# Quarterly Pensions Investments Review

## Expected Investment Performance - Q1 2025

# Introduction

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

## Key Findings

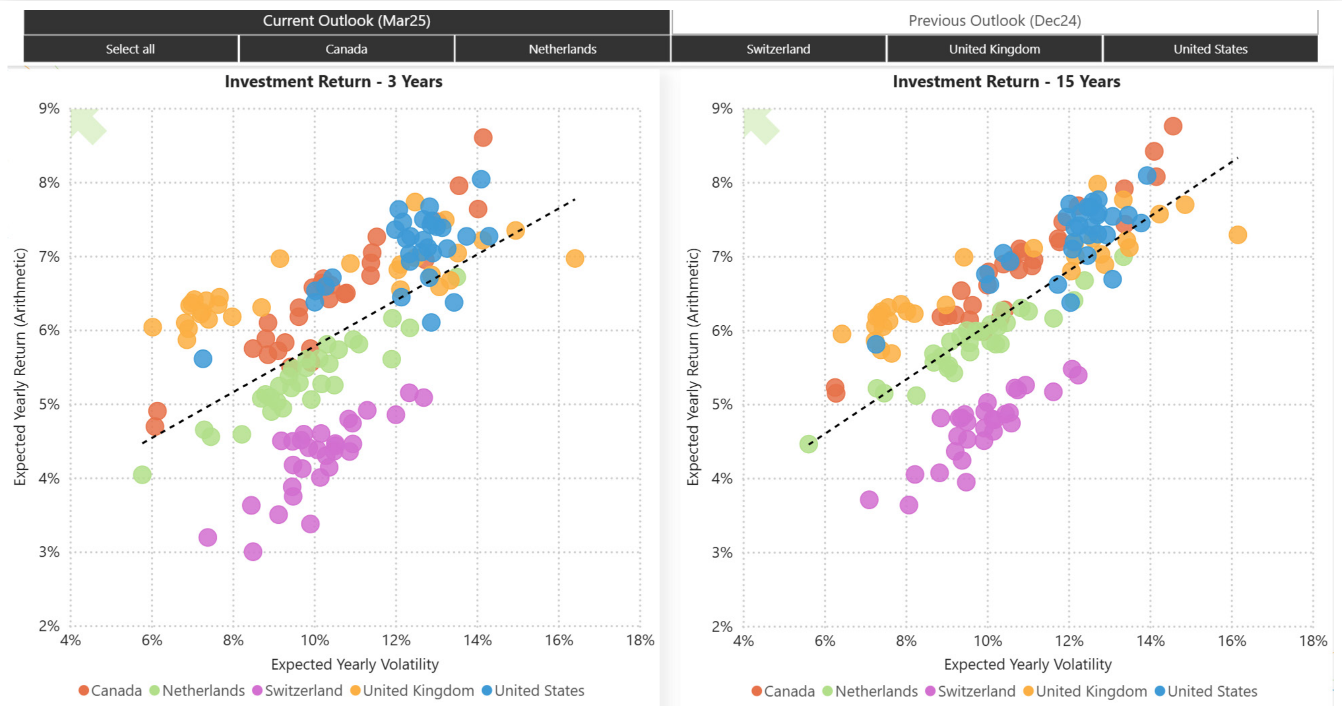
- **Comparing pension funds and regions:** The expected returns of UK pension plans outperform those of their mainland European counterparts. This is driven by their high exposure to bonds and inflation-linked bonds, which are expected to perform well as long-term interest rates are anticipated to fluctuate around their recent (elevated) levels in most developed markets.
- **Quarter-on-quarter outlook comparison:** The economic cycle weakens as markets brace for escalating trade tensions and increased policy uncertainty. This dampens short-term sentiment and equity return expectations. US government bond returns worsen due to lower initial yields amid weakening growth prospects, while the outlook for German bonds improves amid anticipated fiscal stimulus. Corporate credit return expectations decline across most regions, driven by wider credit spreads linked to rising growth concerns.
- **Climate risk follow-up actions:** Using climate scenarios that offer a realistic assessment of how climate change will impact your investments is an important first step in achieving a fully climate integrated portfolio. However, the real value lies in the actions taken during the follow-up phase. These include assessing material risks, updating governance frameworks, adjusting strategic asset allocation, and embedding climate considerations throughout the entire investment cycle.
- 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 the United Kingdom.

**UK pension schemes** have long been implementers of Liability-Driven Investment (LDI) strategies, including the use of swap products to reduce funding risks stemming from changes in liability values. At times, individual funds could be 100% hedged on both an inflation and interest rate basis. This has a significant impact on returns, as these swap products closely mimic the return on liabilities.

Given that the QPIR is an asset-only analysis, the impact of the LDI strategy is not reflected in the charts. However, it does offer a high-level indication of regional preferences when constructing portfolios.

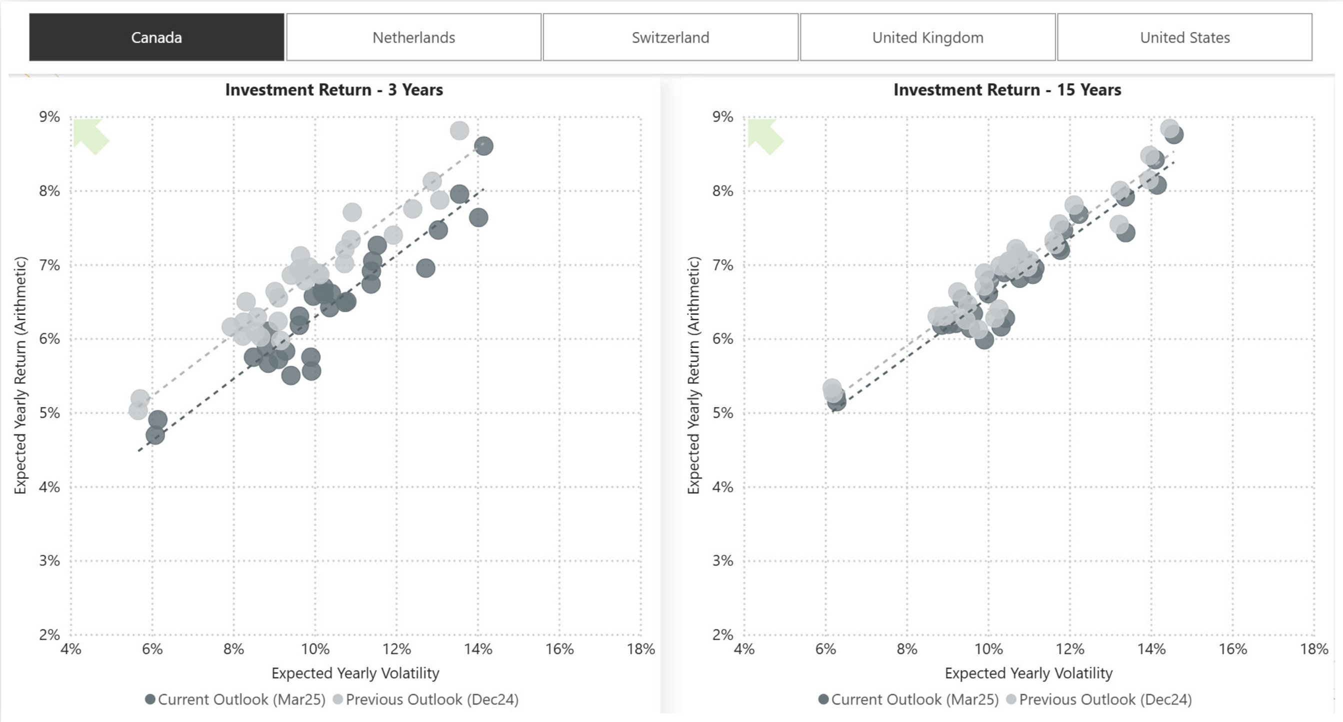
The chart shows that the majority of UK pension plans have an expected return of around 6.50% — higher than most other regions. These funds tend to favor a substantial allocation to fixed income instruments, such as nominal and index-linked government bonds. On average, the top 30 UK pension funds have over 30% of their assets invested in such bonds, with two-thirds of that (approximately 20%) allocated to index-linked securities — double the allocation observed in the US and Canada.

This strategy is in line with regulatory directives: both private and public plans in the UK are required to discount their liabilities using yields from UK government securities. Minor adjustments can be made to reflect broader macroeconomic factors such as economic growth and wage inflation. By allocating to government bonds, UK pension funds naturally hedge against movements in liability values.

In contrast to the US, UK pension schemes have less flexibility in selecting a discount rate, which underscores a more standardized approach within the regulatory framework.

Additionally, indexation is guaranteed in the UK. This means that liability values rise in line with realized inflation, subject to caps or floors. This introduces a significant inflation risk — one that is not necessarily present in other regions such as the Netherlands. To mitigate this, UK pension funds allocate a considerable portion of their portfolios to index-linked bonds, creating a natural hedge against inflation. This strategic allocation reflects the proactive measures taken by UK pension funds to manage inflation-related uncertainty and enhance the long-term stability and resilience of their portfolios.

# Navigating the chaos in a shifting landscape




## *Disclaimer about the scenario set*

*The tariff measures announced by the US administration on April 2, 2025, as well as the 90-day tariff pause announced on April 9, 2025, significantly impacted capital markets. We find that this impact warrants an update of our March 2025 OFS with expert opinion that reflects the recent events. This expert opinion acknowledges the radical uncertainty surrounding the recent US trade tariff announcements and mainly affects the short-term equity return expectations as well as the (realized) volatility. The updated version is the one that is delivered as our official release. In this way, we strive to provide the most realistic assessment of what might happen and enable robust investment decision making and risk management.*

## Market developments and other events

Driven by new tariffs on key trade partners, rising market volatility, and dampened growth expectations, US equities dropped sharply in Q1 and HY spreads increased, leading to weakened investor sentiment. European equities outperformed, supported by easing inflation and optimism around fiscal stimulus, particularly in the defense and infrastructure sectors. Moreover, emerging market equities performed well on the back of strong Chinese equities, fueled by growing optimism surrounding AI development capabilities and announced Chinese stimulus measures aimed at supporting domestic consumption.

Within the fixed income space, prospective European fiscal stimulus in defense and infrastructure pushed European bond yields higher as investors anticipated increased borrowing. In contrast, US long rates declined as the Fed held rates steady, signaling greater concern over downside risks to growth than upside risks to inflation.

Prices of precious metals, particularly gold, surged, driven by increased demand for safe-haven assets amid escalating geopolitical tensions and ongoing policy uncertainty.

## Outlook for growth, inflation, and interest rates

The new US administration marked a significant shift in the global economic and geopolitical landscape, highlighted by the recent implementation of tariffs on Canada, Mexico, China, and on steel and aluminum imports. Still, the medium-term scope and magnitude of US trade tariffs remains to be seen as the US administration shows early signs of willingness to negotiate tariffs. At the same time, trade tariffs will likely remain higher when compared to the end of 2024, pointing towards a more durable shift in global trade relations and putting some drag on global economic activity. Even if US trade tariffs are scaled back significantly, the unpredictability of the policy trajectory will likely put a drag on the short-term global economic outlook, hampering investments and weighing on economic sentiment.

In Europe, Germany is planning increased infrastructure and defense spending, including a carve out in the debt brake for defense amid prospective increased economic and geopolitical fragmentation. Together with the EU common defense financing initiative, this points towards more medium-term fiscal stimulus in the EU.

In the short term, expected inflation increased across developed countries, amid inflationary shocks following US trade tariffs. In the medium term, inflation is expected to stabilize somewhat above the central bank target, amongst others owing to trade decoupling and upward fiscal spending pressures associated with elevated geopolitical risks.

For the coming years, long rates are expected to move around their recent levels for most developed markets. This reflects higher for longer dynamics as inflation is anticipated to remain somewhat above the central bank target. Short-term interest rates are expected to decline for most developed economies, consistent with continued forward guidance on prospective monetary easing.

## Outlook for financial assets

Following significant market turbulence and elevated uncertainty surrounding the scope, magnitude, and timeframe that US trade tariffs will stick, we damp the short-term monthly model expectations. We apply this expert opinion to enable robust decision making against the background of model uncertainty, which is particularly elevated in the presence of large shocks to the system. Moreover, we assume that the shifting economic and geopolitical landscape will lead to increased market volatility and downside risk for at least two years. Thirdly, realized volatility estimates are updated incorporating the last 10 trading days in capital markets up until April 7, 2025, effectively providing a completer and more realistic picture of recent market conditions. The updated realized volatility estimates cause an increase in the short-term volatility of financial variables.

Our current economic cycle deteriorates as capital markets brace for an escalation of trade tensions. Additionally, the economic cycle is expected to deteriorate in the short-term, following weaker sentiment given trade policy uncertainty. The medium-term equity outlook deteriorates due to damped short-term expectations and weaker economic cycle.

The government bond return outlook weakens for the US owing to lower initial yields amid weakening growth prospects. In contrast, the medium-term outlook for German government bonds improves, driven by higher initial yields following increased anticipated fiscal stimulus. To conclude, the short-term corporate credit return outlook deteriorates for most regions reflecting higher expected credit spreads in response to increased trade tensions and associated growth concerns.

## Climate risk follow-up actions

Using climate scenarios that offer a realistic assessment of how climate change will impact your investments is an important first step in achieving a fully climate integrated portfolio.

The value of the analysis depends on the actions taken in the follow-up phase.

- **Assess and prioritize Material risks**
  Identify which asset classes, sectors, and regions in the portfolio are most vulnerable to climate-related physical risks (e.g. extreme weather events) and transition risks (e.g. regulatory changes, technological disruption). For pension funds with a long term investment horizon covering multi-decade liabilities, understanding long-term exposure is especially critical.
- **Revisit Policy and Governance Frameworks**
  Review internal governance documents, investment policies, and manager mandates to ensure they reflect your climate objectives. Embed climate considerations into decision-making processes and trustee training programs.
- **Integrate Material Risks in the Strategic Asset Allocation**
  Use the results of the risk analysis to reassess your Strategic Asset Allocation. This may involve tilting away from high-carbon sectors or increase exposure to for example climate-resilient infrastructure, green bonds, or renewable energy projects that support both return and sustainability goals.
- **Integrate Risks through the whole Investment Cycle**
  Integrating climate risks does not stop at the Strategic Asset Allocation. It needs to be embedded throughout the whole implementation process. This includes selecting managers, selecting benchmarks, shareholder engagement, exclusions and thematic focus. Next to that, a clear monitoring and evaluation process of pre-set goals with feedback loops is key to fully integrate and adjust the portfolio to a fast-changing environment. Regularly update your analysis as ESG-data improves and as transition dynamics evolve. Lastly, incorporate insights from regulatory developments, technological trends, and stakeholder expectations.

If you are interested in integrating climate risk within the investment policy. 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.

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# More information?

If you have any questions regarding this information please get in touch with Elwin Molenbroek, Drazen Pesjak or Hidde Andringa via the contact details below.

**Elwin Molenbroek**
Senior Consultant North America
+31 10 700 54 34
elwin.molenbroek@ortec-finance.com

**Drazen Pesjak**
Senior Consultant Europe and Middle East
drazen.pesjak@ortec-finance.com

**Hidde Andringa**
Investment and Risk Consultant
hidde.andringa@ortec-finance.com

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