKLB US	Rocket Lab	13,345			H															1
RBC US	RBC Bearings	12,003		M																1
LUNR US	Intuitive	2,092			H															1
CDRE US	Cadre Holdings Inc	1,402							H											1

Source: BofA Global Research

M = Medium Exposure, H = High Exposure

BofA GLOBAL RESEARCH

Capturing defence upside through key suppliers**Investing in the value chain**

As discussed in our note, [Defence in ESG – still too hot to hold](#), increased defence spending also creates tailwinds for the broader value chain.

If defence spending increases from 2% to 5% of GDP, BofA European Semis analyst believes EU semiconductor companies will likely materially increase their share of spending. They flag potential tailwinds to revenues in the medium term: 1) STM/IFX military revs c\$200m/100m in '24, which could double if they grow their share by 2028E; 2) potential for IFX/STM to expand into the higher-margin product factories of US, though this would likely take many years; and 3) potential to increase the share of spending if EU states mandate domestic sourcing, see note [Sizing up the military/defence exposure for EU Semis](#)

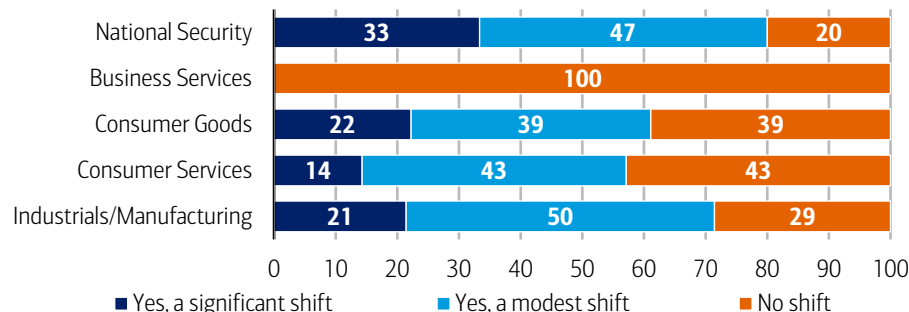
BofA European Software analyst believes that the Software and IT Services space is not directly impacted but the EU defence spending effort is a marginal positive for DSY and PLNW, while he flags that ATE, SOP and Capgemini are all exposed to Aerospace & Defence to varying degrees. EU defence was flagged as a mid-term opportunity by a number of companies in their Q1 earnings, including DSY, Capgemini, Alten, Planisware and Atos (key exposure: Alten 15% aerospace, 8% defence and security, Sopra 24% A&D, DSY c 15% A&D, CAP 5% defence, Atos 6-7%), see [Q1 wrap: soft start amidst macro uncertainty 20 May 2025](#)



Moreover, a recent BofA proprietary survey of 56 global analysts ([Battle of the Titans: Reshoring vs Friendshoring](#)) suggests that the trade war will be sector-specific and that national-security-related companies will incrementally shift production.

Exhibit 23: If US import tariffs remain high on Chinese goods and 10% or more on goods from other nations and if sector tariffs are introduced, do you expect your companies to incrementally shift production to the US?

National Security and Manufacturing sectors are most likely to reshore



Source: BofA Global Research. Note: Responses are expressed as share of respondents.

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Using reported and latest estimates from Bloomberg, we highlight European suppliers of the Stoxx 600 Aerospace & Defence companies in Exhibit 24 that might be exposed to similar tailwinds and provide indirect exposure to the industry.

The exhibits below are screens and not recommended lists either individually or as a group of stocks. Investors should consider the fundamentals of the companies and their own individual circumstances/objectives before making any investment decisions. The screen is intended to be indicative metrics only and may not be used for reference purposes or as a measure of performance for any financial instrument or contract, or otherwise relied upon by third parties for any other purpose, without the prior written consent of BofA Global Research. This screen was not created to act as a benchmark

Exhibit 24: IT services, Metals & Mining and Semiconductors are biggest suppliers of defence companies

European suppliers to Stoxx 600 Aerospace and Defence (A&D) companies, as of 06/05/2025

Ticker	Name	Mcap (\$mn)	Industry Name	Country	%Supplier Revenue (estimates)	A&D Companies
CAP FP	Capgemini Se	29,365	IT Services	France	27%*	Dassault, Rolls-Royce, Airbus, Safran
SOP FP	Sopra Steria Group	4,558	IT Services	France	24%*	Thales, Safran, Airbus
ATE FP	Alten Sa	2,956	IT Services	France	23%*	Thales, Leonardo, Saab, Dassault, Rolls-Royce, Airbus, Safran
DSY FP	Dassault Systemes Se	49,375	Software	France	15%*	BAE, Dassault, Rolls-Royce, Airbus, Safran
ATO FP	Atos Se	802	IT Services	France	c.7%*	Thales, Rheinmetall, Dassault, Airbus
AMG NA	Amg Critical Materials Nv	694	Metals & Mining	Netherlands	9%	Rolls-Royce, Safran
INF FP	Infotel Sa	321	IT Services	France	7%	Airbus
AMAG AV	Amag Austria Metall Ag	1,000	Metals & Mining	Austria	7%	BAE, Leonardo, Dassault, Airbus, Safran
CSTM US	Constellium Se	1,849	Metals & Mining	France	3%	BAE, Leonardo, Dassault, Airbus, Safran
SKFB SS	SKF Ab	10,199	Machinery	Sweden	3%	Kongsberg, Safran, Airbus
LPA LN	Lpa Group Plc	9	Electrical Equipment	Britain	3%	BAE, Airbus
GHH LN	Gooch & Housego Plc	190	Electronic Equipment, Instrument	Britain	3%	Leonardo, Rheinmetall
IQE LN	Iqe Plc	131	Semiconductors & Semiconductor	Britain	2%	BAE
LXS GR	Lanxess Ag	2,531	Chemicals	Germany	2%	Airbus
SMIN LN	Smiths Group Plc	9,964	Industrial Conglomerates	Britain	2%	BAE, Airbus
OERL SW	Oc Oerlikon Corp Ag Pfaffikon	1,542	Machinery	Switzerland	1%	Rolls-Royce, MTU, Airbus, Safran
OUT1V FH	Outokumpu Oyj	1,785	Metals & Mining	Finland	1%	Airbus
GF SW	Georg Fischer Ag	6,472	Machinery	Switzerland	1%	Rolls-Royce, Safran, Airbus
MRN FP	Mersen Sa	559	Electrical Equipment	France	1%	Airbus, Safran
IFX GR	Infineon Technologies Ag	53,132	Semiconductors & Semiconductor	Germany	1%	Thales, Safran, Airbus
RIO LN	Rio Tinto Plc	100,240	Metals & Mining	Britain	1%	Airbus
AI FP	Air Liquide Sa	120,845	Chemicals	France	<1%	Airbus, Thales

Exhibit 24: IT services, Metals & Mining and Semiconductors are biggest suppliers of defence companies

European suppliers to Stoxx 600 Aerospace and Defence (A&D) companies, as of 06/05/2025

Ticker	Name	Mcap (\$mn)	Industry Name	Country	%Supplier Revenue (estimates)	A&D Companies
HEN3 GR	Henkel Ag & Co Kgaa	32,990	Household Products	Germany	<1%	Safran, Airbus
ML FP	Michelin	26,271	Automobile Components	France	<1%	Airbus, Rheinmetall, Dassault
STMPA FP	Stmicroelectronics Nv	25,994	Semiconductors & Semiconductor	Switzerland	<1%	Airbus
AKZA NA	Akzo Nobel Nv	11,333	Chemicals	Netherlands	<1%	BAE, Leonardo, SAAB, Dassault, Airbus, Safran
SPIE FP	Spie Sa	8,547	Commercial Services & Supplies	France	<1%	Airbus
SYENS BB	Syensqo SA	8,243	Chemicals	Belgium	<1%	Airbus
SSABA SS	SSAB Ab	6,247	Metals & Mining	Sweden	<1%	Airbus
VOE AV	Voestalpine Ag	4,623	Metals & Mining	Austria	<1%	Airbus, MTU Aero
SHAO GR	Schaeffler Ag	4,476	Automobile Components	Germany	<1%	Rolls-Royce, Airbus
SOLB BB	Solvay Sa	3,458	Chemicals	Belgium	<1%	Leonardo, Melrose, Safran, Airbus
CIE SM	Cie Automotive Sa	3,267	Automobile Components	Spain	<1%	Rheinmetall
RSW LN	Renishaw Plc	2,588	Electronic Equipment, Instrument	Britain	<1%	Airbus
AIXA GR	Aixtron Se	1,621	Semiconductors & Semiconductor	Germany	<1%	Thales
ERA FP	Eramet Sa	1,604	Metals & Mining	France	<1%	Rolls-Royce, Airbus
JEN GR	Jenoptik Ag	1,264	Electronic Equipment, Instrument	Germany	<1%	Airbus
VCT LN	Victrex Plc	920	Chemicals	Britain	<1%	Airbus
ASY FP	Assystem Sa	731	Professional Services	France	<1%	Airbus
EXE FP	Exel Industries Sa	326	Machinery	France	<1%	Rolls-Royce, Airbus
ZIL2 GR	Elringklinger Ag	317	Automobile Components	Germany	<1%	Rheinmetall
AVG LN	Avingtrans Plc	179	Machinery	Britain	<1%	Rolls-Royce
PWO GR	PWO Ag	102	Automobile Components	Germany	<1%	Rheinmetall
GURN SW	Gurit Holding Ag	105	Chemicals	Switzerland	<1%	Airbus
MSAG GR	Ms Industrie Ag	51	Machinery	Germany	<1%	Rolls-Royce
STLN SW	Swiss Steel Holding Ag	49	Metals & Mining	Switzerland	<1%	Airbus

Source: BofA Global Research, Bloomberg estimates. *See report [European Software, IT services & Payments: Q1 wrap: soft start amidst macro uncertainty 20 May 2025](#)

BofA GLOBAL RESEARCH



It's not too late! Defence is a growing market beyond 2030

BofA's European A&D analyst views the new investment cycle in defence as providing significant growth visibility beyond 2030. Thales highlighted it sees a period of 20-25 years of growth. Rheinmetall commented that 2027 and 2030 guides are very conservative at this point. As per companies' commentary, there is significant upside risk to the mid-term growth outlooks (particularly from 2027 onwards), and the analyst expect mid-term guidance upgrades in the second half of the year.

Sector delivering c.12.5% org topline growth 2024-28e

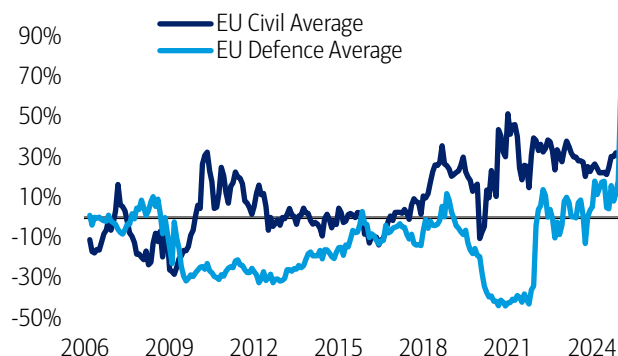
BofA's European A&D analyst updated benchmarking analysis across the sector -

[Defence benchmarking: Orders, margin expansion, revenues & EPS growth 19 May 2025.](#)

Importantly, European coverage is expected to deliver on average 2024-28e organic topline growth of c.12.5%, c.225bps of margin expansion and an EPS CAGR of c.22%. Valuations are elevated vs history but he believes that the EU defence market is a structural growth market beyond 2030 as we are moving into a decade of rebuilding of hard power globally. This should be reflected in a significant valuation premium relative to the SXXP as well as a valuation premium vs history, in his view.

Exhibit 25: EU Civil & Defence 12-month-forward. PE rel SXXP (industrials)

EU Civil is currently trading at 25.1% premium to SXXP, and defence is trading at 70.7% premium to index (22/05/2025)

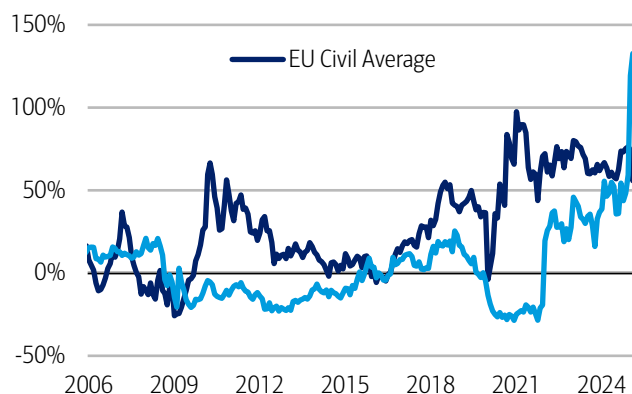


Source: BofA Global Research estimates. EU Defence = Thales and Finmeccanica, BAE, QQ, Rheinmetall, SAAB, Hensoldt, Kongsberg EU civil: Airbus, MTU, Safran

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Exhibit 26: EU Civil & Defence 12-month-forward. PE rel SXXP (market)

EU Civil is currently trading at 70.7% premium to SXXP, and defence is trading at 133.1% premium to SXXP (22/05/2025)

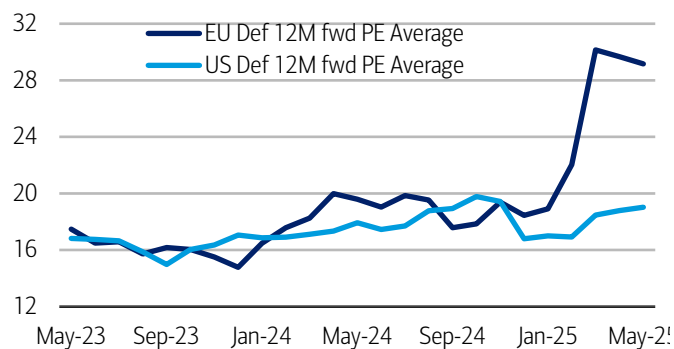


Source: BofA Global Research estimates. EU Defence = Thales and Finmeccanica, BAE, QQ, Rheinmetall, SAAB, Hensoldt, Kongsberg EU civil: Airbus, MTU, Safran

BofA GLOBAL RESEARCH

Exhibit 27: EU defence 12m-fwd PE Average vs US defence 12M fwd PE Average

The average EU Defence 12m fwd PE multiple has re-rated c.40% YTD

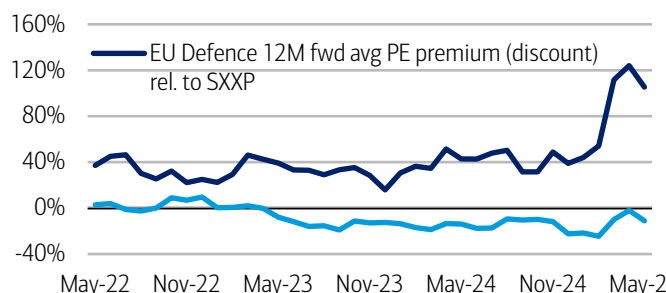


Source: BofA Global Research estimates, Eikon

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Exhibit 28: EU defence 12m-fwd average PE premium (discount) rel to SXXP vs US defence 12m-fwd average PE premium (discount) rel to S&P 500 last 3 years

EU defence premium over its index has increased significantly more than US Defence premium since the invasion of Ukraine



Source: BofA Global Research estimates, Eikon

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Appendix

Ownership Methodology

USA

ESG Fund universe is defined by EPFR's ESG/SRI fund classification. Using EPFR's filters, we identified 371 ESG funds where their geographical focus is US or Global and domiciled in the US. We then query FactSet ownership database for those 371 funds to get their security level ownership data. Equity holdings were aggregated to build positioning metrics for relative weights and percentage of ownership at the stock level relative to S&P 500 as well as MSCI USA ESG leaders (USSLM) Index. Asset under management (AUM) invested by these funds in S&P 500 constituents was 211bn USD in this month's run. Equity holdings were marked-to-market the composite as of April 30, 2025.

Europe

ESG Fund universe is defined by EPFR's ESG/SRI fund classification. Using EPFR's filters, we identified 1785 ESG funds where their geographical focus are Europe and Global but domiciled in UK and Eurozone area. We then query FactSet ownership database for those 1785 funds to get their security level ownership data. Equity holdings were aggregated to build positioning metrics for relative weights and percentage of ownership at the stock level relative to STOXX 600 as well as MSCI Europe ESG leaders (EUSI) Index. Asset under management (AUM) invested in STOXX 600 constituents was 403bn EUR in this month's run. Equity holdings were marked-to-market the composite as of April 30, 2025.

Asia Pacific

ESG Fund universe is defined by EPFR's ESG/SRI classifications. Using EPFR's filters, we identified 346 ESG funds where their geographical focus is APAC region. We then query FactSet ownership database for those 346 funds to get their security level ownership data. Equity holdings were aggregated to build positioning metrics for relative weights and percentage of ownership at the stock level relative to MSCI All Country Asia Pacific index (MSCI Asia Pac). Assets under management (AUM) invested in MSCI Asia Pac constituents was 80.5bn USD in this month's run. Equity holdings were marked-to-market the composite as of April 30, 2025.



Disclosures

Important Disclosures

Due to the nature of strategic analysis, the issuers or securities recommended or discussed in this report are not continuously followed. Accordingly, investors must regard this report as providing stand-alone analysis and should not expect continuing analysis or additional reports relating to such issuers and/or securities.

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