
The Defence Discipline

Why the Case for Defence Tech Is Strong - and Why That Is Not Enough



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I spent a full day in London recently co-hosting a defence technology conference for the third year in a row. When we first began doing this, the room still carried a faint sense of apology. Founders were careful with their language. Investors talked about dual-use rather than defence. Family offices were curious, but often from a distance. The sector was interesting, urgent, and uncomfortable.

This year felt different. The room was full to the last place. The questions were sharper. People spoke openly, directly, and with confidence. They were no longer asking whether defence technology was investable. They were asking which companies could scale, which governments could procure, and which capital providers understood the difference between a good demonstration and a deployable capability.

One exchange stayed with me. An attending investor asked a founder how long it would take for his autonomous system to move from field trial to meaningful revenue. The founder gave an understandable answer: pilots underway, strong military interest, conversations with procurement bodies, accelerating budgets, strategic relevance. It sounded good. It was not evasive. But it did not answer the question.

The question was not whether the technology was clever. It was. It was not whether Europe needs more defence innovation. It does. It was not whether the investor liked the mission. He did. The question was more basic: what has to happen before a promising technology becomes a repeatable business?

That is where many families and other investors in the defence sector get lost.

I am in favour of families looking seriously at defence. Democratic societies have underinvested in resilience, industrial capacity, deterrence, cyber security, autonomy, and the technologies that make sovereignty more than a slogan. Family capital can play an important role because it can be patient, discreet, and willing to underwrite complexity.

But defence tech is at risk of becoming the next theme people understand directionally and underwrite poorly. This memo is my attempt to explain the difference between having a defence view and having a defence discipline.

This is not a criticism of founders. The best defence technology founders are being asked to do something unusually hard: build serious technology, understand military use cases, survive long procurement cycles, raise private capital, and manage export controls. My point is that investors must know which part of the path is still unresolved, and price that uncertainty honestly.

The Argument Everyone Can See

I want to start with the case for the sector, because I think it is unusually strong.

At the 2025 NATO Summit in The Hague, Allies committed to investing 5% of GDP annually on core defence requirements and defence- and security-related spending by 2035. That includes at least 3.5% of GDP for core defence requirements and up to 1.5% for critical infrastructure, networks, civil preparedness, resilience, innovation, and the defence industrial base.¹

NATO also reported that in 2025 all Allies met or exceeded the previous 2% defence spending target, compared with only three Allies in 2014. European Allies and Canada increased defence spending by 20% compared with 2024, investing more than USD 574 billion in 2025 on an adjusted 2021 price basis.¹

Private capital has noticed. Dealroom and the NATO Innovation Fund reported that European defence, security, and resilience startups raised USD 8.7 billion in venture capital in 2025, up 55% year on year. Late-stage investment tripled to USD 4.7 billion, and AI underpinned 44% of all funding.² Using a different classification, CB Insights data cited by Defence News showed European defence-tech equity funding rising 38% to USD 2.48 billion, with European deal count rising 67% to 100.³

These numbers matter. Defence technology is no longer a niche conversation in Europe. Budgets are rising. Public institutions are shifting. Private capital is entering.

More capital does not automatically mean better returns. It can also mean higher entry prices, crowded syndicates, and venture valuations applied to companies with government-sales timelines, hardware needs, export restrictions, and lumpy procurement revenue.

But the numbers also create a trap. They make the conclusion feel obvious.

The obvious conclusion is that defence tech will receive more capital. I agree. The non-obvious question is who will turn that capital into returns. That is a different problem.

The danger is not that investors misunderstand the need. The danger is that they mistake need for investability.

Where the Easy Argument Breaks Down

I think the most common mistake in this sector will be treating a strategic need as if it were already an investable company. Those are not the same thing.

Europe may need more drones, better cyber resilience, and more sovereign capability. That does not mean every startup attached to those themes can win procurement, produce at scale, or beat an incumbent.

Experienced allocators understand this. Institutions, and the more seasoned families, distinguish a theme from an allocation, an allocation from a manager, a manager from a deal, and a deal from a realised return.

Families often have a different advantage. They can move faster, tolerate discomfort, think in decades, and connect capital to operating businesses. But that advantage is not automatic. A family has an edge only where its experience, relationships, or patient capital improves the probability that a company can move from promise to adoption.

The problem is that each side has a blind spot.

Institutions can have discipline without conviction. Families can have conviction without discipline.

Defence tech punishes both.

The Four Tests

If I had to reduce the defence discipline to one framework, it would be this. Before a family office invests in defence technology, the opportunity has to pass four tests.

Test	Question	What Can Go Wrong
Strategic test	Does this solve a real capability gap?	The company is attached to the defence theme but not to a mission-critical problem
Procurement test	Can the buyer actually buy it?	Users like it, but no budget, authority, framework, certification, or sponsor exists
Industrial test	Can it be produced, secured, supported, and financed?	The prototype works, but manufacturing, components, working capital, or support fail
Ownership test	Can the family own this exposure reputationally and govern it properly?	The investment creates ethical, legal, family, or next-generation conflict after the cheque is written

This is where the family and institutional perspectives need to meet.

The institutional perspective is strongest on the first three tests: strategic fit, procurement route, and portfolio construction. The family perspective is strongest on the fourth: ownership, values, time horizon, and the willingness to support a company in ways that do not fit neatly into a fund model.

But none of the tests is optional.

A defence company that passes the strategic test but fails the procurement test becomes an admired science project. A company that passes the procurement test but fails the industrial test becomes a delivery problem. A company that passes the first three but fails the ownership test becomes a family governance problem.

I have seen families spend months asking whether they morally and strategically like defence as a category, then only days asking whether a specific company is actually investable. That is not because families are naive. Many are sophisticated and have already learned hard lessons in the sector. The problem is that once the category feels acceptable, the harder underwriting questions can receive too little attention: procurement, production, valuation, and follow-on capital.

The Strategic Test

The first mistake is confusing strategic relevance with a real capability gap.

Many companies can attach themselves to the defence theme. Fewer can explain which user has which problem, why the current solution is inadequate, and why this product is more than a useful demonstration. The question is not whether the category matters. The question is whether the company solves a problem that a serious buyer recognises as urgent enough to adopt, fund, and defend internally.

I would want the answer in plain language. What mission is improved? Which workflow changes? What risk is reduced? What cost, delay, vulnerability, or operational constraint is removed? If the answer remains at the level of "AI for defence," "autonomy for Europe," or "sovereign capability," the strategic test has not yet been passed.

The Procurement Test

The second practical mistake is confusing military interest with defence revenue.

A defence technology company does not move from demo to scale in a straight line. It climbs a ladder. The exact ladder differs by country and product, but the broad sequence is familiar.

First, a capability gap has to be recognised by the user. Then the company needs access to a credible trial or innovation programme. The product has to survive contact with the operational environment. A sponsor inside the system has to keep pushing. The need has to become a funded requirement. The company has to clear security, interoperability, supplier, and export checks. Only then does the first serious contract appear. And even that is not the end. The product then has to be integrated, supported, maintained, and reordered.

Many investors stop at the trial.

That is why I am wary when a founder says "we are in discussions with several defence ministries." That may mean something. It may mean almost nothing. I would rather hear a less glamorous answer: "We have a paid trial with this unit, the budget owner is this agency, the next procurement gate is in October, the certification issue is this, and the incumbent solution costs this much per unit."

The second answer is investable. The first is a conference sentence.

This is where an institutional habit helps. A serious allocator would force the company to map the buyer, budget, authority, procurement route, incumbent, blockers, and evidence of repeat demand. A family should do the same. Not because families should become bureaucratic, but because defence revenue is bureaucratic.

If the company cannot describe the ladder, the investor is not underwriting a defence business. The investor is funding a technology in search of a system that may or may not buy it.

The Industrial Test

The third mistake is assuming that defence tech scales like software.

Some of it does. Much of it does not.

A company may have software at its core. But the business often depends on physical systems, secure environments, field support, export approvals, component availability, and working capital.

Defence News reported that manufacturing-focused defence investment rose to USD 4.7 billion across 39 deals in 2025, from USD 2.6 billion across 24 deals in 2024.³ The article did not present that figure as Europe-only, so I would not use it as a European data point. But the direction is important. The market is starting to understand that the bottleneck is not only invention. It is production.

This is where some families may have an advantage over institutions. Many family offices sit close to operating businesses. They understand factories, supply chains, engineering cultures, working capital, and the difference between a product that works once and a product that can be delivered repeatedly. That experience is highly relevant in defence tech.

But it only helps if the family uses it. Industrial experience has to become underwriting discipline: site visits, supplier checks, working-capital analysis, manufacturing milestones, and an honest view of what happens when a prototype becomes an order book.

If a company says it can manufacture 20,000 units, the family should ask three sets of questions. Supply: where do the components come from, which suppliers are single-source, and which parts are controlled or export-restricted? Quality: how is testing done, what failure rate is acceptable, and what happens when units fail in the field? Cash: how much working capital is needed to scale production, and who funds inventory before government receivables arrive?

These questions can sound operational rather than strategic. In reality, they are where margin, timing, and failure risk often appear. In defence tech, production is not a back-office detail. It is frequently the investment case.

The Ownership Test

The fourth mistake is pretending the ethics question has disappeared.

It has not. It has changed.

MSCI found that as of 31 May 2025, 77% of Article 8 funds and 66% of Article 9 funds had some exposure to either controversial or conventional weapons, while nearly 90% of those funds explicitly excluded controversial weapons such as anti-personnel landmines.⁴ Defence exposure is already inside many portfolios. The question is no longer whether the word "defence" appears somewhere in the exposure report. The question is whether investors know what they own, why they own it, and where they draw the line.

This matters especially for families.

Defence investing needs clarity before the first cheque is written. The family should know who has a voice, who has a vote, what is in scope, and which issues require independent review. Without that clarity, an investment decision can quickly become a governance dispute.

What does the family mean by defence? Cyber security, resilience, space, sensing, and critical infrastructure feel different from kinetic systems. Protective technologies feel different from offensive technologies. Dual-use technologies feel different again. Some families will invest across the spectrum. Others will not. The problem is not where the family draws the line. The problem is failing to draw one.

Who decides? A defence allocation may affect the family's reputation, next-generation engagement, public positioning, and sense of purpose. It should not be treated as an ordinary venture deal if the consequences are family-wide. At the same time, not every family member can have a veto. Voice and vote need to be separated.

What are the red lines? Controversial weapons, sanctioned jurisdictions, autonomous lethality, export controls, and end-user risk should not be debated for the first time at the investment committee.

The institutional world often has policy but lacks courage. Families often have courage but lack policy. Defence investing requires both.

The EUR 30 Million Decision

Let me make the difference concrete. Imagine a family office allocates EUR 30 million to defence technology over three years. It can commit the full amount to a specialist fund. It can write three EUR 10 million direct cheques. Or it can build a hybrid programme: fund exposure, co-investments, and smaller strategic positions where the family can add something specific.

All three routes are "defence tech exposure." They are not remotely the same investment.

If the family has no genuine edge in the sector, the fund route may be the most intelligent first step. It buys pattern recognition, diversification, specialist judgement, and time to learn. If the family does have an edge - industrial assets, relevant operating knowledge, procurement relationships, cyber expertise, aerospace experience, or the ability to help a company scale - then a hybrid programme may make more sense. Direct investing should be earned by edge, not justified by enthusiasm.

The institution would ask about diversification, manager risk, liquidity, and risk budget. The family should ask those questions too. But it should also ask where it has a genuine edge, whether it can help beyond capital, and whether the investment can be explained in public.

The mistake is to choose only one lens. A family that thinks only institutionally may end up with a clean but generic allocation. A family that thinks only personally may end up with three exciting companies and no programme. The better answer is to use the institutional lens to control risk and the family lens to define edge.

The Questions I Would Ask Before Writing the Cheque

I do not expect every early-stage company to have perfect answers. But it is useful to understand whether the founder has thought through the questions that matter. The purpose of diligence is not to make every company look weak. It is to locate the uncertainty.

The mission question. What operational problem does this solve, and for whom? A useful answer identifies the user, the mission, the bottleneck, and the measurable improvement. "Defence needs AI" is not an answer.

The budget question. Who controls the budget? The user, sponsor, and budget owner are often different people. A soldier may need the product while the procurement body has no funded line through which to buy it.

The adoption question. What happens after the pilot? The next gate should be visible: paid trial, certification, framework agreement, repeat order, or operational deployment.

The production question. What are the unit economics at production scale, not prototype scale? Components, yield loss, quality assurance, field support, inventory, and working capital can decide whether demand becomes profit or stress.

The control question. Which parts of the product, data chain, supply chain, or end-user base are controlled? Export control can turn a global market into a domestic niche overnight.

The ownership question. Which red line could this company cross if it succeeds? For a family, this may be a values question. For an institution, it may be an ESG, sanctions, mandate, or reputational question. In both cases, it should be asked before the company becomes controversial, not after.

That is the map I would find useful before writing a direct cheque. An institution needs it for portfolio construction and mandate fit. A family needs it for capital, reputation, values, next-generation alignment, and the danger of mistaking mission alignment for investment discipline.

Where Family Capital Can Matter

I do not think defence tech should be approached as just another thematic allocation. I am more interested in where private capital can help address bottlenecks that governments and prime contractors are often too slow, too constrained, or too fragmented to solve alone.

Autonomy and robotics. Drones, counter-drone systems, unmanned vessels, and attritable platforms are no longer peripheral. But I would distinguish sharply between systems that look impressive in a controlled demonstration and systems that survive real operational conditions. Defence technology is not judged in benign test conditions. It has to work under environmental stress, signal interference, poor visibility, imperfect maintenance, and hostile pressure. That is often where the difference between a clever technology and an investable company becomes visible.

Decision advantage. Modern conflict rewards speed of understanding. AI-enabled sensing, data fusion, command and control, and secure communications are central. Dealroom and the NATO Innovation Fund's finding that AI underpinned 44% of European defence, security, and resilience funding in 2025 is not surprising.² The question is whether the AI is operationally embedded or merely decorative.

Industrial capacity. Europe does not only need better software. It needs components, testing, manufacturing, maintenance, and secure supply chains. The European Commission's AGILE pilot funding tool is only EUR 115 million, but its design is instructive: grants within four months and technologies reaching defence forces within one to three years.⁵ Speed has become part of capability.

This is where families with operating-company experience can be more than passive allocators. They can understand production, support working capital, connect founders to industrial partners, and take a longer view.

But the advantage only exists if it is real. A family has no edge in defence tech merely because it is a family. It has an edge only where its capital, relationships, experience, or values improve the company's probability of success.

A Defence Programme, Not a Defence Trade

If a family asked me how to begin, I would not start with a direct investment. I would start with a programme.

First, define the investable map: cyber and resilience, autonomy, sensing, industrial capacity, and kinetic systems. Mark what is in scope and out of scope.

Second, build the adviser bench. Not one adviser. A bench. The family needs procurement, technical, export-control, prime-contractor, and portfolio-construction judgement. It also needs someone who can translate between those worlds.

Third, learn through a specialist manager before overcommitting to direct deals. Funds are not always better. But the first year should teach the family what good underwriting looks like.

Fourth, reserve direct capital for areas where the family has a real edge. If the family has industrial, logistics, cyber, aerospace, infrastructure, or relevant government experience, it may have a reason to invest directly. If not, direct exposure should be smaller and more carefully syndicated.

Fifth, create a defence investment memo template. Every direct deal should answer the same categories of questions: mission, buyer, procurement, production, export risk, capital need, and family red lines.

Sixth, review the programme annually as a family governance matter, not only an investment matter. Defence is not a passive allocation. It touches identity, reputation, public responsibility, and next-generation values.

That is the defence discipline. It is not a view. It is a way of making the view investable.

A Final Thought

Clausewitz wrote that "everything is very simple in war, but the simplest thing is difficult." I think something similar applies to defence investing.

Defence tech has that quality today. The strategic case is visible. The moral case can be made. The political direction is clear. The capital is arriving. For many families, that combination will feel reassuring.

I would treat that feeling as a starting point, not a conclusion.

A sector can be necessary and still be difficult to invest in. A founder can be impressive and still be years away from repeatable revenue. A technology can matter deeply and still fail to cross the procurement, production, or ownership tests.

The families that do well here will not be the ones that merely endorse the theme. They will be the ones that slow the moment down enough to ask better questions before the cheque is written.

They will turn conviction into process. That is the defence discipline.

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