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PERSPECTIVES

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European Sovereignty: Embedding Strategic Resilience Into the Investment Playbook

While many investors have embraced responsible investment principles over the past 20 years, today's geopolitical tensions and the emergence of sovereignty as a strategic priority for states and Europe alike are giving that commitment a new dimension. Institutional investors, financial sponsors and corporates are now converging on a single, shared conclusion: Europe's dependence on external partners in critical sectors (e.g., defense, energy, digital technology, health, food) is a vulnerability.

What should sovereignty change for LPs?

Embedding sovereignty into LPs' investment strategy can no longer be left to opportunism. It requires a deliberate, structured and systematic approach. At Indefi, we use a four-step methodology.

1. Defining a strategic sovereignty framework

This starts with a definition and articulation of the sovereignty concept in light of the institution's identity and purpose that aims at becoming a common language, used consistently across investment areas. It is not an updated list of exclusion sectors.

2. Assessing portfolio exposure to sovereignty risks

This entails a cross-asset portfolio review to

- Evaluate exposure across all asset classes against the institution's assessment framework, to surface critical dependencies (e.g., AI, know-how, raw materials);
- Identify assets and strategies that contribute to strategic autonomy (e.g., industry reshoring, energy production);
- Define, from this diagnostic, a dedicated sovereign investment budget and allocate it across relevant asset classes.

3. Reallocating capital toward sovereign sectors and geographies

Allocations are then reevaluated along two axes: sector (e.g., defense, cybersecurity, energy, agri-food and health) and geography (e.g., domestic and European corporates). One pitfall to avoid is reducing a commitment to sovereignty to a few hundred million euros of thematic allocation while the core portfolio remains unexamined.

4. Reviewing investment management outsourcing guidelines

An ultimate step is for LPs to exert influence through their GP selection process, shaped by their own objectives, and to back this with proactive, active engagement with their service providers.

What does this mean for GPs?

For GPs, this evolution in demand calls for enhancing their capabilities to build more resilient portfolio companies, i.e., identifying and mitigating strategic dependencies across critical technologies, resources and infrastructure. This requires a clear, actionable roadmap, implemented across the value chain and throughout the investment cycle.

1. Embed value chain resilience evaluation into the due diligence process

- Evaluate a target's capacity to anticipate, absorb and adapt to physical, geopolitical, regulatory, technological or market-related shocks.
- Identify critical dependencies, single-source suppliers, concentrated geographic exposures and non-redundant strategic assets.

Illustrative value chain resilience assessment

Upstream		Operations		Downstream	
Tier-1 suppliers	3	Energy & processes	3	Market dynamics	4
Tier-2 & 3 suppliers	3	Water & ecosystems	4	Client expectations	4
Critical materials	2	Cybersecurity & IT	2		
Logistics	3	HR & talent	3		

TRANSVERSAL RISKS: Geopolitical tensions | Regulatory pressures | Extreme climate events

Resilience degree: Low (1-2) | Moderate (3) | Strong (4-5)

Sources: Indefi analysis.

2. Strengthen autonomy during the holding period

Active engagement should be used to mitigate identified dependencies. This can involve diversifying suppliers through multi-sourcing strategies, strengthening domestic production capabilities or supporting the build-up of critical suppliers.

3. Correctly price resilience at exit

Resilience progress must be tracked throughout the holding period, so that the resilience premium is reflected in exit valuation. For GPs, documenting this value creation process also strengthens prospects for future fundraises.

LPs are leading the sovereignty trend with ~€20bn[1] already committed at a European level. GPs are following with positive and measurable momentum: deal activity in key sectors[2] accounts for approximately 24% of European PE deal flow, with Italy and France leading the charge as the most dynamic markets.

Sovereignty is not a short-term trend, but a lasting consideration alongside ESG, requiring responsible investment policies to be broadened. It’s unlikely to remain only a domestic or a defense-specific theme. The direction of European policy, from the ReArm agenda to the Savings and Investments Union, points toward a broader redefinition of where European institutional capital is expected to sit.

At Indefi, we support LPs in shaping their sovereignty approach and GPs in building more resilient and strategically independent portfolios.

1 Illustrative LPs initiatives: European Tech Champions Initiative (€15bn of targeted allocation); British Growth Partnership Fund (€2bn); Growth Fund Germany (€1bn); Bpifrance Défense Innovation Fund (€0.4bn); Émergence Défense Fund (€0.4bn); European Sovereignty Program (€0.3bn); PME Pensionfonds (€40m).

2 Analysis based on H1 2026 transactions in sovereignty-related sectors (e.g., defense, technology and cybersecurity, energy) and strategic sectors (e.g., industry, agri-food, healthcare). Sources: Mergermarket, Indefi analysis.