# Quarterly Pensions Investments Review

## Expected Investment Performance - Q4 2025

# Introduction

**The Quarterly Pensions Investments Review is a comparison in expected risk and investment return.**

## Key Findings

- **Comparing pension funds and regions:** North American pension funds show higher expected returns, driven by larger allocations to equities and alternatives in the US and to private assets and inflation-hedging strategies in Canada, though US public plans face solvency concerns tied to high return assumptions.
- **Quarter-on-quarter outlook comparison:** Global macro and asset outlook points to moderate growth, persistent above-target inflation, and mixed returns across asset classes, with equities supported by easing financial conditions while government bond and credit prospects vary by region amid ongoing fiscal and geopolitical risks.
- **3D investing enhances pension fund portfolio design** by integrating sustainability alongside risk and return, enabling lower carbon intensity, improved ESG outcomes, and better alignment with long term climate and stewardship goals.
- For details, please see below

If you're interested in learning how your pension fund is performing relative to others, please contact us for more information.

# Expected Investment Performance – Risk and Return Results

The charts below show the expected investment return vs. the expected investment risk - from the top 30 largest pension funds per region.

## Comparing pension funds and regions


Looking at general trends, the difference in expected returns between regions is stark. Expected returns and volatility among pension plans in North America and the UK are relatively high, while pension plans in Switzerland and the Netherlands show more moderate expectations.

## This quarter, we focus our attention on North America.

The chart shows that most **US pension plans** are grouped around a relatively high expected return of around 7.5%. In the United States, many of the largest pension plans are public plans. These plans strategically allocate a major portion of their assets to riskier categories like Public Equities and Alternatives, in a search for yield. The resulting high expected returns are reflected in the discount rates.

Critics argue that this approach may increase solvency risks in the long-term. Hence, in recent years, there has been a trend among some public plans towards adopting more conservative market discount rates, such as the yield on high-quality corporate bonds, similar to the approach that US corporate pension plans already use. This aligns with new accounting standards, encouraging a focus on the risk-free rate or rates that reflect the duration of the pension liabilities. It is important to note that the 'market discount rate' approach serves as a complement to the fixed discount rate approach rather than a replacement.

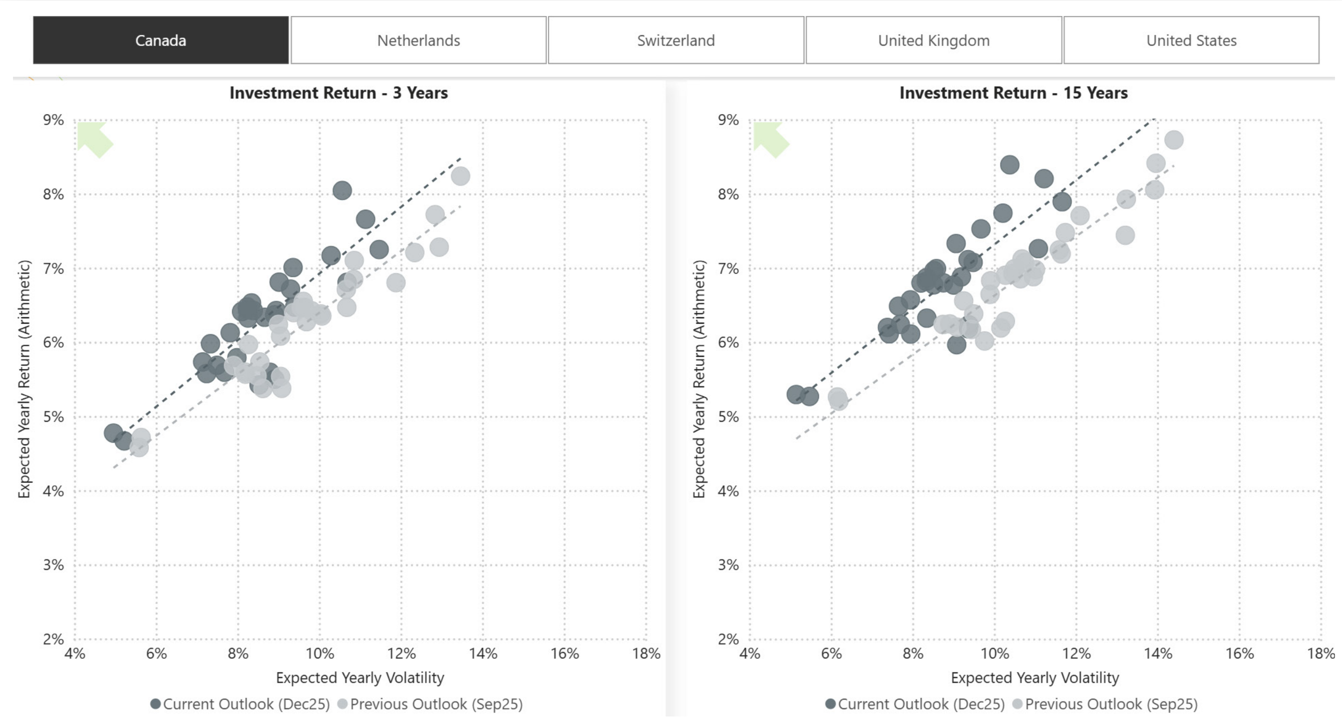
In general, **Canadian pension plans** show relatively high expected returns. Unlike many European plans that require large, fixed income exposures to hedge market discount rate risk, Canadian plans allocate a major amount (20-40%) of their assets to Alternatives, not in the least in an attempt to hedge inflation risks.

What is even more noticeable is the wide and quite equal distribution along the return axis, all the while keeping the risk/return ratio comparable. These risk/return ratios show Canadian pension plans to be relatively efficient compared to other regions. Key drivers may be relatively high leverage and relatively high exposure to private assets, which may boost diversification.

For Canada and the US, long-term return expectations generally exceed those of mainland Europe. This is driven by higher interest rates and GDP growth which, in turn, are linked to demographic changes and expectations for capital and productivity growth. Combined with a home bias, this may give Canadian and US pension plans an edge.

This Quarterly Pension Investment Review is based off an asset-only scenario analysis and does not assess the match with liabilities. With an Asset Liability Management (ALM) study, we can uncover the tradeoff between contributions, benefits, and investment risk; increasing the likelihood of meeting future obligations, while keeping the plan affordable. Our mission is to enable you to manage the complexity of strategic decision-making.

# New Year, New Rules? Reassessing the Economic Landscape



## Market developments and other events

Market developments and other events US and global equities rose in Q4 to near record highs driven by sustained optimism about AI investment, resilient corporate earnings, and expectations of further easing in monetary policy. Uncertainty about tech stock valuations and concerns about growth pains of the AI ecosystem triggered some equity market volatility in Q4, but this quickly receded towards year-end.

Global corporate credit spreads remained historically tight through Q4, driven by strong risk appetite, limited defaults, and expectations of liquidity support and easing of monetary policy. Government bond long term yields remained elevated in Q4 across developed economies, amid inflation concerns, deteriorating fiscal positions, and continued geopolitical uncertainty. Notably, Japan saw a sharp rise in long-term rates through Q4, driven by BoJ policy normalization and fiscal concerns.

Precious metal prices continued to surge through Q4, amid a combination of inflation worries and expected rate cuts, deteriorating fiscal positions, as well as geopolitical uncertainty driving safe-haven flows.

Global growth remained resilient but uneven, with moderate growth in Europe and the UK, while remaining relatively strong in the US benefitting from continued strength in consumer spending, ongoing fiscal stimulus, and business investment in technology.

Inflation remained stable and close to central bank targets in Europe, while it declined but remained above target in the US and UK. Inflationary pressures - particularly in services in the US and UK - sustain.

## Outlook for growth, inflation, and interest rates

The outlook for global growth is moderate and below trend, as increased global economic and geopolitical fragmentation is unlikely to boost global productivity in the medium term. On the other hand, fiscal stimulus, easier financial conditions, and AI-driven investment could provide short-term tailwinds for growth. Still, the overall impact of AI on global productivity remains uncertain, and heightened geopolitical tensions raise downside risks. For the US economy, a softening labor market, persistent inflation, and the risk of weaker consumer spending is expected to present headwinds, while growth in Europe and the UK is expected to remain modest.

Short-term expected inflation remains above target in most regions, while medium-term expected inflation has been revised upward and is expected to stabilize somewhat above central bank targets. Inflation is expected to remain above target for most regions due to anticipated fiscal spending pressures, sustained geopolitical uncertainty, and the risk of fiscal dominance on monetary policy.

Long-term interest rates are expected to remain elevated across developed economies. Deteriorating fiscal positions, persistent inflation, and accommodative monetary policy suggest long rates will likely remain elevated. For the US, the risk of fiscal dominance and softer labor markets raise concerns about the Fed's ability to tackle inflation, fueling higher for longer rate expectations. More specifically, long rates are expected to rise moderately in the US and Europe and more significantly in Japan, while UK long rates are expected to see a slight moderation.

## Outlook for financial assets

The current and short-term economic cycle improves on positive investor sentiment and improved purchasing power respectively, despite continued fiscal concerns and sustained inflation risks. The outlook balances, on the one hand, the downward pressure from increased policy uncertainty and, on the other hand, the potential for robust growth amid accommodative fiscal and monetary policy.

Equity returns are expected to improve in the short term against the background of continued monetary easing paired with global fiscal support, despite somewhat stretched valuations.

The short-term outlook for government bond returns is mixed. For the UK the decline in long rates led to a deterioration in expected gilt returns.

The outlook for corporate credit IG and HY returns remains stable for most countries. The UK IG corporate credit outlook weakens in line with lower expected gilt returns.

The outlook for financial assets exhibits downside risks from a sharper than expected growth slowdown and stretched valuations in tech stocks. Conversely, easy financial conditions and ongoing investments in technology, defense, and infrastructure could provide a boost for the outlook.

# 3D Investing

3D investing is an investment approach that optimizes three portfolio dimensions at the same time: Risk, Return and Sustainability. It expands the traditional two dimensional framework of risk and return by treating sustainability as a core objective, rather than just a constraint, to achieve better risk-adjusted, sustainable outcomes.

## The Power of 3D Investing for Pension Funds

Pension funds face rising expectations by stakeholders around long term value creation, climate alignment, and transparent sustainability reporting. 3D investing is emerging as a powerful framework to meet these demands, because it aligns portfolios with sustainability or net-zero goals – such as $CO_2$ reduction, or creating positive impact on society – without sacrificing the robustness of quantitative portfolio construction. This allows pension funds to steer portfolios toward lower carbon intensity, improve ESG scores without disproportionate return sacrifice, and embed their policy objectives into traditional mean-variance models.

For pension funds, this means better tools to manage long term risks, improved alignment with climate ambitions, and a clearer demonstration of responsible stewardship. Through this approach, 3D investing offers a framework to build resilient portfolios that deliver pension security while contributing positively to society.

If you are interested in implementing 3D investing, please contact us for more information.

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# Methodology and assumptions

This analysis is based on publicly available data, such as investment policy statements and annual reports, from the top 30 largest pension funds in Canada, the Netherlands, Switzerland, the UK, and the US.

The projections are made with GLASS Ortec Finance's GLASS, a forward-looking Asset-Liability Management platform for institutional investors. Plan modeling is based on strategic asset allocations, mapped to public and private benchmarks, and rebalanced annually. For simplicity, active hedging strategies and derivatives are not included in the Quarterly Pension Review.

Returns shown are gross of management fees and expressed in the local currency of the relevant country.

The projections in this analysis are driven by the Ortec Finance Economic Scenario Generator.

Ortec Finance is a leading global provider of technology and solutions for risk and return management, enabling you to manage your investment decisions.

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# More information?

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