

# Quarterly Pensions Investments Review

Expected Investment Performance - Q3 2025



# Introduction

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

## Key Findings

- **Comparing pension funds and regions:** The combination of market-sensitive discount rates and conditional indexation makes Dutch pension fund investing more conservative compared to other regions (especially North America), resulting in moderate returns but stronger protection against liability volatility.
- **Quarter-on-quarter outlook comparison:** As investor sentiment improves, equities are expected to benefit though stretched valuations may limit upside. Government bonds in developed markets like the UK, Germany, and Japan could see stronger returns driven by higher initial yields and fiscal expansion. In contrast, corporate credit faces pressure from compressed spreads and lingering policy risks, which may dampen relative performance across regions.
- **Dutch Central Bank Updates its climate and nature risk management guide:** The Dutch Central Bank (DNB) has updated its climate and nature risk management guide, emphasizing the systemic risks posed by climate change and biodiversity loss. Pension funds are expected to identify and manage these risks proactively. Starting in 2026, DNB will conduct risk-based assessments of pension funds' climate and nature risk analyses, integrating these into broader prudential evaluations.
- 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 Netherlands

The Dutch pension system is known for its robust structure and significant allocation to fixed income. This is largely driven by conditional indexation (cost of living adjustments) and the market-sensitive discount curve used to value liabilities.

Unlike some other regions, such as the United States, pension funds in the Netherlands do not employ a fixed or expected return discount rate; instead, they value their liabilities based on market rates, using an ultimate forward rate methodology established by the Dutch central bank. The shift to changing interest rates requires Dutch funds to maintain substantial allocations to fixed income and swaps to hedge against interest rate risk and ensure stable funding levels.

As shown in the scatterplot, Dutch pension funds exhibit lower expected yearly returns (of around 5-6%) when compared to North American funds, which are driven by more aggressive asset allocations. The Dutch focus on liability-driven investment strategies leads to a more conservative asset mix, with higher proportions of bonds held to match liabilities and reduce funding ratio volatility.

Additionally, the conditional indexation in the Netherlands means that pension increases depend on the financial health of the pension fund. If funding ratios fall below a certain threshold, indexation can be halted, incentivizing funds to adopt a risk-averse investment approach to avoid underfunding. Moreover, benefits can be cut as well.

In summary, the combination of market-sensitive discount rates and conditional indexation makes Dutch pension fund investing more conservative compared to other regions (especially North America), resulting in moderate returns but stronger protection against liability volatility.

Finally, please note that the Dutch pension system is transitioning from traditional defined benefit (DB) schemes to a more defined contribution (DC) type of scheme. This shift is not yet reflected in current investments but will play a significant role in the coming years.



# Steady Growth Amid Persistent Policy Risks





## Market developments and other events

In Q3, risk sentiment improved owing to easing trade tensions, increased market expectations of US monetary easing, prospective fiscal expansionary policy, and optimism surrounding AI, collectively providing a boost to capital markets. US equities rallied following the Fed's first rate cut in a year, with markets pricing in further easing ahead. Japanese equities benefited from yen weakness, while emerging market equities gained on the US-China trade truce extension. Additionally, corporate credit spreads tightened across regions as improved risk sentiment drove positive bond returns for both IG and HY.

Long rates increased in the UK, Japan, and Eurozone amid political and fiscal concerns. Gold prices surged, on track for the strongest annual performance since 1979 amid expansionary policies and stubborn core inflation. UK and US core inflation has proven stubbornly high mainly owing to elevated housing costs, while disinflation seems to have stopped in the euro area.

Economic activity remains mixed across regions, with growth in the US remaining strong, while growth in the euro area and the UK remains sluggish. However, some signs of labor market softening is emerging in the US, which is yet to be reflected in strong consumer spending so far.

## Outlook for growth, inflation, and interest rates

The fragile calm in global trade relations that began in Q2 persisted through Q3, as the US reached trade agreements with key trading partners (UK, Europe, and Japan). The stance of the new US administration seems to signal a more durable increase in global economic and geopolitical fragmentation, which is unlikely to boost global productivity in the medium term. While the impact of AI developments remains highly uncertain, they may help to partially offset some of the former productivity losses. Moreover, the prospective boost to public and private investments in key domestic industries could provide further upside for short-term economic cycle expansion.

The short-term outlook points towards below-trend growth owing to headwinds from ongoing trade and policy uncertainty. Additionally, in the US, inflation pressures could re-emerge as the passthrough effects of tariffs on prices continues to unfold. In the medium term, inflation is expected to stabilize somewhat above central bank target owing to anticipated upward fiscal spending pressures associated with increased economic and geopolitical fragmentation. Consequently, long rates for most developed markets are expected to move around their recent levels over the medium term.

## Outlook for financial assets

The short-term economic cycle improves on positive investor sentiment despite fiscal concerns and potential re-emergence of inflation risks. The improvement in the economic cycle is expected to boost short-term equity returns, despite somewhat stretched equity valuations following strong realized equity returns over the past two quarters.

The government bond return outlook has improved for the UK, Germany, and Japan driven by higher initial yields amid expansionary fiscal policy. The short-term outlook for corporate credit returns deteriorates in some countries due to lower initial spreads, particularly for US and Canadian investment-grade, and European high-yield corporate credits.

The outlook for financial assets remains vulnerable to downside risks from policy uncertainty and geopolitical tensions. Although recent trade agreements have eased some immediate uncertainty, the absence of a trade deal with China suggests a renewed escalation cannot be precluded. Additionally, stalled peace negotiations with Russia suggests a quick resolution of the war in Ukraine remains unlikely, pointing towards undiminished scope for future escalation and the potential for further geopolitical instability.

## Dutch Central Bank Updates its climate and nature risk management guide

The Dutch Central Bank's (De Nederlandsche Bank - DNB) has updated its guide on managing climate and nature-related risks, originally published in 2023.

The guide was updated in response to the Dutch Central Bank's growing concern about how climate change and biodiversity loss pose significant systemic risks to the stability of the Dutch financial system such as pension funds and insurance companies. It highlights DNB's expectation that pension funds should identify and manage climate- and nature-related risks, providing revised best practice guidance to support this aim, following consultation with key stakeholders across the sector including [Ortec Finance](#).

As part of the updated guide's release, the regulator has announced that it will conduct risk-based assessments of the climate and nature risk analyses of Dutch pension funds and use the results to further manage these risks from 2026 onwards, as part of its periodic assessment of relevant prudential risks.

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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