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Investing in sustainability

Rearm Europe, Rearm Finance

What role for responsible investment in the financing of European defense?

POSITION PAPER

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The international context has been marked, since 2022, and even more clearly since the beginning of 2025, by a resurgence of geopolitical tensions, resulting in a marked increase in military spending. In response, the European Commission has launched the ["ReArm Europe Plan/Readiness 2030"] initiative, aiming to strengthen the defense capabilities of the European Union by 2030, mobilizing up to 800 billion euros. This momentum is accompanied by an increasingly assertive political discourse — the French Minister of Economy, Éric Lombard, stated on March 20, 2025, that financing the defense industry is compatible with ESG[1] policies — as well as an evolution in social expectations, which push financial actors to clarify their positioning.

This strategic shift reshuffles the deck for responsible investors. It raises a dual question: on one hand, their positioning in relation to the defense sector, in a context where the imperatives of sovereignty, security, and stability become central; on the other hand, their ability to continue, or even amplify, their financing of an inclusive environmental transition, as Europe's budgetary and industrial priorities are set to evolve. For an entity engaged in sustainable development issues, it is difficult to ignore the systemic effects of such a shift. The arms industry, in particular, raises profound ethical and strategic dilemmas. Each investor today provides their own response to this challenge.

> ***This strategic shift compels responsible investors to reconsider their position regarding the defense sector while evaluating their ability to maintain and strengthen the financing of an inclusive environmental transition.***

At Mirova, we have never excluded the defense industry a priori. We apply a policy of demanding minimum standards, which effectively leads to a lack of exposure of our portfolios to large companies in the sector. However, in light of the evolving context, we believe it is necessary to reassess our position — and our responsibility — as a responsible investor. Because if Europe must invest more in its defense, its actors will likely need to rely more heavily than before on external financing. At the same time, we must ensure that the effort for sovereignty does not come at the expense of ecological transition and social cohesion, but rather that it can, as much as possible, reinforce these goals.

We do not claim to have reached a definitive position today. This paper aims to transparently and sincerely outline the hypotheses of a problem that does not have an obvious solution. For us, it is about exploring the conditions under which sustainable finance actors can contribute to the European sovereignty effort while staying true to their primary mission: to help achieve sustainable development goals through investment, research, and engagement.

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[1] Environmental, social, governance
Source: Defense and ESG: This "serious misunderstanding" that Eric Lombard wants to address, Les Echos, March 2025.

State of play: a paradigm shift

In a context of skyrocketing military spending, Europe is searching for its defense model — and its financing

The war in Ukraine, rising tensions in Asia and the Middle East, and the resurgence of military investments in major powers — including the United States, where the Pentagon's budget surpassed $850 billion in 2024[2] — have profoundly reshaped the strategic debate on the Old Continent. The arrival of Donald Trump as President of the United States in January 2025 has heightened uncertainty regarding the sustainability of American support for European allies. The new president's statements questioning the United States' commitment to NATO and suggesting that American aid could now come with economic conditions have acted as a catalyst: European countries can no longer regard U.S. support as a strategic constant.

In addition, there is a growing European awareness of a "capability gap" compared to their allies and a sense of urgency to rebuild an autonomous defense industrial base. In this context, the idea of a European "rearmament" is no longer a theoretical hypothesis but a political will be regularly asserted by several heads of state and government. Military needs are structurally increasing, along with the financing requirements.

NATO member states committed in 2014 to allocate at least 2% of their GDP to defense by 2024[3]. However, in current European debates, some scenarios consider a more ambitious budgetary effort, potentially reaching up to 3.5% of GDP, which corresponds to the historically observed level in the United States. On this basis, Mirova estimated in April 2024 that the financing needs for the defense of NATO countries within the European Economic Area (EEA) are approximately 350 billion euros per year. This amount includes about 80 billion euros for Germany, 50 billion for France, and the same for Italy. In Germany, Chancellor Friedrich Merz's plan, approved in March 2025, seems to align with this direction, as it outlines an unprecedented budgetary effort that could reach 1 trillion euros in cumulative spending for defense and infrastructure[4].

This dynamic is part of a broader movement to redefine the European defense model. While the construction of an integrated defense will still take years, as Germany appears determined to rebuild its own productive capacity, the intention is clear: to rearm Europe. This involves strengthening the entire industrial chain, from research and development to production and projection capabilities, with a priority given to strategic autonomy.

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[2] Source: Trump administration orders Pentagon to plan for sweeping budget cuts, The Washington Post, February 2025

[3] Source: Funding NATO, NATO, April 2025

[4] Source: German plans for fast-track defence splurge face strong resistance, Euractiv, March 2025

A few common priorities among member states are emerging:

- Satellite and electronic intelligence, long identified as a major weakness. The Russo-Ukrainian conflict has highlighted the crucial role of detection and anticipation in military resilience.
- The production of drones, which is now essential in observation, tactical support, and combat strategies, constitutes a significant area for Europe to catch up. The continent lags behind powers such as Israel, the United States, or Turkey, even though capacity ramp-up is currently being structured. The good news is that increasing the production capabilities for these systems does not present an insurmountable technological challenge. However, to adapt them to recent developments on the battlefield — particularly to enable them to evade radio jamming and operate in contested environments — rapid progress will be essential in embedded artificial intelligence technologies.
- Artillery, still indispensable despite the use of drones, particularly for countering well-established defensive positions; this requires flexible shell production capabilities.
- Platforms: while Europe has a significant military aviation fleet, we believe there is an important area for investment here. Indeed, this fleet largely consists of equipment from American manufacturers, notably Lockheed Martin and Boeing, which are central to the F-35 program[5] meant to equip Germany, the Netherlands, Denmark, Italy, the United Kingdom, Norway, and others, to the detriment of Dassault Aviation, Airbus, or Saab. To maintain its strategic credibility, Europe must promptly launch sixth-generation fighter aircraft programs.

Additionally, there are crucial coordination challenges, necessitating effective and secure communication systems, as well as the sharing of equipment and protocols, which are key elements of a strong European defense strategy. The European industry has solid foundations, but the required investments are massive, both for large corporations and for the entire supply chain.

[5] The F-35 program is a joint initiative to design, produce, and maintain the Lockheed Martin F-35 Lightning II, a versatile stealth fighter intended for air superiority and strike missions.

Mirova's position: no sectoral exclusion as a principle, but a demanding policy of minimum standards

As stated in our "Minimum Standards" policy, Mirova does not exclude the defense sector by principle. We recognize the necessity for democratic regimes to have a defense industry, in compliance with international humanitarian law. However, we have established strict safeguards to ensure that we do not compromise the universal and effective respect for human rights and fundamental freedomss.

Controversial weapons: an exclusion based on international law

We exclude weapons considered controversial, as defined by international conventions:

- Anti-personnel mines (Ottawa Convention),
- Cluster munitions (Oslo Convention),
- Biological, chemical, radiological, or nuclear weapons that can kill or injure a large number of people or cause significant damage to man-made structures or the biosphere (Nuclear Non-Proliferation Treaty, Biological Weapons Convention, Chemical Weapons Convention),
- Incendiary weapons and white phosphorus bombs (Convention on Certain Conventional Weapons),
- As well as certain weapons classified as "concerning" by the UN, particularly depleted uranium weapons (no treaty exists, but a coalition is being formed to seek their prohibition).

It should be noted that we do not consider activities related to the nuclear deterrence of countries adhering to the Nuclear Non-Proliferation Treaty as controversial.

We adopt the terminology "controversial weapons" because these weapons are not universally banned by all states and hence by all investors. Some major states, including the United States, are absent from these international conventions, while others, notably the Baltic states and Poland, are considering withdrawing from certain conventions.

Moreover, the very definition of what is considered a controversial weapon is evolving: technological advancements, particularly in the field of artificial intelligence, could lead to the inclusion of new types of weapons in this category.

This policy aligns with the guidelines of the European Securities and Markets Authority (ESMA) regarding the names of ESG funds (exclusion of biological, chemical, cluster munitions, and anti-personnel mines), as well as certain labels, including the French SRI Label[6] and the Belgian Towards Sustainability label[7] (which goes even further by imposing a 5% exclusion threshold for the production and sale of conventional weapons and dedicated components).

[6] The SRI (Socially Responsible Investment) label is a state label that allows you to invest in savings products that incorporate environmental, social, and governance principles into their management. More information can be found at www.lelabelisr.fr

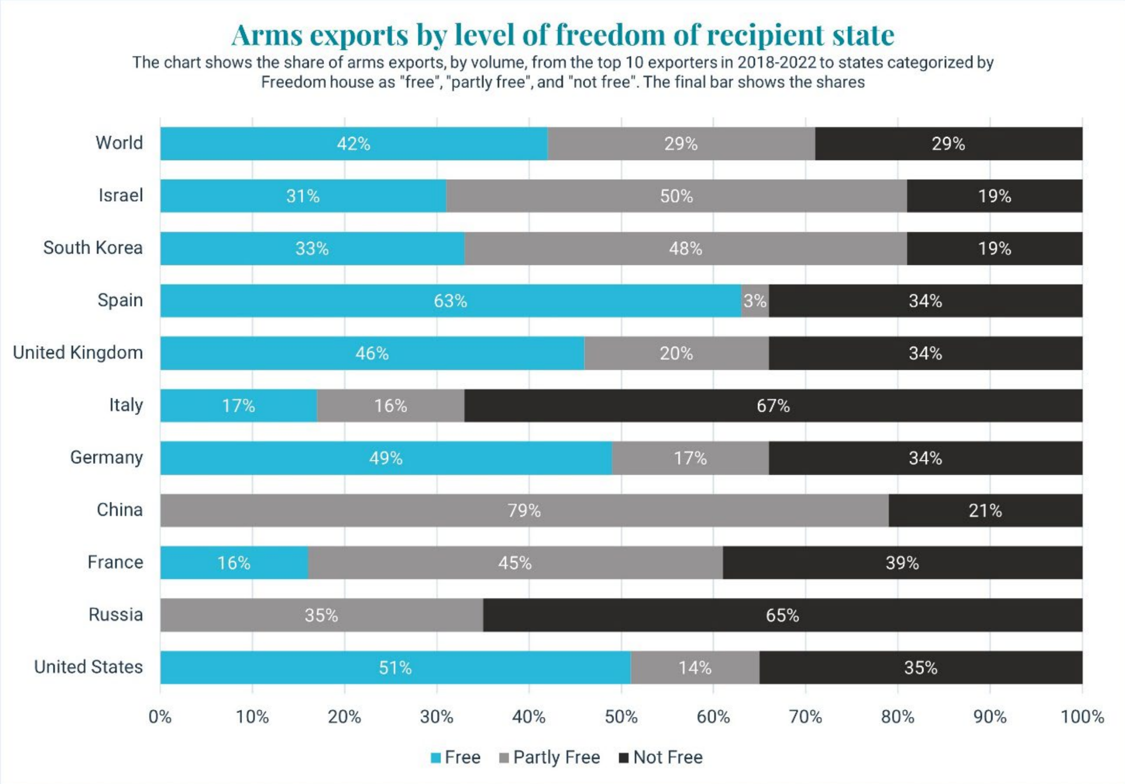
[7] The Towards Sustainability label aims to ensure a minimum level of sustainability for all labeled products by verifying their compliance with strict quality standards while allowing for the integration of personal convictions regarding sustainability. More information can be found at towardssustainability.be

Conventional Weapons: A Rigorous Analysis of the Risk of Diversion

Our approach differs for so-called conventional weapons. Indeed, their use can be deemed legitimate as long as it complies with international law regarding the legitimate defense of states, as governed by Article 51 of the United Nations Charter. Nevertheless, the current rules on export[8] and re-export[9] do not protect investors from the risk of dissemination and diversion of weapons.

The diversion of weapons is characterized when they are used for illegal or unauthorized purposes, such as aggression against states in violation of international law, criminal acts, terrorist attacks, or human rights violations, particularly against civilian populations. While several treaties and international regulations seek to limit this risk (such as the 2013 Arms Trade Treaty), there is currently no strict international or national regulation on arms exports that sets precise criteria for the governance of recipient countries. According to data from the Stockholm International Peace Research Institute (SIPRI) — see graph below — between 2018 and 2022, more than a third of European and American exports were directed towards regimes classified as "not free" by Freedom House[10]. This same analysis, when applied to the major companies in the defense sector, also reveals the private sector's exposure to the risk of exporting to countries considered "not free".

Thus, our approach is based on a **rigorous analysis of the risks associated with the export and re-export of arms.**



Graph: SIPRI © Notes: The volumes of arms exports are based on the Trend Indicator Values (TIV) from SIPRI, a measure of the volume of international transfers of major weapons. The share of arms export volumes to recipient states is displayed as a percentage. Source: Freedom House, 'Freedom in the World', 2023 ; et SIPRI Arms Transfers Database, 2023.

[8] The export risk refers to the possibility that weapons may be directly supplied to states or actors that have serious human rights violations, are involved in armed conflicts, or may violate international law.
[9] The re-export risk — or secondary dissemination — refers to the possibility that weapons, initially exported within a legal framework, may then be resold, transferred, or diverted to other unauthorized end users, often in high-risk contexts.
[10] The Freedom in the World index assesses the state of political rights and civil liberties around the world. Based on a set of indicators, the index determines whether a country or territory has an overall status of Free, Partly Free, or Not Free. It is developed by the American NGO Freedom House.

Scope of Application of Our Policy

Our policy applies to critical military equipment, which includes:

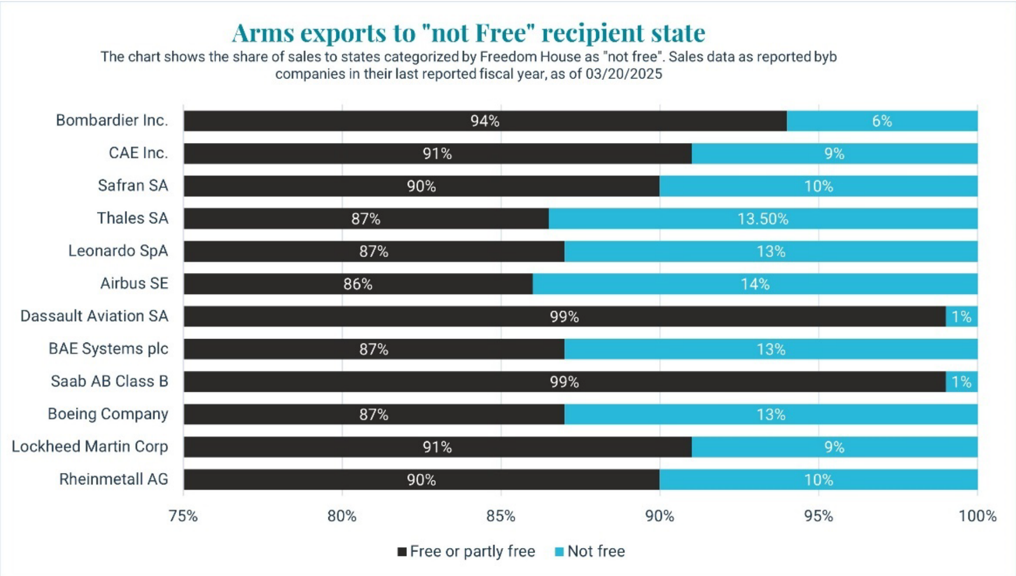
- Equipment dedicated to combat and of a lethal nature, such as weapons, armed vehicles, explosive devices, and ammunition[11].
- Elements and components directly related to the lethality of the weapon[12], as long as they are designed or modified based on military specifications.
- Not covered: non-critical equipment for combat[13], that is not considered armaments, dual-use equipment[14] and unprocessed materials that do not have a dedicated character.
- Segments of the value chain covered: Our policy encompasses the production and distribution of armaments. Companies involved in services related to armaments, such as maintenance, storage, repair, or testing, are not covered by our policy.

Management of the risk of dissemination to high-risk countries

Within the framework of our funds classified as Article 9 under the SFDR regulation[15], our requirement for enhanced responsibility is strengthened. As a result, we expect our investment targets to ensure the credibility of their risk management beyond the guarantees provided by local regulatory frameworks.

We seek to limit our exposure to the risk of dissemination by excluding companies that derive more than 5% of their revenue[16] from the production or distribution of armaments and that do not provide sufficient guarantees regarding the marketing or re-exportation to countries with high human rights risks.

In line with our approach to companies, we also exclude from our investments the sovereign debt securities of countries listed on the [“grey and black lists” of the Financial Action Task Force (FATF)](), as well as states whose corruption practices and/or human rights situation would raise significant doubts about the respect for fundamental rights.



Source: Mirova/FactSet 2025

[11] Weapons and equipment designed to kill human beings, such as firearms, tanks, combat aircraft, explosives, missiles, bombs, combat vehicles, and ammunition.
[12] Fire control systems, projectiles, devices and sensors for trajectory calculation, target tracking systems, or localization equipment that provide targeting information.
[13] Owing vehicles, naval surveillance ships, training aircraft, engines or propulsion systems for combat aircraft, vehicles, or ships, flares or training munitions, non-lethal ammunition weapons, protection or training equipment, encrypted communication systems, jamming equipment, cybersecurity equipment, aerial reconnaissance cameras, radars, and communication, control, intelligence, or simulation software.
[14] Equipment that can have both civilian and military uses without specific modification. Actors are subject to regulations aimed at identifying and controlling the export of these goods but have limited capacity to control the dissemination of the finished weapon product.
[15] Regulation (EU) 2019/2088 of the European Parliament and of the Council of 27 November 2019 on sustainability-related disclosures in the financial services sector
[16] The establishment of a 5% revenue threshold aims to ensure the implementation of our policy and to allow for flexibility with actors that have low exposure.

What role can a responsible investor play in the financing of European defense?

Contributing to the defense effort in a responsible manner

Before going further, it is useful to clarify that the position of responsible investors has so far had no impact on Europe's capacity to rearm, nor on the ability of defense actors to secure financing. Indeed, SRI indices do not exclude shares in conventional armaments, nor do the ESG policies of major asset management companies. As a result, the overall assets of asset management firms that do not invest in conventional armaments are extremely low. Furthermore, the majority of defense financing needs have been met through sovereign state orders and debts.

However, in the new European geopolitical context marked by the need for investments in new capabilities and hence massive financing for defense, it seems legitimate for **responsible investors to question their role: should they remain on the sidelines or seek to support this effort?**

Historically limited financing needs for defense actors

Defense companies have historically operated under a particular model. They primarily produce to meet the military programs of governments, under multi-year contracts that often include advance payments or deposits to help cover part of their development and production costs, which also explains the high credit ratings of defense companies. As a result, they exhibit good levels of capitalization, relatively contained financial debt levels, and comfortable liquidity ratios that are resilient to potential stress periods.

Thus, few of them have needed to turn to capital markets over the past decade, with the exception of specific cases such as Rolls-Royce, whose needs were also explained by challenges in the civil aviation sector.

These companies demonstrated significant resilience during the COVID crisis. Debt levels experienced only a slight increase in 2020, averaging about half a turn of leverage in our sample (excluding Rolls-Royce), rising from 2.5x to 3x, before returning below 2.4x by 2022, a stable level by the end of 2024. The observation of their current ratio, which has also shown undeniable stability over the years, indicates the minimal stress they experience regarding potential liquidity needs. Moreover, most of these companies pay regular dividends: the dividend payout ratio averages around 50% for the sector (in line with the market average) [17].

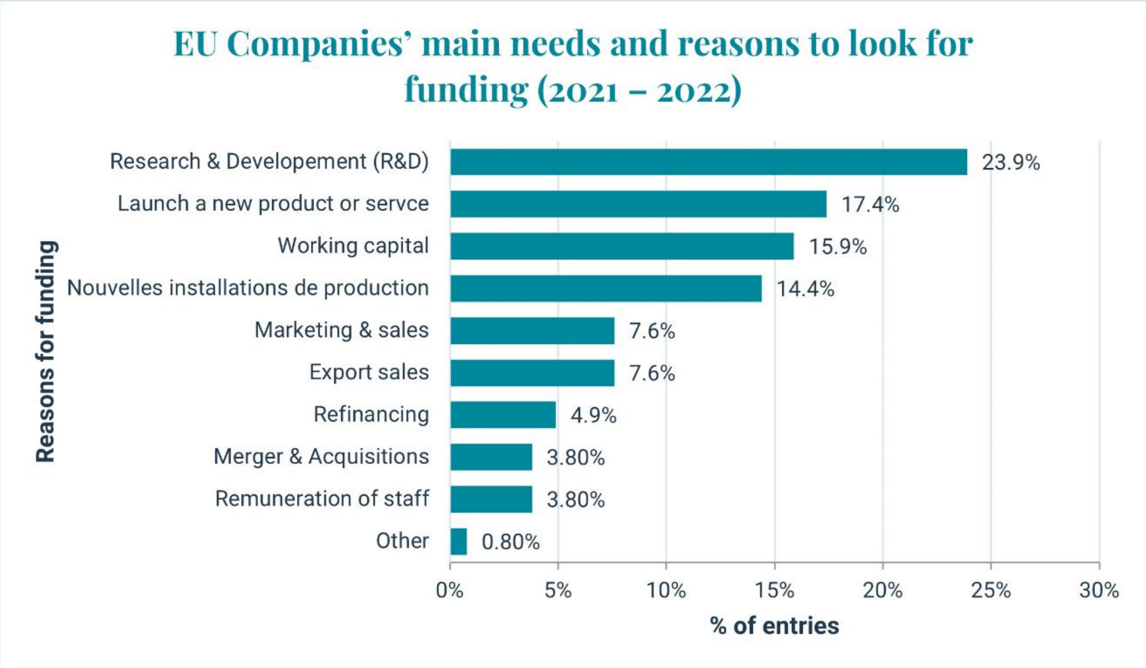
[17] Source: Blomberg

An exceptional context that requires mobilizing private investments

The new scale of the European re-armament plan could alter this equation. Our estimates indicated in 2024 an additional €350 billion in annual spending needed to meet the objectives. Large companies are expected to continue relying on budget advances provided by governments; however, the levels of deficits and debt displayed by these states could generate an external financing need of around €50 billion per year in the medium term, through equity and bond issuances (according to our estimates). In this context, financial markets will have a role to play.

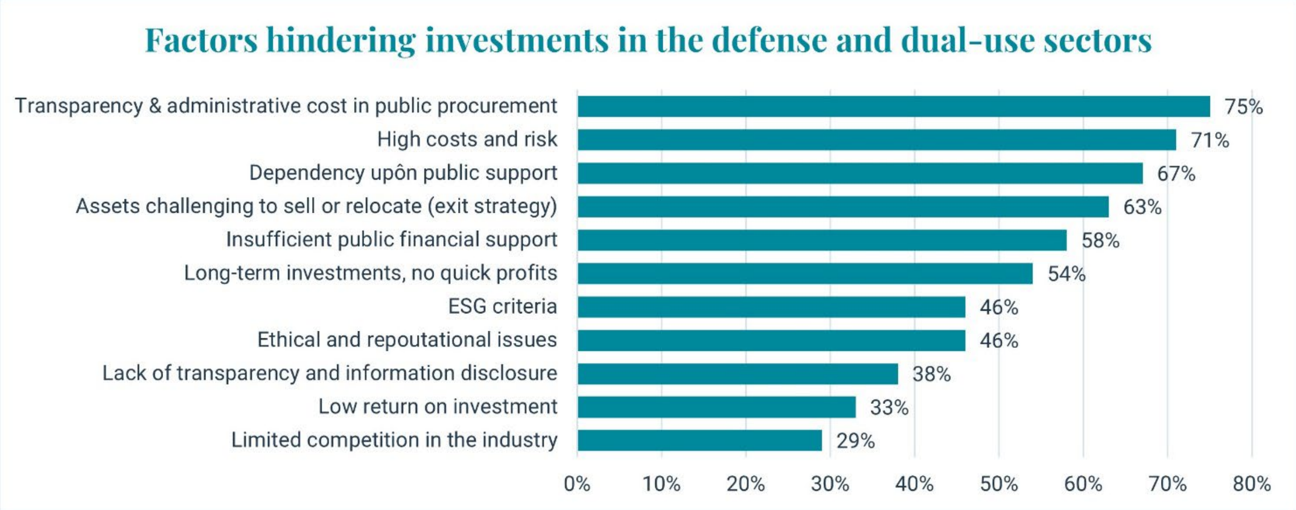
Furthermore, smaller players in the defense industry have a real need for support. It is important to note that access to private financing is a structural issue in Europe that affects all industrial and technological sectors.

Regarding defense, the European Commission has quantified an equity financing need of €2 billion and a debt financing need of €1 to €2 billion for SMEs in the defense sector[18]. Indeed, subcontractors are not systematically mentioned in contractual arrangements, so they rarely benefit from cash advances or co-development financing. For these companies, access to financing, including through the markets, will be an essential lever. It is precisely these segments that responsible investors can selectively support. Regarding Mirova, **we are ready to back those whose operational model and products meet our criteria**. It should be noted that many of these smaller suppliers are only moderately exposed to defense, accounting for a limited share of their overall activities.



Source: European Commission: Directorate-General for Defence Industry and Space, Access to equity financing for European defence SMEs, Publications Office of the European Union, 2024,

[18] Source: European Commission: Directorate-General for Defence Industry and Space, Access to equity financing for European defence SMEs, Publications Office of the European Union, 2024,



Source: European Commission: Directorate-General for Defence Industry and Space, Access to equity financing for European defence SMEs, Publications Office of the European Union, 2024,

Can responsible investors play a role in the financing of armaments?

Supporting the armaments sector, for a responsible investor, must be done in accordance with their responsible investment policy. For Mirova, our minimum standards policy aims to enable us to support players in the sector who need financing (diversified actors, smaller players in the industry) while seeking to limit our strategies' and our clients' exposure to the risk of dissemination.

It is clear that the contribution of responsible finance to the European armament effort can only take place by addressing the issues related to controversial weapons and the risk of dissemination that we have outlined above. Nevertheless, responsible finance has shown an ability to innovate, particularly to enable the financing of ecological transition in countries that may present significant social or governance risks through green bonds. We could envision a similar mechanism to support the financing needs of defense in democratic countries.

In this perspective, **Mirova supports the creation of targeted products such as Defense Bonds**, an idea that we have begun to promote publicly and with our partners. These debt instruments would be designed to direct private financing towards specific industrial segments, with guarantees of traceability and responsibility.

To ensure their compliance with SRI requirements, these bonds should incorporate:

- Eligibility criteria regarding the types of equipment or beneficiaries involved;
- Strict non-dissemination clauses;
- Robust monitoring and transparency mechanisms to ensure traceability to the end user.

These tools would help balance the strategic necessity to act with the principles of investor responsibility, while maintaining the overall coherence of sustainable investment policies.

The data presented reflects Mirova's opinion and the situation as of the date of this document and may change without prior notice.

Support other strategic sectors of European sovereignty

Redirect European capital towards Europe

Preparing for war is not just about strengthening armaments. It is also about ensuring that we have the economic, industrial, and financial levers to build sustainable sovereignty. The primary tool of sovereignty is having the means to achieve it — yet today, Europe is not mobilizing its resources to match its ambitions.

While the United States accounts for about a quarter of global GDP, American publicly traded companies represent between 60% and 75% of major global indices [19], which are increasingly attracting capital. This reflects a worrying reality: global capital, including European capital, is disproportionately flowing towards non-European companies, particularly American and Asian ones. In other words, European investors are investing less and less in European companies — including in sectors that are critical for its sovereignty, such as energy, health, food production, or critical technologies.

The observation of underinvestment is even more pronounced in the non-public segment, particularly in the seed and venture capital phases, where investment averages 0.2% of GDP per year in the European Union, compared to 0.7% in the United States over the decade from 2013 to 2023 [20]. This situation results from a lower allocation to the non-public sector by European investors compared to their American counterparts. As a consequence, there is a critical lack of financing for startups, which are often key players in the technological and industrial transitions necessary for European sovereignty. Reorienting financial flows towards European companies, both listed and unlisted, in critical sectors is a political and strategic necessity.

Changing this situation requires, above all, a collective awareness and a willingness to act at multiple levels. Public authorities have a crucial role to play, for instance, by modifying the regulatory and prudential framework or by implementing tax incentives to promote strategic investments. However, **this dynamic cannot succeed without the commitment of the investors themselves**—both institutional and private—and savers, who must be encouraged to reorient their capital towards projects that contribute to Europe's strategic autonomy.

[19] Source: Bloomberg
[20] Source: BCE, 2024

Strengthening the sectors that meet the essential needs of populations

In a defense economy, sovereignty is not limited to military autonomy. It also relies on the ability to ensure access for all fundamental needs: heating, lighting, food, healthcare, and access to clean water. All these issues fall under the umbrella of long-term collective security.

Energy, water, food, health, and critical infrastructure are sectors that must be made more resilient, more autonomous, and more sustainable. It is also in these areas that responsible investors can play a structuring role, as their historical mission is precisely to finance sustainable and resilient models.

The solutions are well-known:

- For energy: strengthen European energy independence through the massive development of low-carbon energy sources, energy efficiency, conservation, and management of networks.
- For food: secure value chains, relocate strategic production, and support short supply chains and sustainable agriculture.
- For health: ensure autonomous industrial capacities for pharmaceutical products, relocate critical supply chains, and support European biomedical research.
- For water: invest in resource-efficient, circular infrastructures that are adapted to climate change.

By supporting these key sectors and financing their stakeholders, responsible investors can directly contribute to the construction of a **European sovereignty** rooted in a democratic model that is attentive to **sustainable development issues.**

Staying on course for the environmental transition

Finally, in the face of the climate emergency, the environmental transition cannot be relegated to the background. On the contrary, it must be viewed as an essential component of long-term security, as the effects of climate disruption threaten the peace, stability, and viability of our societies. Tensions over resources, population displacements due to climate-related disasters, and conflicts over water or arable land are all geopolitical risks exacerbated by climate inaction.

In this context, the risk of underinvestment in the transition is real. Budgetary trade-offs and reallocations of capital could hinder financing for low-carbon infrastructures, territory adaptation, or green technologies, for example.

Maintaining a clear focus on the transition is therefore **not only an environmental necessity but also a strategic priority** to prevent ecological crises from becoming the next sources of global instability.

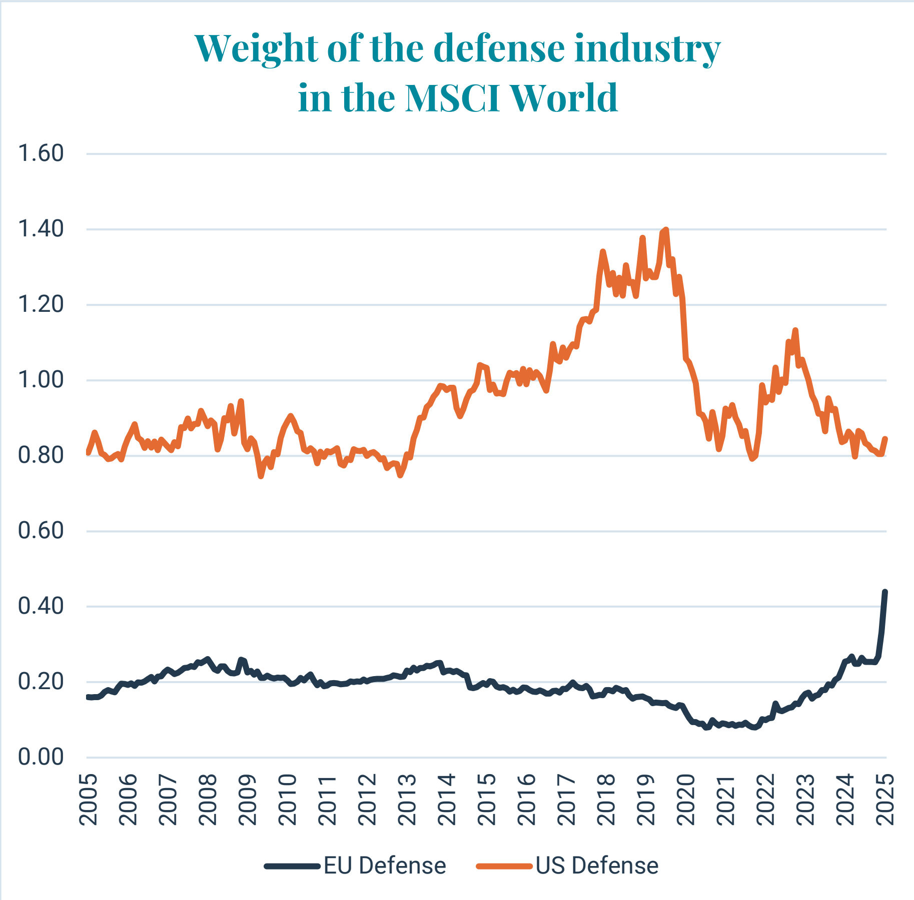
Financial performance and impacts of our positioning

The impact on performance: a reality to put into perspective

Equity market: strong growth that could continue

Since the beginning of the conflict in Ukraine, European defense stocks have experienced remarkable outperformance compared to the markets. Between February 2022 and February 2025, the sector recorded a gain of +259% compared to +44.6% for the MSCI World and 33.8% for the MSCI Europe.

The weight of the European defense sector in the MSCI Europe index increased from less than 0.5% to 2.6%. During this period, it ranked among the top 10 contributors to the performance of the MSCI Europe Index, contributing 1.89 percentage points to the total return of the index of 33.8%. On a global scale, the weight of European defense in the index is more moderate (0.20%), resulting in a more limited contribution of 33 basis points to the return of 44.66% for the MSCI World.



Source: MSCI World

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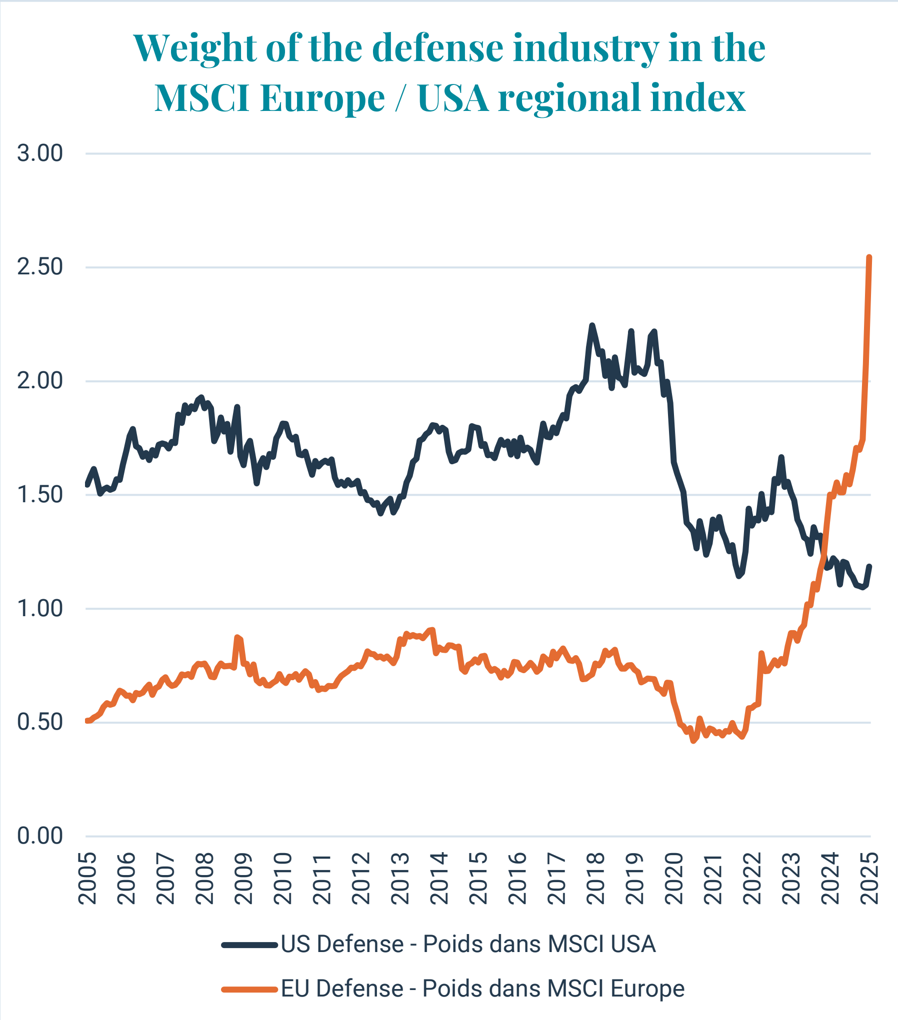

Source: MSCI World

Thus, for investments in global funds, **the impact of not investing in the defense sector on overall performance has proven to be minimal**. At the European level, this impact has been more pronounced.

What is the situation today? Our analysis indicates that the European defense sector is now trading in line with our central scenario, in which defense spending in Europe is expected to increase to 3.3% of GDP over the next five years, while we assume stable margins. In a significantly more ambitious scenario (with defense spending rising to 4% of GDP, the share of spending allocated to equipment increasing from 32% to 50%, and the proportion of spending captured by European actors compared to their American counterparts rising from 35% to 55%), our estimate of the potential increase for the European defense sector would exceed 150%, compared to an expected return of 60% for general indices.

Bond market: a negligible impact

In bond portfolios, the impact of excluding or underweighting the defense sector remains very limited. Issuers from the sector represent less than 2% of Euro Credit indices, with the majority of bonds coming from players who are also active in the civil aerospace sector. Additionally, the structure of the markets allows for the replication of the financial characteristics of these bonds (maturity, ratings, coupons) through other industrial issuers, particularly in capital goods.

In other words, **SRI bond strategies are not significantly penalized by their position on defense**.

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Private equity: opportunities under constraints

The non-public impact segment, particularly venture capital, could play a more significant role. These asset classes allow for a simultaneous pursuit of financial returns and a positive impact on the environment and society by financing relatively small companies with less diversified business models. In the defense sector, one could envision investments in funding companies that bring elements of innovation and develop components for value chains rather than complete systems or subsystems related to the defense industry, focusing instead on those whose innovation combines civilian and defense purposes.

However, these investments must be compatible with the constraints of the asset class to deliver market returns:

- **In terms of investment horizon:** The typical length of development cycles in the defense sector will lead them to focus on subsets of the value chain to shorten these cycles.
- **In terms of exit strategies**: Within this value chain, exits would also be facilitated, avoiding significant impacts on expected returns due to geostrategic considerations.
- **In terms of governance**: Private equity investors are present on the boards of directors, supervisory boards, or strategic committees of the invested entities, which may require security clearances for those investors.

Assumed Trade-offs in an Impact and Long-Term Logic

A potential but measurable opportunity cost

Mirova's position may result in a loss of opportunity, particularly in equity strategies if the sector were to sustainably outperform. Scenarios of additional outperformance in the range of +100% to +200% would mechanically affect the relative performance of certain portfolios. However, this cost remains limited: it depends on the actual weight of the sector in the indices and only concerns a small portion of the investable universe.

Alternative Performance Drivers

The exclusion or underexposure to defense can be offset by exposure to other performance drivers that are more aligned with Mirova's investment strategy and areas of expertise: renewable energies, energy efficiency, healthcare, digital technology, and sustainable infrastructure. These sectors present strong structural dynamics, driven by increasing needs, supportive public policies, and strong societal demand.

In the context of consolidating European sovereignty, they offer significant value creation potential, as attractive as that of a sector as cyclical and politically exposed as defense.

Specific Risks Avoided

Finally, the current stance also allows for the avoidance of certain major risks:

- Reputational Risks: Linked to controversies over exports to authoritarian regimes or the use of weapons in contexts contrary to international law. These controversies can have a direct financial impact — in the form of fines or loss of market valuation.
- Regulatory Non-Compliance Risks: Particularly concerning the "Do No Significant Harm" (DNSH) principle outlined in the SFDR regulation. This principle mandates that sustainable investments do not have a significant negative impact on environmental and social objectives. Investments in defense companies could be problematic if they are involved in uncontrolled polluting activities, diverted uses against civilian populations, or the production of controversial armaments. For funds classified as Article 9 under SFDR, exposure to such activities could jeopardize their regulatory compliance.
- Strategic Inconsistency Risks: Regarding the ESG commitments made to clients, certifications, and increased transparency requirements on impact. For responsible investors, the stakes are not solely financial; they must manage capital in alignment with their sustainability preferences and those of their clients.

In other words, the current trade-off — while it may lead to a loss of opportunity — preserves the overall coherence of sustainable approaches while allowing for the possibility of a constructive, controlled contribution to the European sovereignty effort.

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The current geopolitical context, the acceleration of rearmament in Europe, and the resurgence of sovereignty issues necessitate a clear reevaluation of the historical positions of sustainable finance on defense matters. Refusing to open this debate in the name of rigid principles would, in our view, amount to disconnecting from the imperatives of our time and our societies.

We move forward in our reflection with conviction but without certainty. The positioning presented here marks a step in an ongoing process that we wish to continue and enrich through dialogue with all stakeholders.

At Mirova, **we believe that a responsible investor not only has the legitimacy but also the duty to question how to contribute to the protection of liberal democratic models**. This involves defining strict eligibility criteria for our investments to exclude projects that contravene human rights. It also requires acknowledging our limits. Indeed, it is not for us to decide what constitutes a controversial weapon or to guarantee the final destination of the equipment. It is the responsibility of OECD or European Union states to establish a clear, coherent, and common framework. Without this, investment in defense-related assets will remain a minefield for responsible investors.

In the absence of this framework, certain responses can already be implemented. This is the intent behind our proposal for Defense Bonds: targeted, transparent instruments compatible with a logic of public interest. While they may not resolve all issues, they would enable swift action by directing capital towards projects of technological or industrial sovereignty that hold significant strategic value. Investing in both listed and unlisted actors that are more diversified or smaller in size is also part of the possibilities, as long as these assets align with our investment criteria.

However, our vision does not stop at the military sphere. The defense of liberal democracies also — and perhaps especially — involves supporting the civil infrastructures that ensure their resilience: energy, health, food, and innovation. These areas, historically at the heart of Mirova's strategies, are more central than ever in building sustainable sovereignty. In this evolving world, responsible investment is not becoming marginal; it is becoming essential.

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LEGAL NOTICE

ESG INVESTMENTS – RISKS AND METHODOLOGICAL LIMITATIONS

For all of its investments, Mirova aims to offer portfolios aligned with a climate trajectory of less than 2°C as defined in the 2015 Paris Agreement, and systematically displays the carbon impact of its investments (excluding Solidarity Management and Natural Capital), calculated using a proprietary methodology that may contain biases.

By using ESG criteria in its investment policy, the objective of the affected Mirova strategies is to better manage sustainability risk and generate sustainable long-term returns. The ESG criteria may be generated using proprietary models, third-party models and data, or a combination of both. The evaluation criteria may evolve over time or vary based on the sector or industry in which the relevant issuer operates. The application of ESG criteria in the investment process may lead Mirova to invest in or exclude securities for non-financial reasons, regardless of the available market opportunities. ESG data received from third parties may be incomplete, inaccurate, or unavailable from time to time. As a result, there is a risk that Mirova may incorrectly assess a security or issuer, leading to the incorrect inclusion or exclusion of a security in a Fund's portfolio, whether directly or indirectly. For more information on our methodologies, please visit our Mirova website: www.mirova.com/en/sustainability.

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ABOUT MIROVA

Mirova is a global asset management company dedicated to sustainable investing and an affiliate of Natixis Investment Managers. At the forefront of sustainable finance for over a decade, Mirova has been developing innovative investment solutions across all asset classes, aiming to combine long term value creation with positive environmental and social impact. Headquartered in Paris, Mirova offers a broad range of equity, fixed income, multi-asset, energy transition infrastructure, natural capital and private equity solutions designed for institutional investors, distribution platforms and retail investors in Europe, North America, and Asia-Pacific. Mirova and its affiliates had €32 billion in assets under management as of March 31, 2025. Mirova is a mission-driven company*, labeled B Corp**.

*References to a ranking, award or label have no bearing on the future performance of any fund or manager. * Mirova has been a mission-driven company since 2020. For more information: www.entreprisesamission.com. ** Since 2006, the B Corp movement has been promoting strong values of change worldwide to make businesses "a force for good" and to distinguish those that reconcile profit (for profit) and the common good (for purpose). The goal of B Corp is to certify companies that incorporate social, societal, and environmental objectives into their business models and operations. B Corp certification is a designation indicating that a company meets high standards of verified performance, accountability, and transparency on factors ranging from employee benefits and charitable donations to supply chain practices and input materials. Certified since 2020, Mirova submits a new B Corp certification application every three years. The annual renewal fee for certification is €2,500. For more information, please visit the B Corp website here: https://www.bcorporation.net/en-us/certification*

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