

# Quarterly Pensions Investments Review

Expected Investment Performance - Q2 2025



# Introduction

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

## Key Findings

- **Comparing pension funds and regions:** Given the low, fixed, and sticky discount rate used by Swiss pension funds, there is no immediate need to construct high-return, high-risk portfolios. As a result, overall fund returns in Switzerland tend to be lower than in other regions.
- **Quarter-on-quarter outlook comparison:** The economic cycle outlook improves as investor confidence recovers, despite persistent (trade) policy uncertainty. Nevertheless, the short-term US equity outlook weakens after a strong Q2 rebound, while the European equity outlook improves, partially catching up after previous underperformance. Return expectations for UK and German government bonds decline amid falling long-term rates and heightened volatility. Corporate credit and high yield outlooks deteriorate due to compressed yields and narrowing spreads.
- **Implementing Climate Benchmarks:** Adopting a climate benchmark is a strategic step toward aligning portfolios with the Paris Agreement and managing climate-related risks. The Paris Aligned Benchmark (PAB) requires more immediate and ambitious decarbonization (50% GHG cut and fossil fuel exclusions), while the Climate Transition Benchmark (CTB) allows for more flexibility with a gradual transition path (30% GHG cut). The choice depends on the investor's climate strategy and risk tolerance.
- 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 Switzerland.

The chart shows that **Swiss pension funds** cluster around a relatively low expected return of just under 5%. In Switzerland, funds use a fixed discount rate, typically ranging between 1% and 2.5%, which is significantly lower than in other regions. This feature is a key driver of the asset-side strategy.

A low discount rate creates a relatively low hurdle for assets to outperform liabilities. As a result, there is no immediate need to construct high-return, high-risk portfolios — unlike in regions such as the US. Moreover, since the discount rate is fixed, liability valuations are not sensitive to interest rate movements. This reduces the need for significant allocations to fixed income, in contrast to markets like the UK and the Netherlands, where liability-driven investment (LDI) strategies and matching portfolios are common.

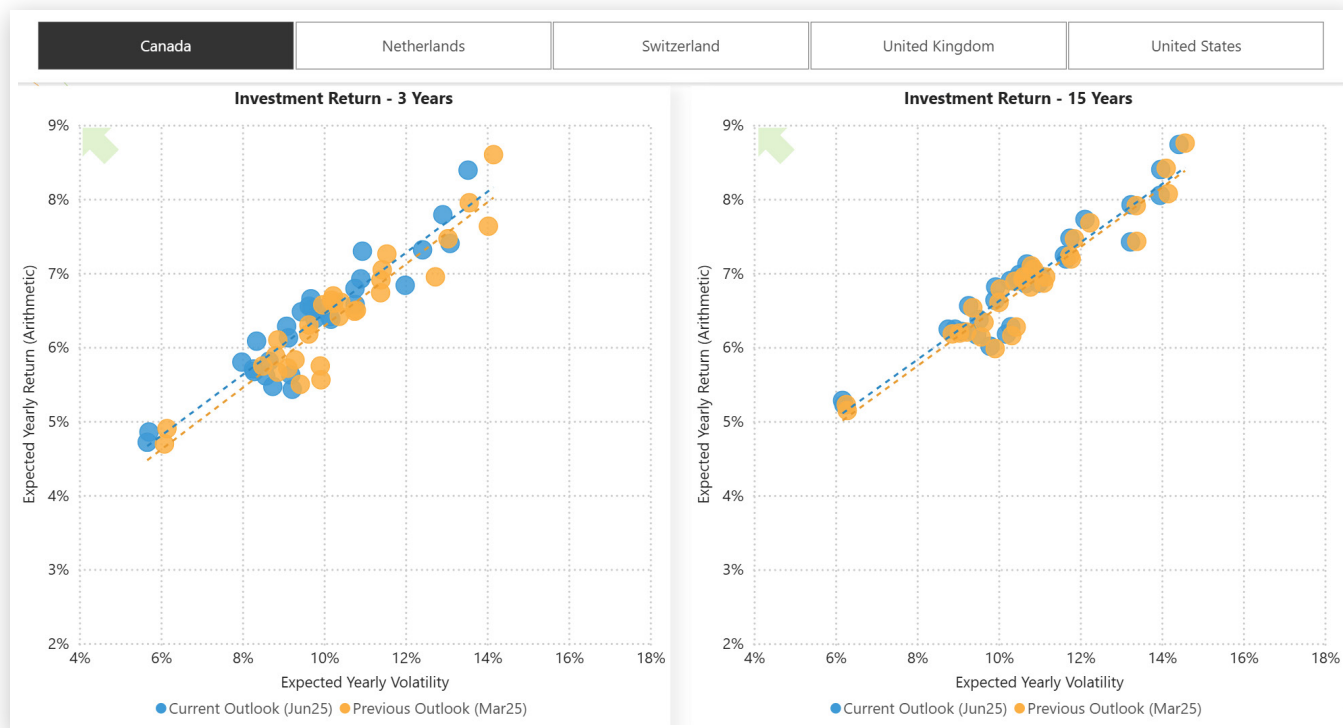
One explanation for the fixed and static discount rate lies in the structure of benefit payments. Swiss defined benefit (DB) pension schemes function similarly to cash balance plans: individual savings accounts are accrued over time and, at retirement, converted into a life annuity using a fixed conversion rate. Since the discount rate and the conversion rate are (indirectly) connected, changes to the discount rate can influence how attractive the annuity appears to retirees. Changes to the conversion rate are politically sensitive and subject to lengthy processes, which makes these parameters particularly "sticky."

In addition, Swiss pension funds show a strong home bias, with approximately 70%, 30%, and 95% of fixed income, equity, and real estate portfolios, respectively, invested in domestic assets. However, they are well-diversified in the alternatives space. Due to low required returns and high currency hedging costs, international investments need to be significantly more attractive to be considered.

When it comes to asset classes, allocation to real estate is notably higher than in other regions (20% versus a 9% average), primarily due to the highly stable Swiss property market — as evidenced by the near-perfect diagonal trend in the KGAST Immo-Index. Since liabilities are not interest rate sensitive, real estate offers a strong defensive position with higher yields than traditional fixed income.

In summary, due to the low, fixed, and sticky discount rate, there is no urgent need to chase high returns through risky portfolios. This structural setup contributes to lower overall fund returns in Switzerland compared to other regions.

# How might investors manage ongoing policy uncertainty as the new normal?







## Market developments and other events

In Q2, early-April 'Liberation Day' tariffs sent equities tumbling and caused elevated volatility. Towards the end of the quarter, trade policy concerns faded fueling a rebound in capital markets supported by the 90-day tariff pause, the US-UK trade deal, and early progress on a potential US-China trade deal. The frontloading of US imports anticipating a rise in trade tariffs, resulted in a Q1 US GDP contraction, while euro area growth stayed steady yet sluggish. Current economic activity seems to hold up relatively well as reflected by coincident nowcast indicators.

Credit spreads tightened and equities ended the quarter positively, especially US and emerging markets equities showed strong local currency returns following a weak dollar. Significant geopolitical tensions, following the war between Iran and Israel, had a muted impact on markets, while gold propelled to record highs and oil drifted lower into quarter-end.

NATO's commitment to raise defense spending towards 5% of GDP offers a gradual fiscal boost for Europe, while US Senate approval of the Reconciliation Bill revives deficit concerns both putting upside risks for medium-term inflation. With headline inflation slipping below target, the ECB cut interest rates twice to 2%. The US Fed kept policy unchanged for a fourth straight meeting, preferring a wait-and-see stance to see the inflation impact of US trade tariffs.

## Outlook for growth, inflation, and interest rates

Despite some tangible progress in US trade talks, uncertainty about tariffs remains elevated with most negotiations still unresolved. Moreover, 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, with the added risk that duties could snap back to the 2 April schedule if talks stall.

With peak tariff tensions fading, the growth outlook improves. However, short-term growth is anticipated to remain below trend owing to headwinds from ongoing trade and policy uncertainty.

The impact of trade tariffs on inflation remains to be seen. With firms stocking up ahead of tariff deadlines potential rising costs could be passed on to consumers later in the second half of the year. In the medium term, inflation is expected to stabilize somewhat above central bank target, amongst others, owing to anticipated 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 central bank target.



## Outlook for financial assets

The economic cycle outlook improves, driven by a recovery in investor confidence despite ongoing (trade) policy uncertainty. Nevertheless, the short-term US equity outlook has somewhat deteriorated after a strong rebound in the second quarter, while the short-term outlook for European equities improves partially compensating for previous underperformance.

The government bond return outlook weakens for the UK and Germany due to decreased long rates amid elevated market volatility. Following the compression on government yields, the short-term corporate credit return outlook also deteriorates for most countries. For high yield, lower spreads amid fading trade concerns also contribute to a weakening outlook.

The outlook for financial assets remains clouded by elevated volatility and downside risk due to (trade) policy uncertainty and geopolitical tensions. Tariffs imposed by major global players, particularly the US and China, heighten economic risks and may escalate into a broader trade conflict. While trade tensions have somewhat eased, the recently declared Israel Iran ceasefire is still being tested and a quick resolution of the war in Ukraine seems unlikely.



## Implementing Climate Benchmarks

Adopting a climate benchmark is a critical strategic step toward aligning your investments with global decarbonization goals to reduce climate risk within your portfolio. These benchmarks provide a structured approach to measuring climate-related performance, increasing transparency, and managing transition and physical risks. As climate concerns become increasingly important to financial decision-making, benchmarks help ensure alignment with the goals of the Paris Agreement. Two common benchmarks used by institutional investors are Paris Aligned Benchmarks and Climate Transition benchmarks.

### Paris Aligned Benchmark (PAB) vs. Climate Transition Benchmark (CTB): Understanding the Differences

#### ■ Paris Aligned Benchmark (PAB)

The **Paris Aligned Benchmark (PAB)** is specifically designed to align portfolios with the goals of the Paris Agreement, which means that the portfolio's carbon emissions must be in line with a pathway that limits global warming to 1.5°C above pre-industrial levels. It demands a 50% GHG emissions reduction from the outset, excludes companies involved in fossil fuels and follows the 7% annual decarbonization path.

#### ■ Climate Transition Benchmark (CTB)

The **Climate Transition Benchmark (CTB)** supports the shift to a low-carbon economy while allowing for broader portfolio flexibility. It requires a minimum 30% reduction in greenhouse gas (GHG) emissions relative to a standard index and a 7% annual decarbonization trajectory. Companies with high current emissions can be included if they are on a credible path towards decarbonization.

In short, the PAB prioritizes immediate alignment with ambitious climate goals, while the CTB supports gradual climate transition. Selecting the right benchmark depends on your organization's climate strategy, risk profile, and commitment to a net-zero future.

If you are interested in implementing a climate benchmark, 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?

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