

Monthly Defence Market Report

August 2023

HANetf & EQM Indexes

Future of Defence UCITS ETF

NATO

49 bps

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For Professional Clients Only. Capital at risk.

All data as of 31/07/2023

This report was written by, and is the opinion of, EQM Indexes.



Defence ETF Key Takeaways

Highlights from Vilnius Summit – NATO met for a two-day summit in Vilnius, Lithuania in mid-July. Among the highlights was a pledge to continue supporting Ukraine and create a path for approval, although NATO membership was not immediate. Sweden was accepted as NATO's 32nd member, despite initial protestations from Turkey. The allies also launched sweeping changes to their defence plans which will play out over the coming months and years.

Defence Spending Plays Catch Up Post Cold War – Western defence spending suffered years of decline after the cold war era, with US spending declining from 6% of GDP to today's level of around 3%. Weapons stockpiles were dangerously low. Even though NATO members have pledged to bring spending to 2% of GDP by 2024, only 11 of the 32 members are meeting that target, creating the need for mass expenditures. Russian aggression against Ukraine has further accelerated the case, with 20% of defence budgets pledged to go towards equipment.

Poland on a Spending Spree – In the wake of the Russia-Ukraine conflict, Poland has been on a military spending spree, doubling its spending levels. Since the start of the conflict, Poland has ordered 250 U.S.-made Abrams tanks, hundreds of Chunmoo rocket launchers, K2 tanks, K-9 self-propelled howitzers, and FA-50 fighter aircraft from South Korea and Lockheed Martin HIMARS rocket launchers. All of this is occurring ahead of a hotly contested election in autumn.

Rising Importance of Cyber Defence – Cyberspace is now considered a military domain, along with air, land, and sea. Western countries are also committed to cyber defence spending. NATO's new cyber pledges remain classified but is mentioned as being "contested at all times." At Vilnius, NATO announced a new concept to enhance the contribution of cyber defence to its overall deterrence and defence posture, integrating three cyber defence levels: political, military, and technical.

Source of all performance data: Bloomberg / HANetf as of 31.07.2023. **All performance figures are showing net data.** Past performance is not indicative of future performance and when you invest in ETFs your capital is at risk.

Macro Outlook

Global military spending has reached a record \$2.2 trillion, with Europe seeing its steepest rise in 30 years amid Russia's invasion of Ukraine. The surge in spending has created a boom for many companies, such as Lockheed Martin, Raytheon, Northrop Grumman, and BAE Systems. But European defence systems are different than US, with many more and different types of weapons systems, which favours Eurocentric defence companies like SAAB, Leonardo, Thales, and Rheinmetall. Defence expenditures in Europe rose 13% to \$345 billion last

year, and Europe wants to reduce its reliance on the U.S. Over the past year, NATO and the EU have assumed new roles coordinating and consolidating arms procurement to boost efficiency and accelerate rearmament.

Please remember that when you invest in ETFs, your capital is at risk.

Defence ETF Details

Future of Defence UCITS ETF (NATO) provides exposure to the companies generating revenue from NATO and NATO+ ally defence and cyber defence spending.

The fund tracks the EQM Future of Defence Index (NATONTR Index).

Visit the [NATO fund page](#) for more information.

Exchange	Ticker	RIC	SEDOL	ISIN	Valoren	WKN	CCY	Listing Date
LSE	NATO LN	NATO.L	BP6N0Z2	IE0000J5TQP4	-	-	USD	04/07/2023
LSE	NATP LN	NATP.L	BP6N104	IE0000J5TQP4	-	-	GBP	04/07/2023
Borsa Italiana	NATO IM	NATO.MI	BMBR649	IE0000J5TQP4	-	-	EUR	14/07/2023
Xetra	ASWC GY	ASWC.DE	BMBR650	IE0000J5TQP4	-	A3EB9T	EUR	04/07/2023

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