# Defense investments shift from niche to mainstream in Asian portfolios

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Rising global security pressures and surging defense budgets are prompting institutional investors across Asia and beyond to recalibrate their strategies.

Institutional interest in defense investments is rising globally, driven by heightened geopolitical tensions and expanding national security budgets.

"Institutional investors have started taking exposure in many defense-focused ETFs as countries have indicated increased defense budgets," Nitin Shakdher, CEO of Green Capital told *AsianInvestor.*

Singapore's sovereign wealth funds have emerged as leaders in this space.

*Nitin Shakdher*
*Green Capital*

Temasek, through its cybersecurity platform ISTARI, has built a global portfolio spanning the US, Israel, and Europe, including firms like Armis, Claroty, Sygnia, Ensign, Prevalent AI, BlueVoyant, and Sonrai Security. ISTARI also led a $23 million Series B round into Axio and participated in Sonrai's $50 million Series C.

Separately, GIC invested in cloud security firm Wiz, which raised $1 billion in its Series E before being acquired by Google in March 2025 for $32 billion—delivering outsized returns for early backers, said Steve Alain Lawrence, CIO of Balfour Capital.

“These moves show sovereign allocators increasingly prioritising cybersecurity as a dual-use domain that aligns with both commercial demand and national security imperatives,” Lawrence told *AsianInvestor.*

While the strategy of the Singaporean funds is transparent and globally oriented, other Asian sovereign funds remain more opaque.

Japan’s GPIF and Korea’s KIC have not disclosed significant defense-linked allocations, though market signals suggest a cautious but growing interest, Lawrence said.

“Cybersecurity is the most visible area of global engagement, reflecting both opportunity and relatively lower political sensitivity compared to hardware or traditional defense assets,” Lawrence added.

Geopolitical flashpoints—from Ukraine to Taiwan and the Middle East—have elevated defense and cybersecurity into the category of “strategic assets”, according to Lawrence.

Investors increasingly view these sectors not only as government-driven but also as resilient, high-growth opportunities.


*Steve Alain Lawrence*
*Balfour Capital Group*

Capital is flowing into dual-use technologies that straddle both commercial and defense applications, though public disclosures remain limited due to the sensitivity of the sector.

“Defense is no longer a niche allocation, but a growing priority in institutional portfolios,” Lawrence said.

In Asia, the momentum is also being shaped by domestic policy shifts.

“Countries like India have pushed ‘Make in India’ defense self-reliant initiatives, spurred by global rearmament and export demand,” Shakdher said.

He added that Asian investors are participating in global defense investments through direct exports and investment expansions.

“Markets like South Korea, Japan, and India are increasingly seeing traction, new developments, the rise of defense companies, and increasing export orders from the EU and Middle East,” Shakdher said.

**MARKET FACTORS**

Family offices in Asia are also exploring alternative assets, with defense gaining attention as a sector that offers uncorrelated returns amid geopolitical uncertainty.

“While the allocations have slightly increased to defense sectors, it is more a shift to seek sectors that might outperform and provide investors uncorrelated returns with geopolitical risk in its present form,” Shakdher said.

Colin Chau, CIO of Plutus Asset Management, sees this shift as part of a broader macroeconomic strategy.

“Driving this shift is the ambition from global government leaders to increase their own real GDP to offset disturbing debt levels,” he told *AsianInvestor.*


*Colin Chau*
*Plutus Asset Management*

Chau also noted that investors engaging in defense investments in emerging markets need to increase their risk tolerance by at least 25%.

"For the sake of protecting future purchasing power parity, it is gaining traction," he added.

**DIFFERING APPETITES**

The nature of defense investment strategies differs significantly between developed and emerging markets.

"In developed markets, the approach is more towards research and technological breakthroughs, whereas emerging markets emphasise application-level innovation and localisation," Shakdher said.

He pointed out that developed markets benefit from deeper capital market flows, while emerging markets rely more on policy-led capital and strategic alignments.

"Emerging markets face more restricted access and hence build more indigenous ecosystems or rely more on strategic alignments," he said.

Lawrence echoed this contrast, noting that developed markets like Singapore pursue structured, cross-border strategies targeting high-tech cybersecurity and defense startups with global scalability.

"GIC and Temasek's international plays illustrate this model," he said.

In contrast, emerging markets often favour domestic procurement or state-linked enterprises.

India's August 2025 order of 97 upgraded Tejas Mk 1A fighter jets worth $7.4 billion, for example, sparked increased institutional flows into Hindustan Aeronautics (HAL).

"In short, developed markets emphasise innovation-driven investments abroad, while emerging markets prioritise local capacity-building tied to national defense agendas," Lawrence said.

Investors are also expanding their definition of defense beyond traditional warfare.

"They are looking at new areas of application: cyber threat detection, cyber attack, hypersonic missile systems, advanced radars and jammers, UAVs, stealth drones, and integrated air defense systems," Shakdher said.

Chau added that key areas of interest include integrative artificial intelligence in robotics, dual-use technologies, quantum computing, and cybersecurity.

He also highlighted companies with stable but growing EBIT-to-asset ratios and consistent dividend distributions as attractive targets.

**ETHICAL MANDATES**

The ESG landscape is evolving in response to these shifts.

"While traditional ESG mandates and defense investments don't go hand in hand, investors look at peace, stability, security, and resilience as more important criteria," Shakdher said.

He said that many defense investments are now screened for ethics, end-use, and export controls, making responsibility and intent more critical than conventional ESG tools.

Europe has already begun adapting its ESG framework.

The European Investment Bank broadened its mandate in 2024 to finance security and dual-use sectors, reaffirming this in 2025. In Asia, no formal ESG reframing has been documented, though cybersecurity is often considered ESG-aligned due to its role in infrastructure protection and societal stability.

Norway's sovereign wealth fund offers a benchmark: while it excludes controversial weapons, it allows conventional defense exposure.

"This suggests that ESG screens are becoming more nuanced, especially as dual-use technologies blur traditional boundaries," Lawrence said.

"For now, it's a trade-off until allocations to defense investments become more significant in a portfolio," added Chau.



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