

Investment Institute

DECEMBER 2025

Dynamic asset allocation on the rise as pension plans face an era of controlled disorder

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First published in 2025 by:
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Foreword

Since Covid, dynamic asset allocation has come to the fore. Pension investors have entered a new regime of controlled disorder: a multipolar world reshaped by the tech revolution and fiscal divergence. Inflation risks have become more structural due to reshoring, the climate transition and trade frictions.

Pension portfolios are potentially exposed to opportunities as well as threats, at a time when productivity-enhancing innovations are also creating winners and losers.

Hence, there has been a rethink about time-honoured strategic asset allocation, for long the cornerstone of pension investing. It worked well during the Great Moderation of the past 25 years marked by stable economic growth, low interest rates, low inflation and low market volatility.

This 2025 Amundi Investment Solutions/CREATE-Research survey seeks to highlight how pension investors are navigating market-moving events by engaging in dynamic asset allocation so as to improve portfolio resilience and enhance their funding status.

As this survey shows, strategic and dynamic asset allocation now complement each other in pension portfolios. One sets overarching goals within a disciplined framework. The second seeks two benefits. The first is to provide guardrails during periods of market stress using scenario planning based on models, maths, technology and skills. The second is to help mitigate the impact of structurally higher inflation and benefit from the recovery phases.

The survey also shows that going dynamic has become essential but its outcomes are not guaranteed. Selecting the right partners is vital. Hence, strategic partnerships are now emerging between pension investors and their asset managers, as the latter go from being distant vendors to trusted advisors.

The report provides insights into how, as asset managers, we can help pension investors protect and enhance the livelihoods of millions of their members as they advance into their golden years.

We are grateful to Professor Amin Rajan for undertaking this assignment to produce an impartial assessment of how pension investors are implementing dynamic asset allocation, its rationale, its impact and its future evolution.



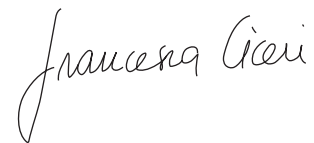
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Acknowledgements

"When facts change, I change my mind."

John Maynard Keynes

This insight, which allows new information to guide one's opinions and plans, has been taken on board by pension plans, as strategic asset allocation has become ever more exposed to the rollercoasters that whipsaw their portfolios. Dynamic asset allocation has been on the rise to protect the downside and capture the upside.

This is the subject of the 2025 annual pension survey in a research programme first started in 2014 by Amundi and CREATE-Research.

This year's survey aims to show how pension plans globally are using strategic and dynamic asset allocation in tandem when faced with non-linear interconnected risks with no historical precedence to guide them.

My foremost thanks go to 158 pension plans who participated in our survey and to those who engaged in the follow-up interviews.

Many of them have been regular participants since the current series started. They and others have helped to create an impartial and widely used research platform. The resulting publications are listed at the end of this report.

I would also like to thank Amundi Investment Solutions, for sponsoring the publication of this report, without influencing its findings in any way. It has been an enormous privilege to work with them during this series. Their arm's-length involvement has helped to canvas a wide spectrum of views to deliver an independent assessment.

My grateful thanks also go to IPE for helping to conduct the survey and especially to its editor Liam Kennedy for his wise counsel and unstinting encouragement throughout this series.

Finally, I would like to thank my colleagues who helped at every stage of the research programme with their customary zeal and diligence: Anna Godden for desk work, Lisa Terrett for survey management, Dr Elizabeth Goodhew for editorial support and Naz Rajan for data analysis.

After all the help I have received, if there are errors or omissions in the report, I am solely responsible.



Amin Rajan

Project Leader
CREATE-Research

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A hand is shown moving a black chess piece on a dark board. The board features a gold-colored network pattern of interconnected circles and lines. Several other black chess pieces are visible on the board. The entire scene is framed by a thick blue border.

**Investment
Institute**

1.

Executive summary

Amundi
Investment Solutions

Trust must be earned

Introduction and aims

Background

Value trap or a value opportunity?

This question has come to the fore as the swirling clouds of geopolitical events have elevated the role of dynamic asset allocation (DAA). They have challenged the time-honoured primacy of strategic asset allocation (SAA), with fixed weights for different asset classes with long-term return targets. This rigid set-it/forget-it approach worked well in the longest bull run after the 2008 global financial crisis.

Since 2022, however, concerted steep rises in interest rates by key central banks to curb the inflation spike have ushered in a new era of volatility. The mispricing of assets is widespread, leaving investors a choice in this new regime: adjust the asset mix as markets rise and fall, or leave potentially good returns on the table, duly taking into account the downsides of DAA.

Investors are now buffeted by conflicting signals on key macro return drivers such as economic growth, interest rates and inflation. Capital markets are moving to a new regime as the US seeks to reshape global architecture on trade, finance and defence. The new regime might well witness fiscal dominance, rising inflation, trade tensions and pronounced volatility.

For their part, ever more pension plans are advancing into their run-off phase, as the largest cohort of Baby Boomers are advancing in their golden years.

They are keen to minimise that infamous portfolio killer, the sequence of returns risk – the uncertainty that a portfolio might lose value just as the plan needs to rely on it to make pension pay-outs.

Sizeable negative returns can leave less time for losses to recover, erode the power of compounding and shrink the asset base that reduces benefits from subsequent market recoveries.

Worse still, the percentage gain needed to recoup losses rises non-linearly with the size of the loss. For example, a 25% drop in portfolio value during periods of market ructions requires a recovery of 33% to restore the loss. A 50% drop requires 100% recovery. Conversely, good returns in the drawdown phase can extend the longevity of a portfolio.

Aims

Hence, interest in DAA has gained traction lately, as changing market conditions and policy regimes create time-varying risk premia, requiring a more nimble approach.

Accordingly, the 2025 Amundi-CREATE Survey aims to perform a stock-take by pursuing four questions:

- How do pension investors define DAA and why is it currently on the rise?
- What have been the outcomes so far and which contributory drivers have been at work?
- Which approaches are likely to be used in DAA in the near future?
- What criteria are being used when selecting asset managers as pension plans deviate from their SAA?

Our survey method had two strands: a survey of 158 pension plans, followed up with structured interviews with senior executives in 30 respondent organisations. Based in 14 pension jurisdictions, they had a collective AuM of €2.9 trillion. Fuller details are given in the Appendix.

The survey provided the breadth of subject coverage, the interviews the depth of analysis. Together, they offered insights into current status and future trends.

The rest of this section provides survey highlights and four key findings, followed by five themes that specifically focus on DAA.

The new regime might well witness fiscal dominance, rising inflation, trade tensions and pronounced volatility.

Survey highlights

(% of pension plan respondents)

Market drivers favouring dynamic asset allocation

83%



Fears are growing that recent US policies on global trade, finance and defence will be disruptive

62%



Fear that rising trade tensions in the global economy will revive inflation

56%



Worry that rising public debt in key economies will push up interest rates and harm growth

53%



Worry about the ascendancy of fiscal policy over monetary policy leading to financial repression

Use of dynamic asset allocation

88%



Believe that market drivers imply frequent turbulence in the macro financial regime

84%



Predict that the market outlook will likely elevate the role of dynamic asset allocation

75%



Expect to engage in dynamic asset allocation over the next three years

63%



Believe that dynamic asset allocation has made their portfolios more resilient so far

Principal vehicles to be used over the next three years

58%



Aim to rely on risk factor investing for dynamic asset allocation

57%



Aim to use derivative overlays without physically trading in underlying assets

53%



Aim to use actively managed equities in developed markets

42%



Aim to use passively managed equities in developed markets

Selection of criteria for external asset managers

58%



Require a sound understanding of their client's liability profile and risk appetite

57%



Require a proven track record on dynamic investing through different market regimes

55%



Require a talent pool well-versed in the art of dynamic investing

51%



Require transparency of fees and costs within a value-for-money fee structure

Four key findings

1. Old certainties in capital markets are crumbling

DAA is predominantly perceived by survey respondents as a pragmatic periodic deviation from investors' SAA in response to changing macro financial regimes and new market conditions.

It gained extra momentum as key central banks started their aggressive rate hiking cycle during 2022-23 that quickly ended the long era of suppressed volatility that had favoured SAA. Lately, the shift has received fresh impetus from a raft of new policy measures in the US, ranging from penal reciprocal import tariffs fuelling inflationary fears to big tax cuts forcing up interest rates in future.

As Section 2 shows, over 80% of respondents see these US measures as the main driver of capital markets over the next three years – the highest ranked single market driver in the history of this survey series. Scenarios of their outcomes vary, with significant right and left tails, mostly the latter. A glimpse of how choppy the markets can get was evident from the crash following 'Liberation Day' last April. The S&P 500 index, Treasuries and the dollar took simultaneous hits, reminiscent of 1970s stagflation.

In the subsequent rally, US stocks were priced for the most optimistic of results, according to survey respondents. They believe that lack of clarity on the impacts of policy measures and their on-off declarations was one contributory factor. Besides, the tariff package has been ruled unlawful by the Appeal Court, pending a further appeal to the Supreme Court. Another factor behind the current euphoria is simply investors' fear of missing out on the latest rally. Either way, overweighting in US assets is no longer a default option for survey respondents. US exceptionalism is under the spotlight.

That apart, there are real concerns that the inexorable rise in public debt in pursuit of strategic autonomy amid global turbulence in the key economies may force up interest rates before long. Governmental attempts to lower them by fiat – as was tried in the US this year despite rising inflation – risk eroding the independence of central banks and igniting inflationary expectations. Survey respondents now demand a higher risk premium on US assets, duly backed by dollar hedging after the greenback posted in 2023 its worst first half-year performance since 1973. Respondents are also diversifying internationally.

A new era of financial repression is likely with rates being kept artificially low to manage the debt and vaporise it via rising inflation. That story rarely ends well for investors, as history shows. DAA has been the response, as respondents cope with interconnected nonlinear dynamic risks looming on the horizon. In the dark, all swans look black.

[More details in Themes 1 & 2](#)

2. The outcomes of DAA have met expectations

As shown under Theme 3 in the next subsection, 73% of respondents now use DAA to varying extents to achieve their investment goals. Small and medium-sized pension plans rely on external asset managers using either multi-asset dynamic funds or the outsourced CIO model. Larger plans, with the right governance and expertise, are moving towards the total portfolio approach, via dynamic pivots over a wide opportunity set to meet their funding goals.

For both groups, strategic and dynamic asset allocation complement each other – for now. One sets overarching goals within a disciplined framework. The second provides portfolio guardrails during periods of market upheaval. Both groups report favourable outcomes in two respects.

First, for the majority of respondents, DAA has made portfolios more resilient in the face of market turbulence (Figure A). Resilience has been variously measured by the variability of returns, value at risk or maximum drawdown.

73% of respondents now use DAA to varying extents to achieve their investment goals.

Interview quotes

"Inflection points in market regimes are hard to spot at the time: they are only seen in hindsight. Markets only price them when they actually happen."

"SAA remains the cornerstone of our portfolio and DAA seeks to protect it. We use both. They make sense when markets are unmoored from their fundamentals."

The second set compares *ex post* outcomes in relation to *ex ante* expectations (Figure B). On the upside, 63% report positive outcomes in line with or above expectations. Three principal factors have been identified by survey respondents as underpinning favourable outcomes thus far. First, their plan had nimble governance that empowered full-time executives to make speedy decisions as required. Second, they had a talent pool well-versed with investing across market regime changes. Third, they had access to best-of-breed external asset managers with proven expertise in dynamic investing.

More details in Themes 3, 4 & 5

3. Interest in DAA is likely to continue

On a three-year forward view, the regime change implied by the identified macro drivers is likely to create favourable opportunities (Figure C): 18% said to a large extent, 57% said to some extent and 25% said not at all.

That our survey respondents plan to take advantage of emerging opportunities is clear (Figure D): 14% to a large extent, 61% to some extent and 25% not at all. Both caution and pragmatism will likely prevail, with downside protection prioritised over upside returns, duly allowing for path dependency: returns in any period can be influenced by those in the preceding ones due to momentum.

A variety of tools and asset classes are likely to be deployed within a modified version of the core-satellite model but with blurred internal dividing lines.

The core is expected to cover the passive strategies most suited to informationally efficient markets. The satellites will cover active strategies to exploit market inefficiencies. They will include multi-asset dynamic funds that mix asset classes in a single vehicle to deliver all-in-one outcome-oriented solutions that aim to protect funding status.

Derivative overlays are also included in this group. They serve to hedge out various risks – such as equity, interest rate, inflation, currency and commodity – without deviating from asset weights in SAA while capturing any upside. They have served to enhance portfolio nimbleness by not having to physically trade in the underlying assets, thereby optimising cash utilisation with less upfront capital to reach strategic targets.

Both caution and pragmatism will likely prevail, with downside protection prioritised over upside returns.

Figure A: To what extent has DAA made your portfolio more resilient in the face of macro regime changes?

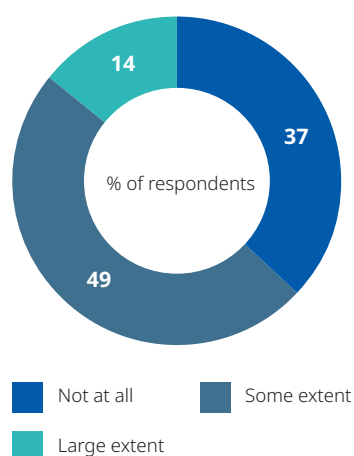
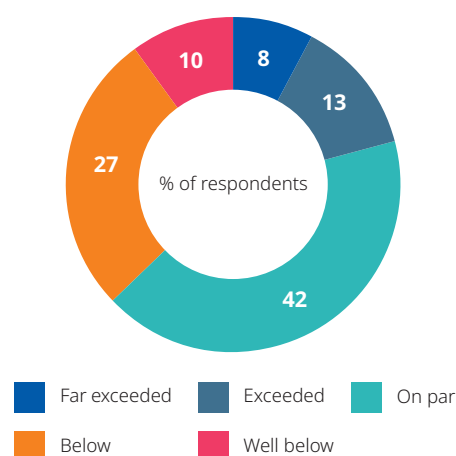


Figure B: Has the DAA made by your pension plan thus far met expectations?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Dynamic investing is a whole new game for us. We are tiptoeing into it because buy-and-hold investing is not suited to the current reality."

"So far, dynamic investing has shielded our assets from two significant market downturns caused by the 2021-23 rate hikes and the downturns agenda."

The overall emphasis may well shift towards value stocks that have long remained unloved and undervalued.

As for the specific asset classes to be deployed within the core-satellite model, the overall emphasis may well shift towards value stocks that have long remained unloved and undervalued, while growth stocks – mostly in the AI sector – have hit fresh peaks via huge expansions in multiples. In time, they will need steep increases in earnings to justify current valuations.

Developed market assets, especially the hitherto under-the-radar European and Japanese ones, are likely to be favoured due to under-pricing, greater liquidity and lower volatility.

Emerging market assets, in turn, are likely to be less favoured when it comes to DAA, due to their historical higher volatility and lower liquidity. Their recent rally contains value traps, in part attributed to the falling US dollar. Interest will be centred on companies more than countries. The most favoured companies are likely to be those who are able to convert the favourable growth dynamics of their country into attractive growth in earnings per share. This focus on asymmetric upside applies especially to companies in China where the chronically high savings ratio, the unproductive investment glut and stretched local government finances are now weighing on economic growth.

Opportunism is likely to focus on US assets in the near term – duly dollar hedged – until the impacts of the recent policy measures become more visible. For the near term, they will likely retain ‘there is no alternative’ status. Their CAPEX and corporate profits – look healthy. The inflated value of the Mag 7 reflects big earning power, but there are risks that if the US Federal Reserve loses its independence, inflation expectations will be reignited and emerge as a distinct driver of rising prices in their own right. With the yield curve getting steeper, the discounted future profits of Mag 7 can take a big hit. Yet, they have been scaling fresh heights lately, thanks to momentum-driven algorithms as much as social media-driven retail investors piling into tech stocks. A ‘buy the dips’ mindset endures. With markets priced to perfection, interest in US assets is unlikely to abate any time soon.

Hence, three imperatives will feature highly in the dynamic asset allocation programmes of respondents. The first is resilience, by targeting assets with in-built shock absorbers to survive volatility bouts. The second is efficiency, by making an informed choice between overlays and asset classes. The third is liquidity, by seeking bargains during periods of significant asset mispricing.

More details in Sections 2 & 3

Figure C: To what extent will new macro drivers create favourable conditions for dynamic asset allocation over the next three years?

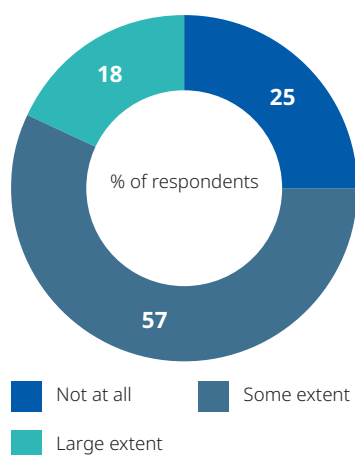
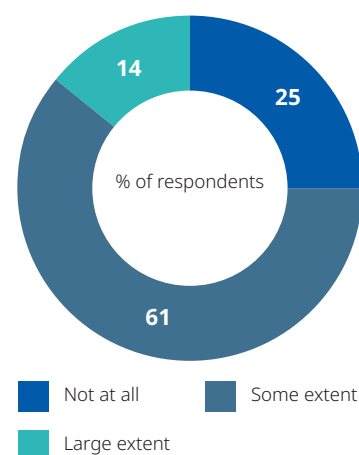


Figure D: To what extent does your pension plan expect to take advantage of favourable conditions to engage in DAA?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

“In emerging markets, we seek out companies that trade at deep discounts to their net asset value.”

“Europe is a good diversification play with the Draghi reforms in the pipeline. The Trump agenda has galvanised it into action.”

4. The bar has been raised for external asset managers

DAA adds an extra layer of active risk for pension plans. Yet, history shows that the majority of active managers struggled to hit their benchmarks as the easy money policies of central banks caused a disconnect between capital markets and the real economy during 2009-21. That legacy has escalated the burden of proof that asset managers can deliver their clients' DAA goals.

After all, DAA sits at the intersection of trading and investing over shorter horizons, whilst most managers have expertise in longer horizon buy-and-hold investing. A proven track record on dynamic investing has become vital, as has evidence of capabilities that raise the probability of replication in future.

Survey respondents' advance into dynamic investing has raised the bar on manager selection criteria, in terms of breadth of coverage and depth of evidence. This imperative makes far more demands on asset managers and is duly reflected in the three clusters of selection criteria now being used.

First, managers are enjoined to develop a detailed understanding of their pension clients' liability profiles, risk tolerances, funding status, regulatory environment and cash flow needs to fund pension pay-outs. Asset managers also need expertise that demonstrates that they can meet their clients' dynamic investing goals by having a proven track record of success on their clients' customised goals.

Second, managers are also enjoined to have proven business capabilities conducive to DAA. These include: a deep talent pool well-versed in the art of investing through regime changes; a strong risk management culture; a sound infrastructure of trading, technology and compliance; and a transparent value-for-money fee structure.

Third, these capabilities are expected to be buttressed by investment expertise. These include: access to insights, models and tools that give an information edge; expertise in overlays; and strong collaboration between asset class teams to create dynamic strategies.

Given the complexity of dynamic investing, pension plans have relied on their external consultants and asset managers. Both have been rated on their performance to date (in Section 4).

For pension consultants, the ratings are: excellent (13%), good (31%), satisfactory (37%) and poor (19%). For asset managers, the scores are: excellent (18%), good (34%), satisfactory (43%) and poor (5%).

A new ecosystem is emerging under which asset managers are forging longer-term strategic partnerships with pension clients. Under them, asset managers are progressing from distant vendors to trusted advisors who are included in their clients' inner circle of confidants.

As Section 4 shows, currently, 47% of respondents are engaged in such partnerships and 56% of them report good or excellent outcomes in investment returns, culture fit, client engagement and alignment of interest.

DAA has moved from the periphery to the mainstream, and revealed plan governance and investment expertise as the alpha behind alpha in evolving markets.

[More details in Section 4](#)

A new ecosystem is emerging under which asset managers are forging longer-term strategic partnerships with pension clients.

Interview quotes

"We see dynamic investing as active investing squared. It requires exceptionally active managers with credible track records."

"You have to keep an eye on fees and charges, as they can rapidly eat into returns with over-trading."

Theme 1: Flexibility defines DAA

As Figure 1.1 (left chart) shows, most of our survey respondents see DAA as a pragmatic periodic deviation from their SAA in response to changing financial regimes, market conditions and asset valuations (62%). It relies on a forward-looking approach – based on maths, models, skills and technology – used mostly in periods of high volatility.

This approach is as much about mitigating newly emerging risks as about profiting from short- to medium-term opportunities from dislocations, especially when markets transition to new regimes during which informational inefficiencies and the mispricing of assets are rife.

It seeks to protect the portfolio via tactical changes to the asset class mix set by SAA based on asset-liability modelling, which has long been the cornerstone of pension portfolios.

Thus, the two approaches mostly complement one another: the strategic one focuses on the asset mix and overarching goals within a disciplined framework; the dynamic one provides the essential guardrails during market upheavals by using a portfolio manager's skills. Since the bear market of 2022-23, many survey respondents felt obliged to focus on period-by-period returns in their SAA.

DAA is applicable to any portfolio no matter its geographic focus. It has a time horizon of up to three years. In contrast, tactical asset allocation focuses on a smaller universe of assets based in a single currency with a much shorter time horizon and an absolute return focus via long and short positions in different markets. Typically, though, our respondents tend to use tactical asset allocation as a subset of DAA.

Smaller pension plans in the survey also tend to see DAA in a narrower context (Figure 1.1, left chart): as an automatic switch in overall risk exposure and portfolio hedging, as applicable to liability-driven investing (LDI) in DB (Defined Benefit) plans and target date funds in DC (Defined Contribution) plans based on age (49%); as a switch between active and passive funds (37%); or as a vehicle for new asset classes not covered by SAA (30%).

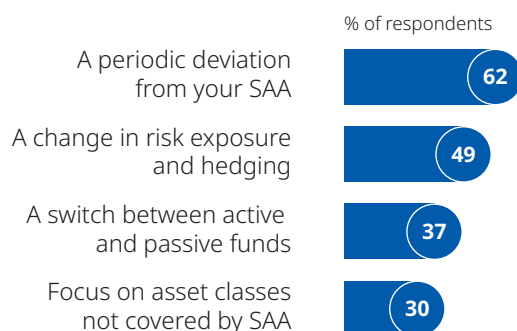
Involving active calls, DAA requires discretionary as well as systematic tilts (Figure 1.1, right chart). The key approach blends both of them (62%). A minority of respondents rely on discretionary calls using human judgement (34%). A much smaller number only use systematic approaches based on quantitative models (4%).

For survey respondents, in all cases, forecasting models form a starting point, framing questions and providing decision-useful data.

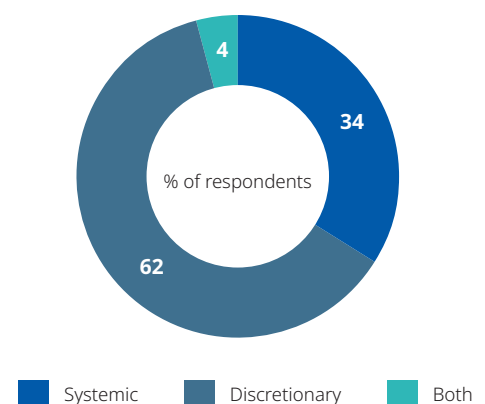
Many survey respondents felt obliged to focus on period-by-period returns in their SAA.

Figure 1.1

When managing your pension plan's investment portfolio, how do you define DAA?



Which approaches does your pension plan use when engaging in DAA?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Shifting forces are redefining the investment landscape where SAA needs to be bolstered by a more pragmatic approach."

"DAA can't just rely on quantitative models. They are exposed to 'torpedo risk' from sudden changes in market sentiment."

Theme 2: New market drivers are ushering in an era of volatility

The macro financial regime that sustained the longest bull market in history during 2009-21 is long gone. On a three-year forward view, our survey has identified three groups of market drivers. Covered in Section 2, they imply that asset prices will likely remain unmoored from their fundamentals and throw up new threats as well as opportunities. Until the dust settles, high volatility will be the norm. The drivers in question cover geopolitical upheaval, policy dilemmas and structural trends.

On the geopolitical side, policies of the new US administration on trade, finance and defence are set to reshape the current global architecture with far-reaching impacts that are hard to predict, especially due to the overall sense of policy randomness and uneven roll-out. New tariffs are already raising inflationary pressures in the US. The continuing wars in Ukraine and the Middle East remain another source of global instability.

On the policy front, rising public debt in the big economies in pursuit of national defence, energy security and supply chain viability are likely to push up interest rates before long. Some survey respondents believe that the two policy rate cuts by the Fed last autumn can only be justified if the new tariffs can raise enough revenue to keep a lid on government borrowing in the US, but it risks fuelling inflation expectations just as the Fed has put inflation on the back burner to boost the labour market.

On the structural side, ageing demographics are expected to weigh on GDP growth and public finances in the key economies. For its part, the rise of AI is likely to boost productivity and lower costs, although this is more likely to occur in the next decade than this one.

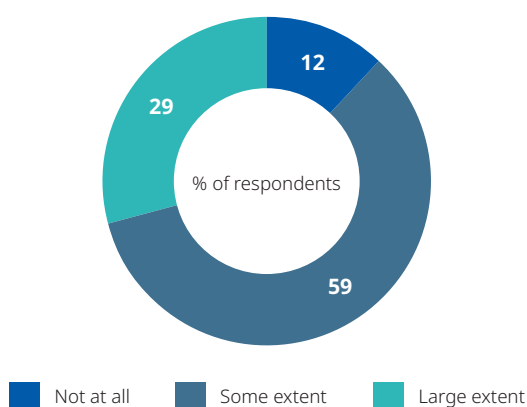
Together, these drivers are viewed as ushering in a new era that is very different from the one that evolved from the creation of the post-war multilateral institutions that have delivered stability and prosperity over the past 60 years. When asked to what extent these drivers imply more frequent changes in the market regime, 12% said not at all, 59% said to some extent and 29% said to a large extent (Figure 1.2, left chart).

Their impact on pension portfolios will be evident in two ways (Figure 1.2, right chart): a rollercoaster ride for capital markets (59%) and frequent business cycles (49%). Both dictate the need to protect portfolios from sizeable drawdowns (56%) and capture the upside potential of specific assets (34%). So, for survey respondents, the near-term story is one of risk minimisation over return maximisation.

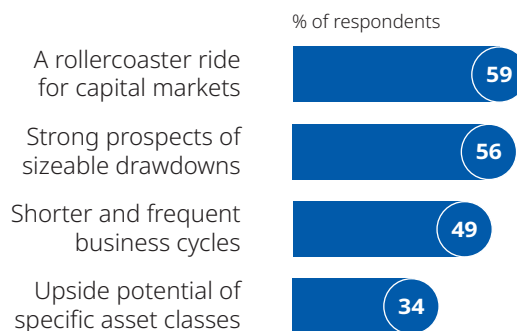
The drivers in question cover geopolitical upheaval, policy dilemmas and structural trends.

Figure 1.2

To what extent do market drivers imply more frequent changes in the macro regime in the global economy?



Which impacts, if any, will these drivers have for your pension portfolio over the next three years?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Investors in US assets are perhaps too complacent about the looming risks from serious threats to the Fed's statutory independence."

"As the US imposes tariffs and weaponises its currency, the global economy risks fragmenting into different trading and currency blocks."

Theme 3: DAA is on the rise

Currently, DAA is used by the majority of survey respondents to varying extents (Figure 1.3, left chart): 27% do not use it at all, 62% use it to some extent and 11% use it to a large extent. Its rise was fuelled by the spike in inflation in the post-Covid era, provoking severe policy tightening by the main central banks during 2022-23. The new policy regime marked the abrupt end of a prolonged bull market in which SAA reigned supreme, with volatility mostly subdued.

The situation has now reversed, due to the market drivers cited in Theme 2. With that, interest in DAA is expected to grow, albeit at varying degrees (Figure 1.3, right chart): 16% report not at all, 74% report to some extent and 10% to a large extent.

However, the approach to DAA will vary by size of pension plan. Small and medium-sized plans, with limited governance budgets and investment expertise are using, and will continue to use, external asset managers. Some are moving to an outsourced CIO model that involves partnership with large asset managers with strong multi-asset capabilities, providing both advisory and implementation services, duly backed by the appropriate metrics and monitoring. Other respondents are investing directly in dynamic multi-assets funds – both active and passive – that perform regular portfolio rebalancing in light of prevailing market conditions.

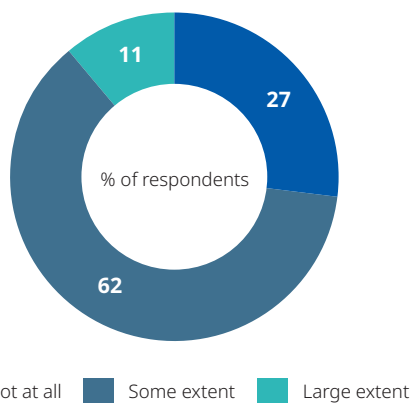
In contrast, larger pension plans with strong in-house governance and skill sets perform DAA in-house. This has expanded the role of the internal CIO and the investment team in making asset allocation calls in real time to capture emerging price anomalies.

Indeed, some of the larger plans are now gradually adopting the newly emerging total portfolio approach (TPA). It directs the in-house full-time investment team to set the strategic stance of the portfolio, resulting in greater dynamism and leaving the governing board to provide the necessary policy guidance and its oversight.

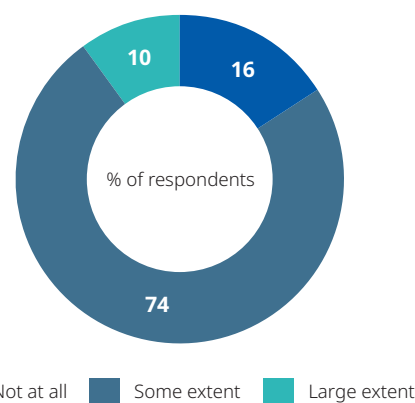
Some of the larger plans are now gradually adopting the newly emerging total portfolio approach.

Figure 1.3

To what extent does your pension plan currently rely on dynamic asset allocation to achieve its investment goals?



To what extent will market outlook elevate the role of dynamic asset allocation in your pension portfolio to achieve your investment goals?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Where are the opportunities, if not in volatility? We have to tool up and live with it as a matter of necessity rather than choice."

"TPA is gaining ascendancy over SAA in pension investing, as markets become more volatile and traditional financial theories don't work."

Theme 4: Risk minimisation remains the primary goal

As shown in Figure B, 63% of survey respondents reported that dynamic asset allocation had met their expectations to varying degrees and 37% reported that it hadn't. Looking at the underlying goals of both groups, their expectations have centred more on downside protection than on upside performance (Figure 1.4).

The top goal has been to minimise negative fat-tail risks as well as portfolio volatility (58%). The mounting trade dispute between China and the US since 2017, continuing deglobalisation and global warming have steadily raised concerns about systemic risks. These have accelerated with the continuing rise in the fiscal deficits in advanced countries and the withdrawal of the US from the Paris Agreement.

Hence, DAA is meant to take account of the recursive nature of risk and return, as systemic risks continue to rise. In the process, it also aims to provide meaningful diversification across market cycles (48%), align with changing pension liabilities (41%) and maintain portfolio liquidity and balance to meet fast maturing pension obligations (32%).

As for the upside, the goals targeted are enhanced risk-adjusted returns (39%), maximising upside performance (34%) and profiting from temporary mispricing in markets (30%).

Those respondents who felt constrained to engage in dynamic asset allocation cite a number of underlying reasons, given in Section 2.

In the absence of an enabling infrastructure of governance, skills, technology and models, DAA boils down to market timing.

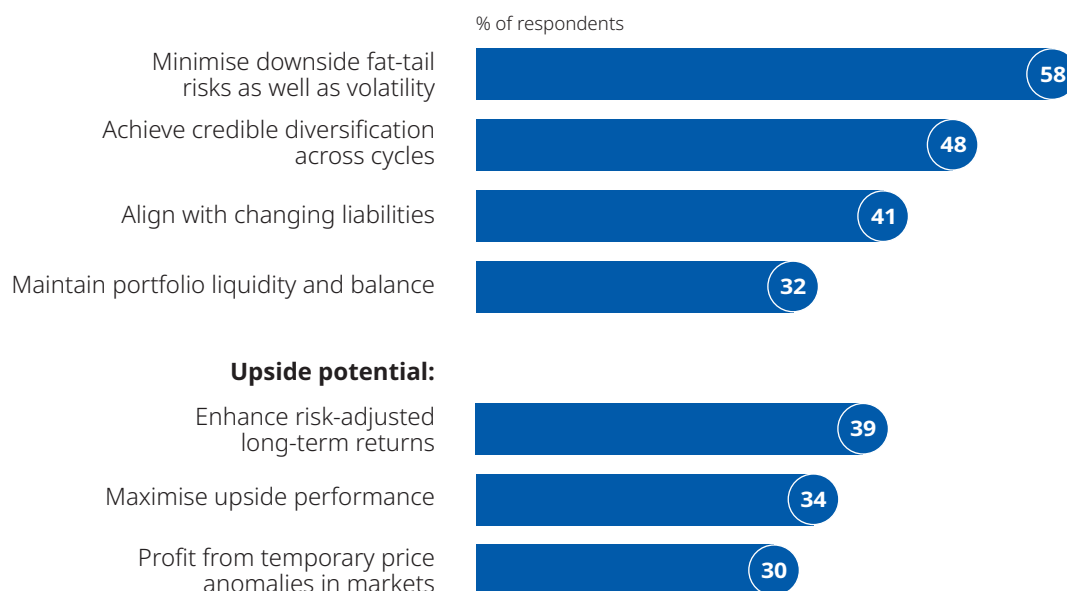
Furthermore, dynamic investing adds an extra layer of active risk at a time when signals on regime change are unpredictable, thus adding extra costs with uncertain benefits.

Finally, deviations from SAA can provoke behavioural biases that raise the risk of panic buying and panic selling.

Dynamic investing adds an extra layer of active risk at a time when signals on regime change are unpredictable.

Figure 1.4

What goals does your pension plan aim to achieve when engaging in DAA?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"As market prices are unmoored from fair value, our priority is downside protection followed by upside returns."

"Today's externalities are eroding the capabilities of policy institutions and risk distorting securities pricing before long."

Theme 5: Governance, expertise and access play crucial roles

Survey respondents who experienced successful outcomes from DAA (see Figure A) previously went on to identify three sets of success drivers (Figure 1.5).

Plan governance: the structure was nimble enough to permit speedy decision making and delegated full-time executives to make judgement calls as and when required (62%). They were empowered to act within a policy framework with a clear Statement of Investment Principles (59%). There was also strong investment expertise on the governing board and its investment committee, providing the necessary oversight and monitoring (52%). These features were all backed by a strong covenant with the plan sponsor who supported periodic deviations from SAA (36%).

Investment expertise: full-time professional staff had a deep talent pool well-versed in investing across market cycles and regime change (58%). They had access to a robust risk management framework (54%) and specialism in liquidity management (45%).

External access: above all, successful plans also had access to 'best of breed' external asset managers, with specialist capabilities across the value chain of DAA – ranging from strategy oversight to advisory work to strategy execution (59%). These three activities tended to feature in the approaches of small and medium-sized pension plans, often also involving pension consultants. Large pension plans in the survey relied on consultants for advisory work and external managers for strategy execution. The largest plans relied on TPA and engaged in in-house dynamic investing.

Finally, successful plans had ready access to the derivatives market to obtain various overlays to hedge out specific risks like equity, inflation, interest rate, currency and commodities (48%). They also had independently audited performance attribution analysis (41%).

Successful plans also had access to 'best of breed' external asset managers, with specialist capabilities across the value chain of DAA.

Figure 1.5

If your outcomes were on par or higher, what were the key drivers of success?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Governance has been the alpha behind alpha and will remain so. It is always high on our list of priorities."

"Access to asset managers with a strong track record of dynamic investing is vital. Many of them tend to be too focused on the long term."

A hand is shown moving a black chess piece on a dark board. The board features a network diagram with gold-colored lines and nodes. The text 'Investment Institute' is positioned in the upper left corner.

**Investment
Institute**

2.

**Market drivers:
which approaches and asset
classes are likely to be used?**

Amundi
Investment Solutions

Trust must be earned

Overview

Focusing on the DAA of the respondents, this section considers its past and future trends:

- Why has it been somewhat constrained in the recent past?
- What factors are likely to be driving it over the next three years?
- What will be the risk tolerance and frequency of DAA activity?
- Which approaches are likely to be used in future?
- What asset classes are likely to be favoured in the process?

Key findings

a. Constraints in the recent past

Some are related to markets and regulation, others to in-house expertise:

- not needed in rising markets (63%)
- difficulty in market timing (57%)
- unsuitable plan governance (56%)
- creating a new active risk (51%)
- high costs and uncertain results (49%)
- lack of skills and technology (47%)
- regulatory restrictions (44%).

b. Future drivers

Some are related to geopolitics, some to national policies and some to structural trends:

- new US policy measures (83%)
- revival of inflationary fears (62%)
- higher interest rate fears (58%)
- ascendancy of fiscal policy (53%)
- tighter global liquidity (39%)
- ageing demographics (47%)
- rising role of AI (42%).

c. Risk tolerance and DAA frequency

The risk approach will likely be:

- conservative to moderate (89%)
- moderately aggressive to aggressive (11%)

The frequency of DAA will likely vary:

- when it is opportune (32%)
- once a quarter (19%)
- once a year.

d. Approaches to be used in future

They rely on a variety of styles:

- risk factor investing (58%)
- derivative overlays (57%)
- passive funds (53%)
- multi-asset dynamic funds (44%)
- plain vanilla active funds (40%)
- glide-path strategies (31%).

DAA has moved from the periphery to the mainstream.

Overview (Continued)

e. Asset classes to be used in future

They focus mainly on equities and bonds:

- active equities in DM (53%)
- passive equities in DM (42%)
- active bonds in DM (32%)
- passive bonds in DM (27%)
- active equities in EM (37%)
- passive equities in EM (17%)
- active bonds in EM (39%)
- passive bonds in EM (27%)
- private market secondaries (24%).

Key messages

DAA is being sidestepped by those respondents who lack the requisite governance and expertise. For them, it amounts to market timing. For the majority, however, DAA has moved from the periphery to the mainstream. It has become vital in coping with the new unquantifiable risks unleashed by the US policies to rewire global architecture on trade, finance and defence.

Policy flip-flops aside, the totality of these measures could potentially be a significant destabilising force for markets when fully implemented. But it could also create new opportunities, as the global economy transitions towards a new order creating winners and losers.

For the immediate future, caution is the watchword.

DAA was once seen as market timing

As we saw in Figure 1.3 (left chart) in the Executive Summary, 27% of survey respondents do not currently rely on DAA to achieve their investment goals. A further 62% rely on it to some extent. Only 11% rely on it to a large extent. It has gained extra prominence only since capital markets became more volatile, after key central banks embarked on steep interest rate hikes as inflation spiked after Covid.

Markets are often prone to narrative fallacy.

Until then, prevailing consensus held that the SAA with static asset weights was more suitable while markets were less volatile due to the easy money policies of central banks. Besides, so the argument ran, markets are often prone to narrative fallacy: the human tendency to create oversimplified coherent stories out of often complex random events influenced by chance or coincidence. In the event, DAA came to be perceived as 'market timing': a device for buying and selling securities based merely on short-term predictions about future changes in securities prices.

Thus, while sentiment towards DAA is rising, it is worth singling out the factors that have constrained its use in the past. They fall into two clusters: one relating to market behaviour, the other to the expertise needed to profit from it.

Taking them in turn (Figure 2.1, upper panel), the longest bull market in history during the period 2009-2021 served to diminish the role of DAA (63%).

Figure 2.1

Which factors, if any, have constrained your pension plan's scale of adoption of DAA in the recent past?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Without effective governance guardrails, dynamic investing can deliver the worst of both worlds: high costs and poor returns."

"In today's frothy markets, separating signal from noise is tough. Market timing can ruin careers."

Putting an enabling infrastructure of skills, technology and models in place has been a gradual process.

Indeed, for some survey respondents, it came to be seen as market timing in the absence of the necessary governance and skill sets (57%). Deviations from SAA can often risk provoking behavioural biases towards panic buying and panic selling (53%). Such deviations can add a further layer of active risk which may or may not be rewarded (51%). The layer can be hard to manage, since market signals on regime change that favour a dynamic approach can be unpredictable and unreliable (47%). The required derivative overlays and frequent trading can be costly and the outcomes uncertain (49%). Moreover, the regulatory and fiduciary rules often constrain the scope of DAA, especially in DC plans where members bear the brunt of investment risks (44%). The US, which is the largest DC market globally, is a case in point.

Finally, emerging markets are still in the process of developing access to essential tools such as the ETFs, futures and options needed for DAA (42%). Their market structure is evolving.

Turning now to the second cluster on expertise, long-prevailing governance structures have not been suited to dynamic investing in the past (56%). Nor, for that matter, are the prevailing skill sets and technology stacks (47%). The required expertise in risk budgeting, scenario analysis and stress testing have been slow to develop (46%). Such expertise is essential, as good returns require choosing the correct entry and exit points (46%). Thus, there are concerns that the cost of dynamic investing may outweigh the benefits (44%).

That there is rising interest in DAA in this decade is not in doubt, but putting an enabling infrastructure of skills, technology and models in place has been a gradual process.

That it is happening is not in doubt either. Indeed, one theme from our post-survey interviews was that markets are in a new regime marked by pronounced periodic volatility, which can be a friend as much as a foe.

Interview quotes

"We are in a market regime where the mispricing of assets is the norm. Adapting to it requires learning by doing."

"In volatile markets, it is hard to know whether success is the result of luck or skill."

INSIGHTS

DAA makes demands on governance and expertise

We need a resource-intensive infrastructure for successful DAA. It relies on the use of derivative overlays, regular tactical tilts, nimble governance structures with delegated authority to full-time executives and operational capabilities covering complex risk models and scenario analyses. These tools are essential to profit from the changing market regimes, but they remain beyond the means of a mid-sized pension plan like ours.

Under our current governance setup, DAA would boil down to market timing that is difficult to get right. We have neither the decision-making agility, nor the required forecasting models and technologies that combine asset, liability and liquidity risks.

As a DC plan, restrictive fiduciary regulations are also a barrier for us. Any dynamic rebalancing is age-based: changes in our members' asset allocation are triggered around their birthdates over time – from risky to less-risky assets. We have not ventured beyond such lifecycle tweaks.

But with geopolitical risks now hitting the headlines, we are adopting dynamic glidepaths that allow discretionary overrides during market crises and add another layer of active risk. But the requisite governance, tools and models to deliver agility and precision are taking time to develop.

We worry that the advance warnings on regime shifts in capital markets can be so unreliable. This much was clear from how US markets went into freefall soon after 'Liberation Day' in early April, only to hit an all-time high two months later. To profit from it required nimble governance and deep investment expertise that many plans do not, as yet, have.

A UK pension plan

Market-moving events are on the horizon

For investors, a confluence of factors has turned uncertainty into a vital economic datapoint in its own right – on par with others like GDP and inflation. The Global Economic Policy Uncertainty Index hit an all-time high in 2025. Against that backdrop, our survey has identified three potential sets of capital market drivers over the next three years. Some are geopolitical, some policy related and some structural (Figure 2.2).

a. Geopolitical drivers

Taking them in turn, the latest dramatic reversals in US policies on global trade, finance and defence stand out (83%). They are viewed as ushering in a new era radically different from the one that evolved from the creation of multilateral institutions since the last World War. The emerging global architecture replacing the old remains shrouded in mystery, as policies in Washington are, thus far, being made in real-time with little clarity about implementation. Our post-survey interviews reveal concerns around four unprecedented measures.

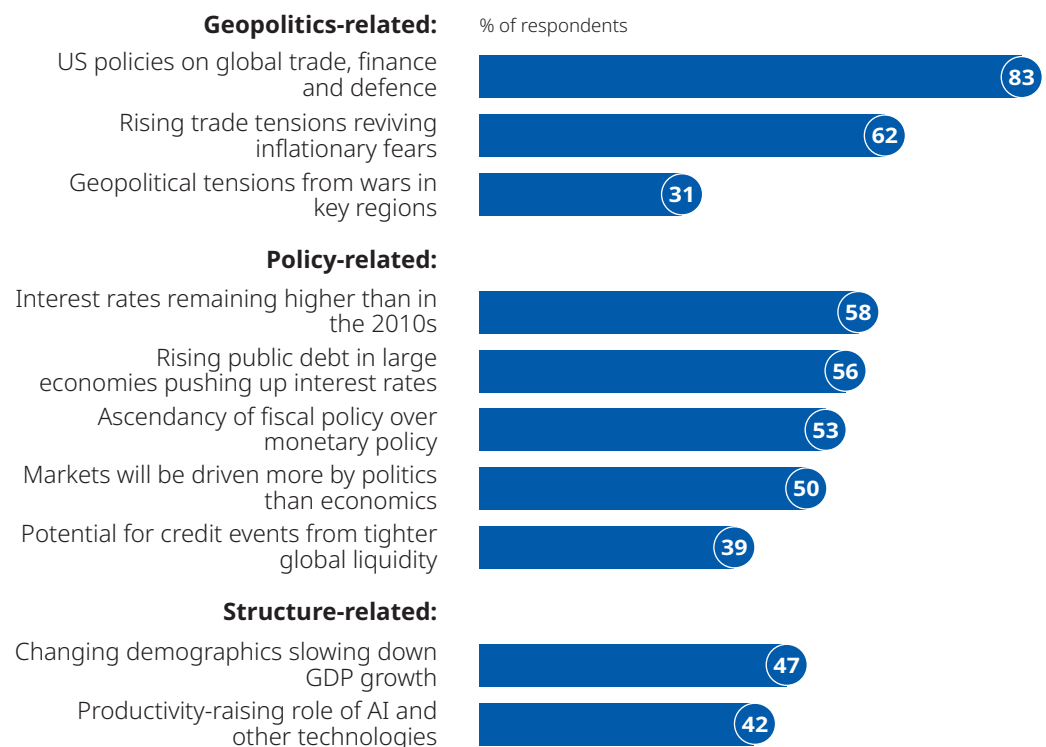
First, reciprocal tariffs are likely to end up being the highest for 100 years. They will sideline the World Trade Organisation protocol on multilateral trade in preference of ad hoc bilateral arrangements. Their effects on inflation are evident in the US, as companies shift the cost of tariffs to consumers. The Fed's two rate cuts last autumn and forecasts of further cuts imply that it has put inflation on the back burner by prioritising job creation.

Second, overt threats to dismiss the chairman of the US Federal Reserve unless the central bank drastically cuts interest rates may well de-anchor inflation expectations and see them emerge as distinct drivers of rising prices in their own right. This is at a time when the US economy is not far from full employment; thus, it could impede the fight against inflation as well as cause economic instability. Implied fiscal dominance aims to keep the cost of

The latest dramatic reversals in US policies on global trade, finance and defence stand out.

Figure 2.2

Which factors, if any, will drive capital markets over the next three years?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Geopolitics is far less predictable and more unstable, as presidential whims guide US trade and diplomacy."

"The economic order that delivered prosperity and stability globally after the Second World War is being upended."

public debt down to \$37 trillion, as estimated by the US Treasury. It poses downside risks to dollar assets. It also puts the Fed's credibility on the line: it cannot afford to be wrong again on inflation, as in 2021, while downside inflation risk persists.

The politicisation of the Fed has raised the ugly spectre of financial repression: forcing interest rates artificially low to manage public debt and rely on inflation to vaporise it. Unsurprisingly, Moody's Ratings have downgraded US status to Aa1 from Aaa.

Third, the huge fiscal boost from the One Big Beautiful Act enacted last July is expected to balloon the budget deficit by \$3.4 trillion over the next 10 years, doubling previous projections, according to the Congressional Budget Office. That will put upward pressure on interest rates for the foreseeable future. It is feared that rising debt levels may lower the long-term growth potential of the US economy, as interest payments crowd out productive investments.

Fourth, there have been overt threats to penalise foreign capital inflows by either converting long-term US treasury bonds held by foreigners into 100-year securities offering low interest rates, or taxing foreign purchases of US sovereign bonds. This may well undermine the nation's enviable capital market framework and investor protections.

Hence, the notion of US exceptionalism, for long a magnet for foreign capital into the US, is now under the spotlight (see INSIGHTS on p.23). The tariff policy is the most immediate pressing issue. It is challenging the global trading order and risks fragmenting it around two economic superpowers – the US and China – raising doubts about the continuing supremacy of the US dollar. The US administration has countered by threatening sanctions against those who undermine the greenback's role as a global reserve currency, thus ratcheting up the latest trade tensions. These, in turn, are fuelling inflationary fears, as production is relocated from abroad to the US, just when it is not too far from full employment (62%).

These developments are occurring against continuing geopolitical risks from wars in Ukraine, the Middle East and Myanmar, not to mention looming tensions in the Taiwan Strait and the South China Sea (31%).

The role of governments is set to mushroom in the emerging global order.

b. Policy drivers

As a result, there are various policy-related issues where outcomes are less hard to predict. One is the fear that interest rates might have to remain higher for longer than in the 2010s, as budget deficits soar (58%), raising the likelihood of credit events from tighter global liquidity (39%).

The risk is real as rising public debt in large economies could put upward pressure on interest rates to plug budget deficits (56%), or there is reliance on outright debt monetisation, with fiscal policy dominating monetary policy (53%). Rising deficits are inevitable as national defence has raced up the political agenda and the US can no longer offer security guarantees to allies. NATO countries are now planning to raise their defence budgets: from 2% of GDP to 5% by 2035, according to Reuters (June 25, 2025).

This steep hike reflects rising geopolitical tensions that threaten energy security, especially after the Russian invasion of Ukraine, and stresses the need to bring supply chains closer to home as globalisation goes into retreat. The role of governments is set to mushroom in the emerging global order. Hence, there are worries that inflation expectations may become unanchored. The US yield curve is now at its steepest level for three years, raising the cost of private mortgages and public debt. That may get worse as the Fed is forced to make big cuts in short-term rates due to mounting political pressure, as seems likely. History shows that higher interest rates and higher inflation result when central banks are subservient.

Hence, it is feared that politics more than economics will be a key driver of capital markets (50%). Asset prices will thus be shaped less by the real economy and more by political impulses.

Interview quotes

"Big market ructions in the US can't be ruled out when inflation takes off as import tariffs fully feed into domestic prices."

"Huge budget deficits may well usher financial repression to manage the swelling debt with low interest rates and rising inflation."

c. Structural drivers

In the background, however, two enduring structural trends will continue to shape the global economic outlook.

One is ageing demographics, with a shrinking share of working-age individuals in all the key economies, but especially in China, Germany, Italy and Japan (47%). They will intensify pressures on public finances in areas like health and welfare. Fewer workers will not only limit output growth, but also narrow the tax base to support the growing ranks of retirees. On the upside, ageing populations are likely to open up new investment opportunities in areas such as healthcare and senior housing.

The other enduring trend is the productivity-raising role of AI and other technologies that can serve to counter the demographic downsides (42%). That AI is already reshaping business models across economies is not in doubt, but there are differing estimates among survey respondents – ranging from minimal to huge – of their overall impact on growth, productivity, unit labour costs and inflation. Besides, the bulk of the likely impacts is expected in the next decade when new forms of business are expected to flourish, as Amazon and Google did after the dot.com flurry in the 1990s. Yet, markets are already factoring in productivity gains of a kind never previously experienced.

d. Implications

When all the drivers in Figure 2.2 are taken together, there are many plausible future outcomes, with significant left and right tails. Arguably, capital markets have yet to factor in the impacts of possible left-tail events. It is probably far too early to assess them with any credible degree of certainty, especially given the likelihood of future policy missteps, back pedalling and legal disputes in the US. Details of the outline agreement on new tariffs on US imports have yet to be finalised after protracted negotiations. In the meantime, capital markets are expected to rollercoaster, accompanied by shorter and more pronounced business cycles over the next three years or so, as we saw in Figure 1.2 in the Executive Summary.

While they signal risks of likely drawdowns in pension portfolios, they also indicate an upside potential of various asset classes, as valuations deviate periodically from their fair values when markets go through different macro regimes. Periods of low stable inflation are likely to be punctuated by sudden price level shifts due to deglobalisation, geopolitics, populism, high debt levels, global warming and a chronic underinvestment in commodity supply, as various economies transition towards their net zero climate goal.

To make matters worse, the prevailing risk tools used by investors rely on linear models using historical data on price behaviours. They struggle to cope with the newly interconnected nonlinear dynamic risks looming on the horizon.

Integrating them into the traditional investment process remains a challenge, while markets appear to be overly influenced by momentum-driven algorithms as much as social media-driven retail investors. In the US, the buy-the-dips mindset endures regardless of the potential risks from regime change. Feelings appear to matter more than facts. There is little room for error in valuations. The line between investing and trading is blurring. The current market euphoria is at variance with the geopolitical upheaval that witnessed rare combined sell-offs last spring in equities, Treasuries and the dollar, reminiscent of 1970s stagflation.

Until the fog of uncertainty lifts in the investment landscape, DAA will remain in the ascendancy, as shown in Figure 1.3 in Section 1. In the meantime, pension investors are demanding a higher risk premium when holding risky assets. They are also looking out for new engines of opportunity in Europe and Asia. The historic fiscal stimulus announced by Germany this year is a case in point. It marks a departure in a nation long noted for

In the US, the buy-the-dips mindset endures regardless of the potential risks from regime change.

Interview quotes *"The impact of AI on productivity data is more likely to be felt in the next decade than this one."*

"Opposition to immigration has grown, even though the impact of a shrinking population on GDP growth is already clear in key economies."

History shows that inflection points in macro regimes are hard to discern at the time: they only become evident in hindsight.

its fiscal prudence, with an ambitious package that includes a €500 billion infrastructure investment fund, of which €100 billion will target climate action. It also directs investment towards military and civil defence manufacturing and cybersecurity. Japan, too, is planning a steep increase in spending on defence and climate action, after a successful decade-long effort at enhancing the governance of listed companies. There and elsewhere, the emphasis on security is broadened beyond national defence and seeks reliable energy sources, dependable supply chains and a sustainable infrastructure.

For its part, in China, the tech sector is advancing in leaps and bounds, as shown by the sudden twin rise of DeepSeek and the Hang Seng Tech index of the 30 biggest tech companies. China is also pivoting towards the Global South by forging new links in areas like technology, finance and trade. Before long, its trade network may look very different, with diminished reliance on Europe and the US. However, selectivity remains vital with Chinese assets, where speculation is not easy to separate from fundamentals.

Finally, history shows that inflection points in macro regimes are hard to discern at the time: they only become evident in hindsight. Markets often struggle to price in inherent risks and rewards until they materialise. Faced with the array of market drivers and their interconnected nonlinear risks, many survey respondents are bolstering their DAA approach by relying on three more pillars alongside risk and return: resilience, efficiency and liquidity.

Resilience will mean targeting assets with policy backstops and/or in-built shock absorbers to ensure that the investee companies can survive volatility bouts and emerge stronger from them. Efficiency involves making an informed choice between derivative overlays or asset classes in their DAA. Liquidity means seeking bargains during market upheavals or significant asset mispricing.

Interview quotes

"Markets have been too complacent, focusing on the here and now instead of factoring in the eventual impact of US measures."

"We are not yet turning our backs on the US but, instead, going underweight in the face of its scary agenda."

INSIGHTS

US exceptionalism is under the spotlight

The market crash after 'Liberation Day' last April was both shocking and predictable. The rapid recovery was a relief, as President Trump backpedalled on tariffs, but we had a glimpse of how choppy markets can be in the wake of his wide-ranging agenda. We think cracks are finally appearing in US exceptionalism: a theme that has captivated markets for 15 years and attracted nearly 70% of developed market assets. Overweighting in US assets became a default option, since the US economy and capital markets outperformed other developed economies over extended periods to merit safe haven status. The country is a world leader in AI and boasts tech giants and top universities. It has an entrenched entrepreneurial start-up culture supported by a well-defined venture capital market. It attracts the top talent from home and abroad.

The Trump tax cuts will boost the economy and minimise pain from tariffs, but not for long. The OECD predicts the US economy will grow at only 1.6% in 2025 compared with 2.8% in 2024. The Fed will remain under intense pressure to cut rates.

In any case, we are also looking to diversify our international portfolio more broadly to overweight Europe and Asia, albeit gradually. We seek to cater for the sequence of returns risks by factoring in absolute as well as relative risks. We are not sure whether the US market crash last April was a buying opportunity or a step towards a bear market.

A US pension plan

Caution and pragmatism likely to prevail

The impact of the market drivers identified in the previous subsection is expected to involve a spectrum of possibilities, with the bulk of the risks believed to be on the downside while capital markets are too focused on the here and now. They will likely start to yo-yo as the impacts become more evident.

Survey respondents believe they have gone from managing risk to managing uncertainty: one is investing with a known probability of outcomes, the other is about guesswork in the absence of any historical precedent.

Long before the rise of this scenario, the majority of plans in five key DB markets – Canada, Japan, The Netherlands, UK and US – had entered the run-off phase, as ever larger cohorts of post-war Baby boomers entered their golden years. The emphasis is now on less-risky assets or insurance buy-outs, aided and abetted by the marked improvement of the funding ratio of DB plans due to a happy confluence of higher interest rates, lowering the discounted present value of their future liabilities; and rising markets, boosting asset values.

On the DC side, age-based target date retirement funds – or lifecycle variants of them – have become a default option, progressively overweighting fixed income assets over time.

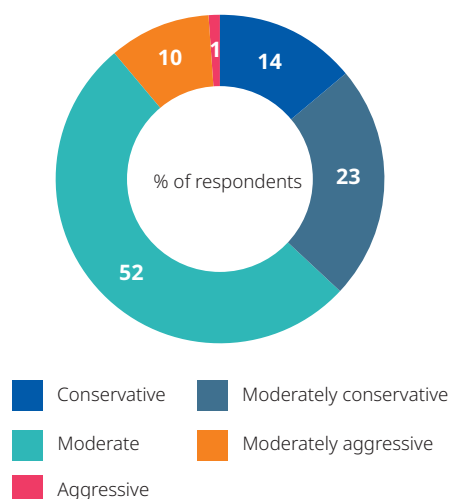
Overall, therefore, progressive derisking was virtually hard-wired into asset allocation due to ageing demographics. Hence, caution is the new watchword, as is evident from the survey respondents' current risk appetite (Figure 2.3, left chart). The majority report their risk tolerance as being conservative (14%), moderately conservative (23%) or moderate (52%). At the other end, the numbers are decidedly low for moderately aggressive (10%) or aggressive (1%).

However, derisking is expected to have more of an effect on the scale of DAA than its frequency over the next three years (Figure 2.3, right chart). A quarter of survey respondents do not plan to engage at all. Among the rest, pragmatism presides: 32% expect to do so whenever the opportunity arises or situation demands. A further 19% expect to do so once a quarter and 17% once a year. The frequency for the remaining 7% varies between one month and three years.

Survey respondents believe that they have gone from managing risk to managing uncertainty.

Figure 2.3

How would you describe your pension plan's risk tolerance in light of the change drivers?



How often do you plan to implement DAA in your investment portfolio over the next three years?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"The 24-hour news cycle means that markets only worry about the sharks near the boat. They price in impacts only when they arise."

"Ageing demographics is reorienting asset allocation towards less volatile assets so to provide the cash flows for pension pay outs."

Fiduciary rules tend to limit the scope of DAA and, by extension, its frequency by strong emphasis on protecting the funding status of pension plans.

The first one is the funding ratios of the respondents and the strength of the sponsor covenant. Those respondents with lower than targeted ratios tended to rely on DAA more frequently – both to protect the status from the big market ructions as much as to seek upside benefits from big price anomalies. They also happened to have a strong sponsor undertaking to honour pension obligations with fresh cash injections, if the DAA bets went sour.

The second contributory factor is the size of the plan and its governance. The larger respondents, on average, had superior governance structure and skill sets required to profit from DAA by having a razor-sharp focus on risk management, by separating its causes from its consequences, its management from measurement, its time dependency from its randomness.

The final factor is regulation. As we saw earlier in this section, and shall see further in Section 3. Fiduciary rules tend to limit the scope of DAA and, by extension, its frequency by strong emphasis on protecting the funding status of pension plans (see INSIGHTS).

They enjoin plans to stay close to their SAA benchmarks in the belief that the benchmarks are set on the basis of a robust long-term outlook that overrides the temporary volatility in capital markets.

Interview quotes

"There are many wild variables in the global economy currently. We act on them as the need arises, rather than in pre-set periods."

"The role of DAA is to provide portfolio ballast in high volatility regimes, and not supersede SAA."

INSIGHTS

Protecting the portfolio in the run-off phase

With ageing demographics, our DB plan is fast maturing, where more money is paid out to retirees than is being earned on our investments. Unlike our UK peers, regulators in the US do not require us to have a formal 'End Game' strategy, that charts pathways towards discharging our rising financial obligations via either an insurance buyout or achieving self-sufficiency without further cash contributions from plan sponsors.

Yet, these have become the de facto requirement via two regulatory means. Under ERISA (Employee Retirement Income Security Act), we are expected to observe minimum funding levels. We are also obliged to pay a variable rate premium for insuring our plan by the PBGC (Pension Benefit Guarantee Corporation). As a result, protecting the plan's funding status has long been a top priority.

Our current funding ratio exceeds 100%. In theory, that is big enough to do an insurance buy-out. In practice that has proved hard. For a start, buy-out is a costly option. It also requires us to be 100% funded with corporate and sovereign bonds that do not deliver high enough returns to push our funding level into a comfort zone. Finally, the buy-out option uses a very low discount rate to value our liabilities that inflates their total present value.

Hence, we have chosen the self-sufficiency route. It uses a blend of high quality short-dated investment-grade corporate bonds on a rolling basis to match the maturing tranches of liabilities. These bonds are managed on a buy-and-maintain basis, since they are usually held to maturity to make both asset and liability cash flows more certain. We also have a small allocation to infrastructure and real estate so as to boost our returns and income.

The portfolio also has an overlay of derivatives that provide downside protection against inflation, interest rate and fat tail risks. We review our portfolios every quarter in order to secure our cash flow needs. Before Covid, it used to be once a year. Since then, there is a growing disconnect between capital markets and the real economy. This is exposing us to the prospects of big capital losses, that may take an inordinately long time to recover, while our cash flow needs are rising exponentially.

A US pension plan

The core-satellite model is being refined

As with SAA, the familiar core-satellite model is being reshaped by the implementation of DAA by blending seemingly hybrid strategies.

Alpha-beta separation remains, duly highlighting the fact that some asset classes are typically best accessed via low-cost index funds in markets that are informationally efficient and highly liquid. Other asset classes, in contrast, have the potential for excess returns in less efficient and more illiquid markets and are thus more suited to active style.

Index funds also make more sense in rising markets or when top-down macro factors are more effective. Actives make more sense when fundamentals are driving the markets and can spot specific opportunities, while side-stepping a single region, country, industry or company of concern. The active-passive distinction is now somewhat blurred by an overlapping layer in between with the rise of DAA (Figure 2.4).

In the core portfolio, survey respondents currently deploy three distinct strategies mostly relying on passive funds. The first uses risk factor investing (58%). It took root in our respondents' portfolios after the 2008 global financial crisis, as the link between lowly correlated asset classes went through the roof and questioned the merits of diversification based on asset classes – given their common exposure to underlying risk factors. Some of these factors are macro in nature: GDP growth, inflation, real interest and rates. Others are asset class specific: size, value, momentum, low variance, credit and currency.

The second strategy is thus used to perform factor tilts via factor index funds, smart beta funds and customised indices (53%).

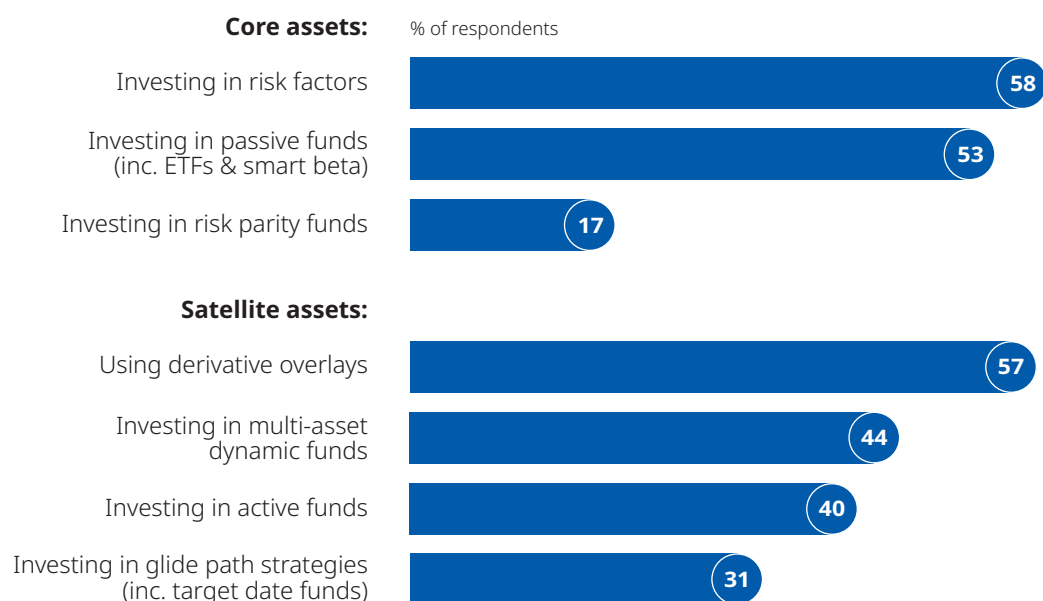
The third strategy in the core portfolio, relies on index futures, ETFs and simple passive funds to invest in rules-based risk parity funds, which allocate risk equally across liquid and illiquid asset classes using leverage and frequent rebalancing (17%).

The second set of approaches covers hybrid assets that overlap with core and satellite layers at the two ends. Both factor investing and risk parity funds spill over into it. This set also includes rules-based glide path strategies in DC plans that automatically de-risk the

The active-passive distinction is now somewhat blurred by an overlapping layer in between with the rise of DAA.

Figure 2.4

How does your pension plan implement DAA?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Dynamic investing requires a top-down macro style blended with bottom-up security selection to profit from changing market dynamics."

"The binary demarcation within the traditional core-satellite model is much less rigid with shades of grey in between."

Interest in the total portfolio approach is growing. It offers dynamic pivots across a wide opportunity set to meet funding goals.

portfolio as members approach retirement age, and LDI strategies in DB plans that hedge inflation and interest rate risks, as portfolios advance into the drawdown phase (31%).

The third and final set of approaches relies mostly on active funds, to exploit market inefficiencies and rebalance the portfolio in response to market changes. To start with, it involves the use of derivative-based overlays to protect portfolios against various risks, as defined in Section 3. This means buying insurance against loss, without deviating from the asset weights in SAA whilst also capturing an upside (57%).

Yet another area of reliance on active funds cover multi-asset dynamic funds with frequent rebalancing of different asset classes and styles. Unlike their single-strategy peers, multi-strategy funds charge fees on the net performance of all strategies, thus creating so-called 'netting risk' (44%). The final area of reliance are plain vanilla active funds, which rebalance according to changing market conditions (40%).

Overall, the central thrust of this diversity of approaches used for DAA marks decisive shifts in emphasis: from returns to risk, and from the distribution of returns to fat-tail losses. Risk is now widely defined as the maximum drawdown a plan can tolerate, considering its sponsor's ability to make additional recovery contributions in the event of investment losses.

The implied caution, however, allows for path dependency: returns in any period can be heavily influenced by returns in the preceding periods when momentum is still in place.

That makes it essential to seek out reliable advance signals of a regime change before acting. Hence, interest in the total portfolio approach is growing. It offers dynamic pivots across a wide opportunity set to meet funding goals with improved decision making, rather than just target excess returns (see INSIGHTS).

Interview quotes

"Multi-asset dynamic funds are especially suitable for plans with a limited governance budget and investment expertise."

"Dynamic investing relies on the ability to predict regime change accurately and the nimbleness to deliver a timely response."

INSIGHTS

The total portfolio approach avoids the rigidities of SAA

Systemic risks are emerging from geopolitical upheavals, supply chain shifts, cybersecurity and global warming. Interconnected and dynamic in nature, they are nonlinear and hard to model, requiring judgement calls. Hence, we have improved the speed of our decision-making by adopting the total portfolio approach, designed to pursue time-varying risk premia.

Responsibility for strategic portfolio allocation has been passed from the governing board to our full-time executives, who are capable of looking at the portfolio in its entirety. Their ongoing review of the portfolio means no asset classes are set in stone or silos. Portfolio managers work in teams to allocate the risk budget flexibly to the asset classes most likely to meet our funding goals in changing regimes.

We use a variety of strategies such as factor investing, risk parity investing, passive investing, active investing, absolute return investing via long-short positions and leverage to achieve a better balance between risk factors.

We also use external managers when using derivative overlays and multi-asset dynamic funds. The latter offer an all-weather approach: downside protection in turbulent markets and upsides during recovery. Our dynamic portfolio has earned an average annual return of 13%, compared with 9% from a 60:40 reference portfolio. The excess return justifies the higher trading costs.

Our main challenge has been in finding newly emerging risk factors that could affect our portfolio and assessing their risk premia via scenario testing.

The paucity of data on new risks and their advance signals mean that our dynamic investing relies ever more on human ingenuity and a nimble governance structure.

A Canadian pension plan

The bifurcation of asset classes will mark DAA

As indicated earlier in this section, three guiding principles will drive DAA: resilience, efficiency and liquidity.

As a result, asset choices in the near term are likely to be marked by the bifurcation between developed versus emerging markets, traditional versus alternatives, liquid versus illiquid, and value versus growth (Figure 2.5). Overall, value-oriented liquid developed market assets will be at the vanguard.

Europe is experiencing strong tailwinds at long last.

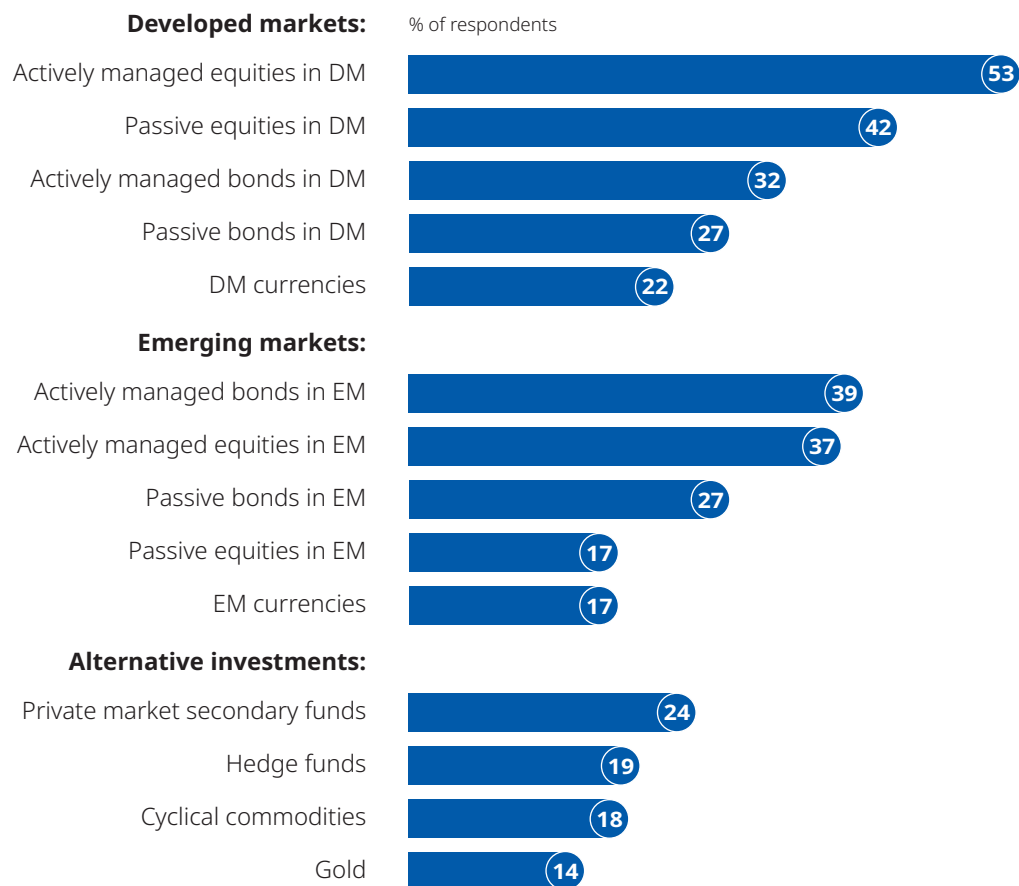
a. Developed markets

Taking them in turn, developed markets top the list, with actively managed equities (53%) and passive equities (42%). Liquidity features aside, any geographical rotation out of US assets is likely to be modest and favour other developed markets where economic fundamentals are deemed better and volatility lower than in emerging markets. In particular, Europe is experiencing strong tailwinds at long last, as it seeks to achieve strategic autonomy in national defence, supply chains and energy sources (see INSIGHTS on p.31). The STOXX 600 has been outperforming the S&P 500 this year.

There and elsewhere, DAA over the next three years will have a twin focus. First, it will seek to blend overvalued but dependable quality assets in the US with undervalued markets

Figure 2.5

Which broad asset classes are likely to be most amenable to DAA for your pension plan, as capital markets transition towards a new regime



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"US assets remain expensive outright, relative to their peers in other regions on all valuation metrics, including sector-adjusted."

"The effects of AI are everywhere except in productivity numbers. Like the internet, diffusion is likely to be far more gradual."

like Australia, Canada, Europe and Japan – with due caveats about their prospects in a tariff-fuelled world.

US assets will attract smaller inflows than in the recent past, backed by full dollar hedging for precautionary reasons. As mentioned previously, there are real concerns among survey respondents that, with the threat of the loss of the Fed's independence on the horizon, inflation expectations are likely to become unanchored and the yield curve will get even steeper.

However, prospective earnings per share will remain the North Star in the long term, while the global trading order is being rewired by the US and former supply chains are being reconfigured.

Second, overall emphasis may well shift towards value stocks, which have long remained under-researched and undervalued, while growth stocks – mostly in the AI sector – have hit rising peaks with huge multiple expansion (i.e. increases in valuation). In time, they will need significant earnings increases to justify current valuations.

They are now vulnerable to prospective rises in interest rates in the medium term, forced by budget deficits, reducing the discounted present value of their future earnings. Besides, there are concerns that the significant economy-wide effects of the AI revolution are unlikely to be felt in this decade. Indeed, a recent MIT study, *The GenAI Divide*, shows that 95% of enterprise generative AI pilots are delivering zero measurable return on investment. The implication is that GenAI is overhyped, at least for the foreseeable future. Some even fear an 'AI Winter' after speculative bubbles. Both IMF and the Bank of England have lately flagged the risks of a sharp market correction.

Turning to developed market bonds, interest is likely to be more muted: both actively managed (32%) and passively managed (27%). Those survey respondents favouring them believe that rates will remain higher for longer and thus offer attractive yields. The key difference in numbers between active and passive styles owes to the historical superior investment returns of actives over passives.

Overall, both numbers are lower compared with potential interest in equities due to rising fears on two fronts in the key economies: public debt and inflation. For example, public debt is set to balloon with the oversupply of sovereign bonds in the key economies, due to sizeable budget deficits in the pursuit of strategic autonomy. Inflationary fears, on the other hand, are fuelled by mounting tensions between the White House and the Fed. The former wants lower rates and the latter is obliged to resist pressure should inflation take off as new import tariffs hit their highest level in the US in a century.

In this scenario, there are real concerns that inflation expectations may be rekindled, as rising inflation will no longer be seen as a one-time blip but also as a key outcome from the loss of central bank independence.

In the meanwhile, the long end of Japanese and UK bonds are likely to be favoured, as are European high-yield bonds. Until the dust settles, the rotation will likely involve shifting new regular contributions from plan members away from the US, instead of a large-scale divestment of US assets. For foreign pension plans, US assets are only likely to retain 'there is no alternative' status so long as dollar hedging is in place while investor confidence is eroding.

b. Emerging markets

These markets rank behind developed markets when it comes to DAA – both in actively managed equities (37%) and passively managed equities (17%).

The 24 countries in the MSCI EM Index are at different levels of economic, political, business and social progress. Hence, in their composite equity indices, there is wide dispersion

Prospective earnings per share will remain the North Star in the long term, while the global trading order is being rewired by the US.

Interview quotes

"EM assets remain volatile due to political instability and weaker regulatory frameworks, requiring a mix of top-down macro approach with bottom-up fundamentals."

"Global equities and corporate bonds have higher return potential than sovereign bonds if inflation expectations remain anchored."

between the best and worst performers. The indices are also narrowly based, with four countries dominating: China, India, South Korea and Taiwan. As a result, passive funds are less favoured.

In dynamic investing, interest in active funds, on the other hand, is centred on companies as much as countries. At company level, the most highly favoured are likely to be those that can blend their unique strengths with those of their countries to deliver high shareholder returns.

As such, the focus will be as much on soft factors, such as sound governance, management quality and deep talent pool, as on hard financials. In this context, Indian companies are likely to be especially favoured due to ambitious public policies on deregulation and physical infrastructure.

This overt focus on companies with asymmetric upside potential applies particularly to China. It continues to be gripped by a trade war with the US abroad and a deflationary mindset at home, with core inflation trending down in a self-reinforcing spiral. At macro level, China's travails from the beleaguered property sector, a chronically high savings ratio, the unproductive investment glut, severely impaired local government balance sheets and ageing population will likely weigh on GDP growth over the next three years. This is while the country continues to create cutting-edge technologies that are expanding its global industrial footprints.

In emerging markets in general, dynamic investing will be drawn towards value assets as much as growth assets. The latter have yet to hit the P/E ratios that resemble anything like their US counterparts. Also, the emphasis will be on international equities that have significant exposure to growth regions. Finally, all eyes are on the rate cycle in the US: if it goes south, emerging market assets can only benefit as many of their companies tend to rely on dollar borrowings to fund business growth.

As for emerging market bonds, interest in them is likely to be higher than in developed markets: actively managed (39%) and passively managed (27%). One reason is that macro factors, such as interest rate, inflation, national finances and central bank independence, have been improving to the point where asset prices are less and less influenced by US monetary policy, according to IMF data.

Another reason is that ever more countries in Asia are benefiting from the China +1 policy of multinational companies, as they diversify their supply chains out of China and involve other countries in the region. So far, India and Vietnam have been the main beneficiaries. As a result, survey respondents are likely to be attracted by both hard and local currency bonds when making dynamic allocations.

This overt focus on companies with asymmetric upside potential applies particularly to China.

c. Alternative investments

As candidates for DAA, interest outside the traditional asset classes of equities and bonds is likely to be somewhat muted for the foreseeable future. Limited liquidity, high volatility or past performance are the key reasons. Besides, investing in private market is a long-term buy-and-hold game, not readily amenable to DAA.

As Figure 2.5 (lower panel) shows, private market secondary funds top the list (24%). As interest rates have remained higher than expected – especially in the US – and the IPO pipeline has been severely curtailed, cash distribution upon the maturity of private equity and venture capital funds has been limited. One credible alternative has been distressed sales in secondary markets at marked discounts to their net asset value, especially for assets of shorter duration.

There are three other sets of alternative asset classes that are likely to feature in the DAA programmes of the survey respondents. Being esoteric, their weights in average pension portfolios have tended to be well below 5%. There is neither sufficient expertise nor the will to engage in them dynamically.

Interview quotes

"In emerging markets, we favour companies that can convert conducive growth dynamics of their country into high earnings per share."

"China has a lot going for it and a lot going against it. We demand a high risk premia on Chinese assets due to their high volatility."

While interest rates are high, the opportunity cost of holding gold remains high.

First are currencies: developed market (22%) and emerging markets (17%). The implied interest is likely to be limited, as the risk–return ratio in the past has not been favourable for respondents.

Besides, investments in currencies are more likely to rely on derivative overlays, as discussed in Section 3. However, for the near term, interest is likely to focus on the Australian, Canadian and Singapore dollars, the British pound, the Euro, Japanese yen and the Swiss Franc.

Then there are hedge funds (19%). Their main appeal in DAA rests on strategies that are used to either beat the markets (global macro) or deliver uncorrelated returns (market neutral). The low numbers reflect highly variable performance in the past. Good performance also tends to have low persistency over time.

In addition, there are cyclical commodities that are viewed as a good hedge for inflation (18%). But as we shall see in Section 3, there is a preference for using inflation overlays over direct investing, or investing via ETFs.

The preference for gold, too, is limited (14%). Geopolitical uncertainties have enhanced its appeal as a safe haven asset, a store of value and a hedge against inflation. However, while interest rates are high, the opportunity cost of holding gold remains high. Nor is gold seen as a hedge against inflation any longer, since inflation always leads central banks to jack up the rates. Its main appeal now lies in central banks in emerging markets increasingly using gold as part of their currency reserves while reducing dependency on the US dollar.

Interview quotes

"Derivatives-based overlays are much more efficient in DAA, involving inflation, interest rates and currencies."

"Many alternative assets do not have the liquidity features that suit dynamic investing. They have long lock-in periods."

INSIGHTS

Push–pull factors will drive geographical rotation

The dynamism of the US economy to produce high earnings per share is hard to ignore. But the normalised price-to-cash flow valuations are now at peak levels. Markets are overpricing returns, and ignoring the likely risks to economic growth, inflation and interest rates from the Trump agenda. Given their unknowable features, these downside risks outweigh upside potential, at least for now. That's a major factor that is reducing the appeal of the US assets pushing foreign investors to go elsewhere.

To reinforce that, there are pull factors that make Europe an attractive option in its own right. To start with, Germany's unprecedented fiscal package – including a €500 billion infrastructure investment fund, €100 billion of which will be allocated to a climate change fund – is likely to boost growth, with potentially seismic effects on other European economies. As if that's not enough, rate reductions from the European Central Bank are improving credit conditions now.

This is happening at a time when Europe is closing the innovation gap with China, as shown by the Draghi report. It sets out a blueprint for revival in Europe's economic fortunes via coordinated efforts to create a business-friendly climate, and promote strategic sectors and investments in green energy and digital infrastructure. For the first time since the 2008 crisis, Europe is getting its act together.

The protectionist US agenda has served to galvanise Europe. Concerted efforts are now underway to improve Europe's business competitiveness and regulatory framework under which private enterprise can flourish.

We see ample opportunities arising in many sectors, as the region pivots towards strategic autonomy in areas like national defence, supply chains and energy security. However, the recent political turmoil in France, causing big dispersions in bond yields, is curtailing the ECB's ability to promote growth in fragmented markets.

Even so, there is a mood shift in Europe that it can no longer stay in the shadow of the US. It has to be a serious player in the global economy in its own right.

A French pension plan

A hand is shown moving a black chess piece on a dark board. Overlaid on the board is a network diagram with gold-colored lines and circular nodes. The entire scene is framed by a thick blue border.

**Investment
Institute**

3.

**Derivative overlays:
why and how are they being used?**

Amundi
Investment Solutions

Trust must be earned

Overview

This section highlights the future deployment of derivative overlay strategies in DAA programmes of survey respondents in a new era of heightened volatility. It pursues the following issues:

- What is the rationale for using these overlay strategies?
- What were the downsides when they were used in the past?
- How important are these strategies and what has been their impact?
- Which type of overlay strategies are likely to be used in future?

Key findings

a. Rationale for their use

The underlying reasons fall into two categories:

Overlays have saved costs by:

- rebalancing portfolios without trading directly in the underlying assets (54%)
- optimising cash utilisation with less upfront capital to reach strategic targets (49%)
- complementing other asset classes and other approaches to adjust portfolios cost effectively (48%).

Overlays have provided opportunistic exposures by:

- hedging both interest rate and inflation risks within LDI-based regulatory regimes (47%)
- serving to minimise a variety of risks in the de-risking phases of pension portfolios (44%)
- generating incremental returns from changing market regimes via precise hedging (34%).

b. Importance and impact

The results are:

- some cite somewhat important (52%)
- others cite very important (14%)
- on outcomes, some cite poor (11%)
- the rest cite satisfactory, good or excellent (89%)

c. Downsides of overlays

Overlay strategies have:

- exposed pension plans to counterparty risks, especially during periods of market turmoil (51%)
- been expensive because the counterparties are there to maximise their gains (49%)
- proved difficult to unwind when liquidity dries up in periods of market upheaval (39%).

All investment strategies have downsides as well as upsides. Overlays are no exception.

Overview (Continued)

d. Future use of overlays

A variety of overlay strategies are likely to be used as markets enter a period of extended volatility:

- Swaps to be used in glide path LDI strategies that hedge interest rate and inflation risks (54%)
- options or index futures to be used to hedge risks embedded in equity markets (51%)
- currency futures to be used to hedge foreign exchange risks embedded in international assets (49%)
- Swaps are likely to be used to hedge the risk from changing inflation expectations (45%).

Key messages

The use of overlay strategies has offered a faster and more cost-effective route to various asset classes without trading in the underlying physical assets. They prioritise risk minimisation over return maximisation.

All investment strategies have downsides as well as upsides. Overlays are no exception.

Derivative overlays enhance portfolio nimbleness

Overlays based on derivatives are securities whose value is determined by one of the underlying assets it covers. They are commonly used as instruments for engaging in DAA and hedging risks without physically trading in the underlying assets. That reduces trading charges, bid-ask spreads, and the market impact of direct trading. In the investment context, overlays require both parties to agree on a sale at a specified future date. The main examples are futures, forwards, options and swaps. For pension plans, the main counterparties are investment banks.

Futures and forwards are similar. Both cover contracts that set out the size, delivery time and price of a commodity.

Options give holders the right, but not the obligation, to buy an underlying asset at a pre-agreed price in future. They have an asymmetric pay-off: with limited downside and unlimited upside.

Finally, swaps are agreements that permit both parties to exchange cash flow on a preset future date or dates.

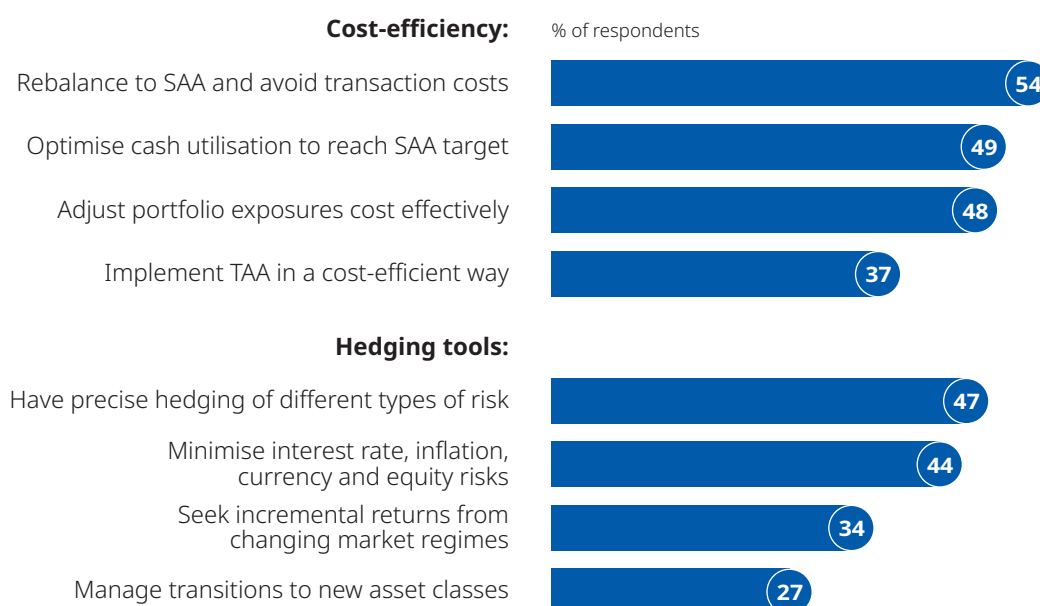
As we saw in Theme 5 in Section 1, plan governance and investment expertise have been among the key factors behind successful outcomes from DAA. As such, those respondents who regard these factors as being in their favour have used a variety of asset classes and investment approaches, alongside derivative overlays, as shown in Section 2. Others who are not so well equipped have mainly relied on overlays that make lesser demands on governance and expertise (see INSIGHTS on the next page). Both groups cite various reasons for their use of overlays: some pension plans seek to reduce cost, some are looking to gain opportunistic exposures and some want to achieve both.

On the cost side, overlays have served to rebalance the portfolio to strategic targets and avoid transaction costs (54%). They have also served to optimise cash utilisation with less upfront capital to reach strategic targets (49%). In both cases the aim has been to retain the strategic weights of asset classes in their portfolios and rely on the overlays to minimise risks or maximise returns in different market regimes. This preference for

Some pension plans seek to reduce cost, some are looking to gain opportunistic exposures and some want to achieve both.

Figure 3.1

What are the reasons for using overlay strategies?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Overlays help to ringfence dynamic investing and make fewer demands on governance compared with trading in physical assets."

"The cost of overlays is less than the cost of trading in the underlying asset classes. They are easy to get in and get out."

Overlays create a wrapper around a strategic portfolio and isolate dynamic decisions.

retaining strategic benchmarks rests on the belief that while it may be easier to pick hot spots in changing market regimes, assigning risk premia to them is difficult. Overlays serve to provide insurance cover that either protects the downsides or delivers the upsides, or both. Besides, SAA is seen as providing clear benchmarks for each asset class and setting out the goals that are backed by organisational framework, guiding principles and investment disciplines that aim to minimise behavioural biases.

For many survey respondents, overlays provide a nimble, more cost-effective tool, while preserving the disciplines of SAA without disrupting the entire portfolio. For others with the necessary governance and expertise, overlays are being used alongside other approaches and asset classes to adjust portfolios cost effectively (48%); or to engage in tactical asset allocation in a cost-effective manner in changing market conditions without waiting for physical asset class trades to settle (37%). Thus, overlays create a wrapper around a strategic portfolio and isolate dynamic decisions.

Apart from targeting cost efficiency, overlays have also been used as a hedging tool to gain exposures to risk premia or hedge fund strategies that are costly to hold directly. This is done with a precise hedging of interest rate and inflation risk, especially by DB plans exposed to LDI-based regulatory regimes in Europe and the US (47%). Asset classes that can act as substitutes in this context tend to be less precise and more costly. This precision, in turn, has served to minimise the risks associated with interest rate, inflation, currency, commodities and equities in the derisking phases (44%).

The precision also served to generate incremental returns from the changing market regimes (34%) as well as managing transitions to new asset classes when necessary (27%).

As we saw in Section 2, DAA is currently aimed at managing downside risk and then securing upside potential. A similar priority order currently also applies to overlays.

Interview quotes *"Our LDI strategy relies heavily on hedging interest rate and inflation risks via derivative overlays."*

"Derivatives have proved more effective in managing downside risks than reaping upside potential in today's volatile markets."

INSIGHTS

Overlay programmes can add to portfolio nimbleness

SAA can seem rigid when capital markets are in an extended era of volatility. But it is hard to ignore because it has served us well since the start of our plan. It provides a robust framework for asset-liability modelling, setting our investment goals, assessing potential portfolios in different market environments over extended periods, and their outcomes against investment goals. It provides a robust decision framework and the right disciplines to execute it, in line with our Pensionskassen, an insurance-style regulatory regime.

Taking a long-term view means not being guided by vicissitudes in financial markets, where separating signal from noise is always hard. This can often lead to panic selling or panic buying, adding an extra layer of active risk. However, we do recognise that, in today's environment, risk can emerge from unexpected places.

So, our dynamic investing has relied on the use of derivative overlays that allow us to go in and out of various asset classes without trading in the underlying physical securities. This is a more cost-effective route compared with buying and selling physical securities. Equally important, our actions do not move their price against us. Experience shows that there is a gulf between quoted prices and executed prices, due to the market impact of physical trading.

Overlays provide hedges against inflation, interest rate and equity risks, as well as allowing opportunistic tactical allocation. That means we stick to our preset asset weights in strategic portfolios and still remain agile.

A German pension plan

Overlay strategies aim to combine the best of SAA and DAA

Overlays relying on derivatives are one of the tools used for DAA by survey respondents who wish to hedge risks without trading in the underlying physical assets. That reduces trading charges, bid-ask spreads and the market impact of direct trading.

Their role has varied (Figure 3.2, left chart). For some respondents, they are not important (34%). For the rest, they are somewhat important (52%) or very important (14%).

Their importance is predicated on the seeming rigidity of SAA, which is exposed when markets are in an extended period of volatility, such as currently, when the strengths of SAA turn into weaknesses, with changing macro regimes.

To start with, the robust SAA process of selecting investment strategies thoughtfully and taking a long-term view exposes them unduly to untoward market moving events over investment horizons. Significant market moves can leave a pension plan overly vulnerable to big shifts in globalisation, interest rates, inflation and GDP that cause deviations from the assumptions that drove SAA in the first place. Responding to them requires more frequent investment reviews under the SAA process. These can be costly and time consuming under the prevailing governance rules.

Furthermore, the problem is compounded by the challenges in predicting the asset class returns and their trade-offs across the entire planning horizon, covering a range of plausible market regimes, and their associated asset class risks, correlations and returns. Thus, the sequence of returns risk is ever present: losses in the early phase of the selected planning horizon may take an inordinately long time to recover and may extend beyond the horizon (see INSIGHTS on next page).

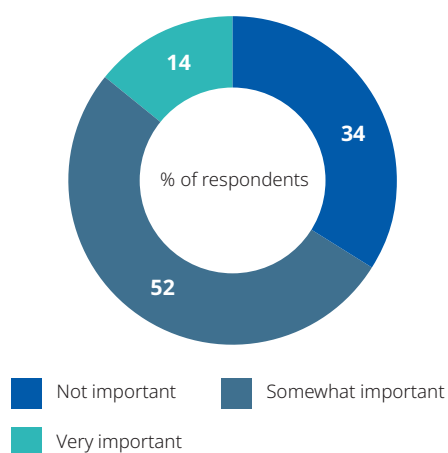
Finally, while SAA aims to capture the vast bulk of asset classes, these are typically chosen once they have been tried and tested by time and events across multiple cycles. That means relatively newer and promising asset classes – with the potential for harvesting the familiar prime mover advantage – are excluded.

Of course, the flip side of this case against SAA is one that can be made in its favour. But, with the rapid rise of geopolitical risks that are hard to model, DAA using overlays has

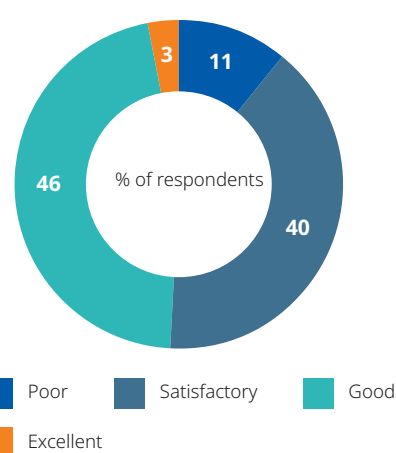
Significant market moves can leave a pension plan overly vulnerable to big shifts in globalisation, interest rates, inflation and GDP.

Figure 3.2

How important are overlay strategies and the derivatives they rely on in your pension plan's dynamic asset allocation programme?



What have the outcomes been of using such strategies thus far?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Overlays will continue to play a prominent role in DAA due to their flexibility, precision and cost-effectiveness."

"The 2008 crisis showed how overlays can explode in periods of market upheaval just when you need them most."

The majority of survey respondents have prioritised risk minimisation over return maximisation by creating a wrapper around the strategic portfolio.

gained traction in this decade, so as to achieve the best of both worlds. Among their users, the outcomes so far are variable (Figure 3.2, right chart). On the upside, some cite them as excellent (3%) or good (46%). Conversely, some cite them as satisfactory (40%) or poor (11%).

Favourable outcomes in the first two categories have centred on three sets of benefits. First, they are less costly than the physical trading of assets when rebalancing portfolios to their strategic targets. Thus, they serve to optimise cash utilisation with less upfront capital to meet targets. Second, they deliver a precise hedging of various risks, while seeking incremental returns from changing market regimes. Third, they serve to manage transitions to new asset classes not covered by SAA.

These benefits rest on the growing recognition that SAA models are, at best, a rough approximation of reality, based on previous market cycles. They are based on an inexact science.

Each part of the exercise requires assumptions that may or may not be correct. The relationships they seek to establish may or may not remain stable; the forecasts they seek to build on may or may not be viable. In this era of radical uncertainty, the scope for error is big. That is why pension plans are showing rising interest in total portfolio approach, as discussed earlier in Section 2.

That said, there is also ample recognition that overlays also have downsides that require various guardrails, as argued in the next subsection. Overall, the majority of survey respondents have prioritised risk minimisation over return maximisation by creating a wrapper around the strategic portfolio and isolating dynamic decisions via overlays to manage various portfolio risks.

Interview quotes

"Overlay strategies require making intelligent investment calls and strong governance oversight."

"Derivative overlays provide the best of both worlds: the discipline of SAA and the nimbleness of DAA."

INSIGHTS

Time in the market matters more than timing the market

Our dynamic investing aims to ensure that we stay invested during frequent market turbulence, as markets do tend to bounce back, as and when bargain hunters arrive on the scene. Besides, experience shows that frequent portfolio adjustments in the face of changing markets require expertise that we have yet to develop.

Instead, to cope with turbulence, we do periodic tactical tilts that permit higher tracking error over short periods before reverting to long-term benchmarks. This is duly backed by derivative overlays to tackle the three most silent of portfolio killers.

The most serious of them is the sequence of returns risk based on time taken for a portfolio to recover after a big market fall during the early phase of decumulation, when pension pay-outs from the portfolio exceed investment income into it. The sequence order of investment returns can have a big impact on the viability of the portfolio, potentially leading to a permanently smaller asset base for future growth. For example, a 25% drop in the portfolio value during periods of market ructions requires a recovery of 33% to restore the loss. A 50% drop requires 100% recovery. We use equity, bond and tail risk derivatives to provide downside protection against such asymmetric recovery patterns.

Another silent risk is inflation. We have a high allocation to bonds in order to generate regular income for the pay-outs to retirees which are index linked. We use inflation swaps to tackle this risk.

The final risk is longevity. As a step towards a pension buyout, we pay a fixed payment to an insurance counterparty, which in turn assumes the risk and pays the actual pension benefits as they fall due, regardless of how long the pensioners live. The longevity swaps have been a stepping stone to our ultimate goal of full insurance buy-out.

A Norwegian pension plan

Overlay strategies are not without downsides

Overlays have played and are likely to continue to play a significant role in DAA, but with due regard to their limitations. These fall into two categories: inherent and operational (Figure 3.3).

Overlays expose pension plans to counterparty risk (51%). This was vividly exemplified by the seismic systemic stress caused by the American International Group's inability to honour the redemptions of its credit default swaps (CDS) during the sub-prime crisis in the US in 2008. AIG had to rely on a government rescue to stop the rout spreading to the rest of the financial system (see INSIGHTS on the next page).

The episode showed that the overuse of overlays can and does lead to overleveraging or excessive tactical shifts that are not fully supported by the strong balance sheets of their providers (44%). Since the 2008 crisis, strong regulatory disciplines have been introduced in the West, including the use of multiple counter parties. But there are concerns that their enforcement was not fully stress-tested in what turned out to be the longest bull market in history, ending in 2021-22. But if volatility returns with the rise of geopolitical risks, survey respondents are likely to be more vigilant in their use of overlays, knowing that overlays become difficult to unwind when liquidity dries up during big market upheavals (39%).

Another inherent concern they have is that overlays are expensive because counterparties are there to profit from them (49%). Their charges reflect the dynamic nature of the risks they are insuring. Those risks are rising just as pension plans' appetite for overlays is also rising. Then there are costs incurred by pension plans at their end to employ skilled staff, deploy the right technology and build the infrastructure to manage overlay positions.

To justify the cost and get value for money, survey respondents are endeavouring to tackle some of the operational issues at their end (Figure 3.3, lower panel).

Topping the list of overlay issues are that they add to portfolio complexity (47%), make heavy governance demands (48%) and require a separate sleeve in the investment portfolio with guardrails in the form of risk controls, strong oversight and close monitoring.

Overlays become difficult to unwind when liquidity dries up during big market upheavals.

Figure 3.3

What, if any, have been the downsides of overlay strategies when used in the past?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"The 2008 crisis showed how overlays can explode in periods of big market upheaval just when you need them most."

"We have built up the required expertise and governance to benefit from overlays in our programme for dynamic investing."

Of special concern are the multiple overlays used to target separate goals at the same time.

Their outcomes are far from guaranteed, since they crucially require accurate and timely market forecasts (46%). These are especially hard now as global trade and financial flows are set to change with the latest policies of the US administration. There is no playbook to guide investors.

Current forecasts carry a wide margin of error on either side. This could result in an incorrect choice of the type of hedges used and the funding ratios they target. The risk of unintended exposures is ever present: overhedging could limit potential gains, while underhedging could increase potential losses. Of special concern are the multiple overlays used to target separate goals at the same time. The implication is clear. Overlays designed to profit from future changes in market regimes could inadvertently end up raising total investment costs without adding the expected value (41%). This problem is likely to be more onerous for those survey respondents who have higher compliance costs for overlays due to regional differences in the regulatory frameworks for overlays (33%).

Those survey respondents who report good or excellent outcomes in Figure 3.2 attribute the results to three factors.

First, they have built a good infrastructure of models, skills and technology to have the necessary expertise and safeguards to engage in the use of overlay strategies. Second, they have the requisite governance to set strategic intent, provide the necessary oversight, monitor progress and evaluate outcomes. Third, they have adopted overlays on an incremental basis, starting with interest rate overlays and embracing other types as they have progressed up the learning curve via experiential learning.

Interview quotes

"The choice and timing of overlays have a big impact on results. Making the right call at the right time requires expertise."

"We use multiple overlays and use more than one overlay provider, as that is a prudent thing to do."

INSIGHTS

Derivative overlays can expose pension plans to counterparty risks

The collapse of the American International Group was a salutary reminder of how overlays can bring down their providers and force a major government rescue.

AIG had become a leading provider of CDS that insured mortgage-backed securities against defaults. These securities were rated highly by the rating agencies. They assumed that house prices in the US would continue rising for the foreseeable future, boosting the market value of the underlying housing stock.

In the event, the house price bubble burst abruptly in 2008, leading to widespread foreclosures. AIG was faced with a downward spiral of massive CDS redemptions. Rating agencies immediately downgraded AIG's own credit rating, accelerating the spiral and forcing AIG to post yet more collateral. The US government was forced to rescue the company to prevent a rout in the rest of the financial system.

The upshot is that the financial viability of the overlay provider is critical. We are very cautious in our choice of providers and ensure that they have a sound balance sheet and prudent leverage. This is because over-reliance on overlays in dynamic investing is an added investment risk in its own right. They may add to portfolio complexity and raise total investment cost without adding much value. After all, their success requires accurate market forecasts that are not easy to make in an era of heightened volatility. Overlays require credible judgement calls.

An Australian pension plan

Overlay strategies are likely to be varied

On a three-year forward view, DAA will be influenced by both the market drivers covered in Section 2 and the long-prevailing regulatory framework around LDI in key pension markets. A variety of overlays are likely to be used (Figure 3.4).

Top of the list is overlays that adjust duration or rate exposure without trading in bonds (54%). Swaps are likely to be used in glide path LDI strategies that dynamically adjust hedges to interest rate or inflation expectations (see INSIGHTS on the next page). They are likely to be even more appealing if the prospects of financial repression drive down interest rates and increase the discounted value of future liabilities. Yet another overlay likely to be used in the fixed income space is CDS that tactically adjust allocations between, say, investment grade (IG) and high yield (HY) debt, if spreads widen in the event of an economic slowdown (33%).

In the risk space, equity market overlays – in the form of options or index futures – are likely to be used (51%). They adjust exposures during risk-on/risk-off periods without trading in actual stocks. Their appeal will extend beyond those survey respondents who prefer to stay close to their strategic benchmarks but also wish to have fast, cost-effective exposures to equity beta as part of dynamic investing.

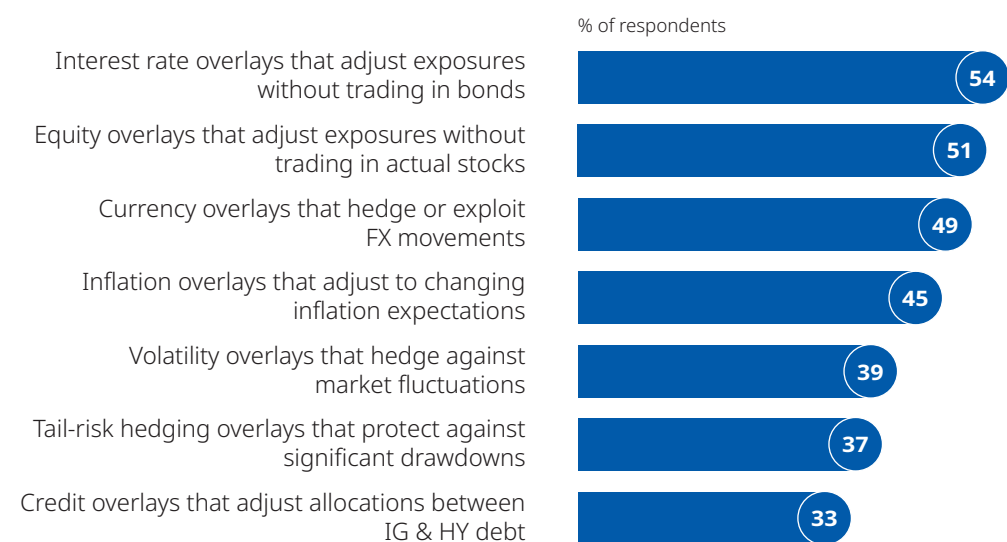
In the FX space, currency overlays – in the form of currency forwards or future contracts – are likely to be used (49%). They hedge foreign exchange changes that affect prices of foreign assets when converted back to home currency. That way, they gain a precise hedging of currency risk in their international assets, while preserving their SAA. As doubts have grown about US exceptionalism, non-US pension plans have started to hedge their dollar assets while still holding them. Overlays avoid currency trading and its market impact while rapidly adjusting to changing market regimes.

In the inflation space, swaps are likely to be used to adjust hedge ratios to changing inflation expectations (45%). This class of overlay is likely to grow in importance if inflation expectations become unanchored should the US administration dismiss the chairman of the Fed and force interest rates down. Survey respondents remain worried by this

Swaps are likely to be used in glide path LDI strategies that dynamically adjust hedges to interest rate or inflation expectations.

Figure 3.4

Which type of overlay strategies, if any, are most likely to be used for DAA by your pension plan over the next three years?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Overlays have become essential as new risks have emerged on inflation, interest rate and currencies."

"Our use of currency overlays has increased, as doubts have grown about US exceptionalism and the dollar."

Overlays have gained prominence with the rise of dynamic investing.

scenario, since the total issuance of inflation-protected assets is not enough to provide a hedge if inflation roars back to life, as it did in 2021-23. For example, the issuance of a key asset class such as TIPS (Treasury Inflation Protected Securities) is around \$1.5 trillion as of October 2025, according to data from the US Treasury. More importantly, TIPS don't work as a short-term hedge against spikes in inflation. They aim to protect investors against rising living costs in the long term.

Moving on to the volatility space, volatility indices, such as VIX futures, that hedge against volatility or profit from it are likely to be used (39%). Such overlays have gained traction since pension plans now see volatility as an asset class in its own right without requiring elaborate research and manager selection.

In the same vein, there are tail-risk hedging overlays that protect against significant drawdown events (37%). Their likelihood has risen with the negative fat-tail risks inherent in the policies of the US government on trade and finance that seek to create a new world order based on bilateralism rather than multilateralism.

The nature of the above overlays is a matter of detail. The substantive point is that overlays have gained prominence with the rise of dynamic investing among survey respondents. They offer faster and more cost-effective routes to asset classes without trading the underlying physical assets.

These attributes are especially welcome during periods of heightened geopolitical uncertainty. That said, there is a clear difference in emphasis between types of pension plans.

In DC plans, the overlays mainly cover equities and currencies. In DB plans, the emphasis is on inflation, interest rates, volatility and tail risk. In both plan types, a blend of overlays are used to target multiple outcomes.

Interview quotes

"The glide path in LDI has become more dynamic, with the use of swaps that provide synthetic exposure to sovereign bonds."

"As with everything in investing, overlays can become very risky in a certain market environment."

INSIGHTS

Overlays are being used in dynamic glide path strategies

The arrival of mark-to-market accounting rules in Europe created an unintended side effect for pension plans: big swings in risky assets causing instability in funding ratios. This gave rise to LDI. It aims to progressively immunise the risks inherent in our portfolio as and when our funding levels improve. Our assets are now in two buckets.

Hedging assets aim to mimic our plan's liability profile. In contrast, return-seeking assets aim to plug our plan deficit by investing in risky assets. Thus, the interaction between the two has followed a glide path that triggers shifts from risky to less-risky assets, as plan deficits decline over time with higher returns on risky assets.

In this decade, we have made three significant changes. First, to use leverage in order to spice up returns in both buckets. Second, to use swaps to create synthetic exposures to sovereign bonds and invest the rest of the money in return-seeking assets. Third, to use interest rate swaps and currency overlays in the resulting dynamic glide path.

Of course, we realise that things can go badly wrong, as they did in October 2022 in the UK, in the wake of ill-advised tax cuts. Rates spiked and gilt prices fell like a stone, causing freefall in interest rate swap positions, activating collateral calls and forcing pension plans to sell their liquid assets at steep discounts to meet margin calls.

It is clear that overlays have their merits but there are situations in which they inflict pain.

A Danish pension plan

A hand is shown moving a black chess piece on a dark board. The board features a network diagram with gold-colored lines and nodes. The text 'Investment Institute' is in the top left, '4.' is in the middle left, and 'A rubric for progress: what are the manager selection criteria?' is in the center. The Amundi logo and tagline are at the bottom.

**Investment
Institute**

4.

**A rubric for progress:
what are the manager selection
criteria?**

Amundi
Investment Solutions

Trust must be earned

Overview

This section highlights the role of different players in delivering DAA and the criteria used in selecting external asset managers as service providers and strategic partners. It pursues the following issues:

- What are the key selection criteria now being used?
- What is the role of different players and how effective have they been?
- How are strategic partnerships changing the pension ecosystem?

Key findings

a. Manager selection criteria

A variety of criteria are being used under three headings: client centric, business centric and investment centric.

The top three client-centric criteria are:

- sound understanding of clients' liabilities and risk tolerances (58%)
- good proven track record of delivering DAA (57%)
- stewardship record on generating ESG alpha (39%).

The top three business-centric ones are:

- a talent pool well versed in the art of dynamic investing (55%)
- transparent fees and costs delivering value for money (51%)
- a strong risk management culture and framework (50%).

The top three investment-centric ones are:

- access to models and technology that give an information edge (54%)
- close collaboration across asset class investment teams (52%)
- dedicated multi-asset class teams covering multiple markets (49%).

Asset managers are going from being distant vendors to strategic partners of their pension clients.

b. Role of different players

Three parties are involved in the value chain of DAA:

- pension plans provide strategy oversight (79%)
- external pension consultants perform the advisory work (82%)
- external asset managers do the strategy execution (80%).

The contribution of external providers are rated as follows. For pension consultants, the scores are: excellent (13%), good (31%), satisfactory (37%) and poor (19%). For asset managers, the scores are: excellent (18%), good (34%), satisfactory (43%) and poor (5%).

c. Strategic partnerships

These are still at an evolutionary stage:

- 53% do not have them at all
- 36% have them to some extent
- 11% have them to a large extent.

Their impact thus far has been rated as: excellent (10%), good (43%), satisfactory (45%) and poor (2%).

Overview (Continued)

Key messages

Survey respondents' advance into dynamic investing has raised the bar on manager selection criteria. The burden of proof that asset managers can deliver clients' DAA goals has become more onerous.

Division of labour is emerging in the pension value chain, with each party focusing on their core area of specialisation.

The ecosystem of pension investing is changing: asset managers are going from being distant vendors to strategic partners of their pension clients.

Demanding criteria are used in manager selection

Policy reversals by central banks have escalated the burden of proof that active investing actually works.

Our survey respondents have become ever more demanding of their external asset managers as they have ventured incrementally into DAA. The reason is that dynamic investing adds an extra layer of active risk to their portfolios at a time when the majority of active managers have struggled to hit their benchmarks over the past ten years, when the easy money policies of central banks caused a disconnect between capital markets and the real economy (see INSIGHTS on the next page).

Since then, policy reversals by central banks have escalated the burden of proof that active investing actually works. This much is reflected in the variety of criteria now being used in manager selection (Figure 4.1).

They fall into three clusters. The first is client centricity. A good understanding of pension clients' liability profile and risk tolerances tops the list (58%). This imperative speaks to the need to have customised funding glide paths that meet clients' unique needs and

Figure 4.1

When selecting your external asset manager for engaging in DAA, which criteria do you or would you like to use?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Asset managers need a deep understanding of the pension business, its regulatory framework and its legal obligation to plan members."

"Dynamic investing is more resource intensive compared with other strategies. We are very selective in how we choose our managers."

Dynamic investing is meant to be active investing at its best, blending human ingenuity with models, technology and data.

contractual obligations to their members and regulators. The required capabilities need to be demonstrated by a good track record on fulfilling clients' dynamic investing agenda (57%).

A significant minority also consider stewardship and proxy voting track record to generate ESG alpha (39%) as well as the ability to integrate ESG principles in DAA (34%). Both these numbers are seemingly low, since ESG is a long-term bet while DAA is about profiting from changing macro financial regimes in the shorter term.

The second cluster involves business conduct: how asset managers operate in the client's interest. Here, a talent pool well-versed in the art of dynamic investing tops the list (55%). The rating is unsurprising, as dynamic investing is meant to be active investing at its best, blending human ingenuity with models, technology and data. This mix needs to be accompanied by three other requirements. The first is transparency of fees and costs while delivering value for money (51%). This is because the overtrading required by dynamic investing can easily erode returns. The second is a strong risk management culture and framework (50%). This is essential since the reliable signals on regime change in markets are not easy to discern in advance. The third is a sound infrastructure of trading, technology and compliance (47%). They are vital since opportunities can quickly be arbitrated away.

The final cluster covers investment expertise. Access to models and technology that give an information edge tops the list (54%), followed by close collaboration of teams across asset classes to create dynamic strategies (52%). This applies to teams covering private and public markets (49%) as well as those with expertise in overlay strategies (45%) and in the analysis of macroeconomics and capital markets (41%). Such collaboration is vital, as ever more pension plans move towards the total portfolio approach, discussed in Section 2. In it, two attributes are vital: global reach with resources to exploit return opportunities in different regions (40%) and slicing and dicing index funds used in dynamic investing (37%).

Overall, the list of criteria here underpins two points. First, dynamic investing is different from SAA: one blends trading and investing over shorter horizons; the other remains centred on buy-and-hold investing over longer horizons. Second, being more resource intensive, the former makes far more demands on asset managers than the latter.

Interview quotes

"Fees and charges make the difference between success and failure, as dynamic investing can mean a lot of trading."

"Strong collaboration between asset class teams is vital in order to capture short-lived market opportunities."

INSIGHTS

DAA demands a lot from asset managers

The majority of active funds have struggled to beat their chosen benchmarks for well over a decade, as central banks' easy money policies disconnected capital markets from the real economy. Hence, as dynamic investing has been on the rise, there is ample recognition that it adds an extra layer of active risk to portfolios that makes it even harder for active managers to deliver their clients' investment goals. Hence, manager selection criteria and process are now far more stringent than has been the case for traditional active mandates.

First and foremost, we expect managers to have strong familiarity with our plan's governance, its sponsor covenant, investment goals, risk appetite, liability profile and risk culture. Managers need to be a good fit with our culture if they are to go from being distant vendors to potential long-term partners.

Furthermore, we expect managers to get their business basics right. That means having a talent pool with experience in the art of dynamic investing, backed by technology and risk models that have a proven track record during previous periods of regime change in capital markets. A meritocratic fee structure that shares pain and gain with clients is also a must.

Finally, managers are expected to have investment capabilities in private and public markets as well as derivative overlays, backed by close collaboration of their different asset class teams. Importantly, managers are expected to have global reach to exploit opportunities in different markets.

A Hong Kong (SAR) pension plan

The roles of pension consultants and asset managers

For pension plans, the complexity of their value chain has been rising in this century. Two severe bear markets in the first decade led to a series of reforms on both sides of the Atlantic, designed to afford greater protection to plan members. The pension value chain, as a result, became more complex, as DB plans resorted to LDI and DC plans to age-based lifecycle funds. Attention switched from product alpha, seeking market-beating returns, to solutions alpha, meeting the express needs of plan members (see INSIGHTS on the next page). The complexity has, if anything, increased, as plans have ventured into dynamic investing. Thus, a division of labour based on specialisation is evident in three principal activities (Figure 4.2, upper chart).

A division of labour based on specialisation is evident in three principal activities.

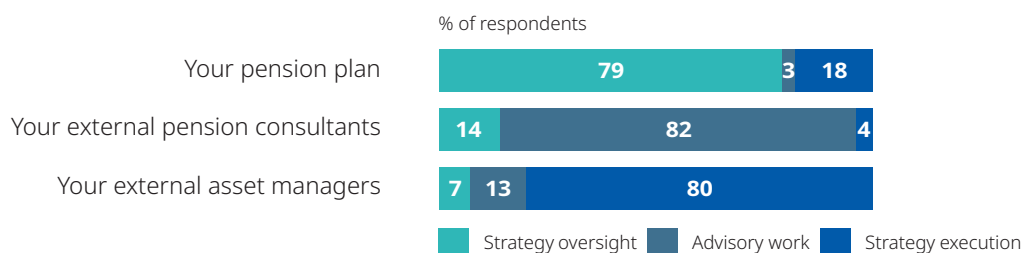
The survey respondents' own role is principally in performing scenario analysis, setting strategy and providing the necessary oversight once the strategy moves into execution phase (79%). On top of that, a small minority of plans also execute their dynamic portfolio in-house without recourse to external asset managers (18%). Thus, survey respondents who manage the whole lifecycle of dynamic investing are advancing towards TPA, as described in Section 2. They tend to be larger plans with multiple in-house capabilities across the value chain. The adoption of TPA is a nascent phenomenon but one that is likely to grow, as dynamic investing increases in importance in this era of rising geopolitical risks.

Turning to the role of external pension consultants, it too is skewed: this time towards advisory activities (82%), such as asset-liability modelling, SAA, choice of dynamic investment approaches, asset classes and overlay strategies, external managers, and performance evaluation. A minority also advise on strategy and oversight activities (14%) to small and medium-sized plans.

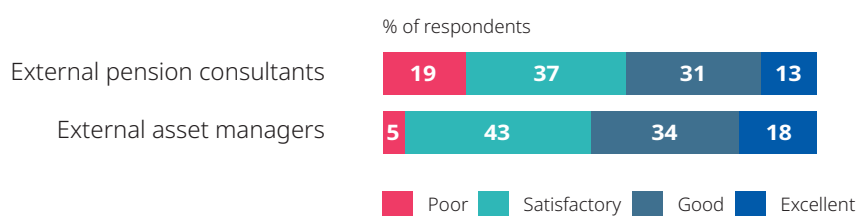
As for external asset managers, their role is also skewed, this time towards the execution of DAA in the marketplace (80%). However, some also offer advisory services, either as part of their overall mandates or on a stand-alone basis (13%).

Figure 4.2

What is the division of work between the three key parties in the value chain of dynamic asset allocation?



How do you rate the contribution of pension consultants and external asset managers to your pension plan's adoption of dynamic asset allocation so far?



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Dynamic investing has added another layer of complexity in the pension value chain. It requires specialisation by all parties."

"Traditional investment theories bear little relation to today's markets. That's why we are moving towards the total portfolio approach."

As an investment discipline, DAA is still evolving.

As dynamic investing has taken off, another trend has gradually emerged: strategic partnerships between pension plans and their external asset managers, as highlighted in the next subsection. These seek to establish longer-term relationships between them, based on mutuality of interests, culture fit and knowledge transfer.

So much for interdependencies in the value chain of DAA. As for their impacts to date, these have been variable but positive overall (Figure 4.2, lower chart).

For pension consultants, 13% were rated as making an excellent contribution, 31% were good, 37% were satisfactory and 19% were poor.

Those receiving the top two ratings singled out contributions in three areas: manager selection, asset allocation and performance attribution analysis. In turn, those making the bottom two ratings singled out mediocre asset allocation capabilities, inadequate experience in advising during previous periods of regime changes, and inadequate alignment between dynamic calls and pension liabilities.

For asset managers, 18% were rated as making an excellent contribution, 34% were good, 43% were satisfactory and 5% were poor.

Those making the top two ratings singled out good investment returns and proven expertise in scenario modelling, technology, analytics and performance attribution analysis. They had a long history of working with pension clients. Those making the bottom two ratings singled out overtrading that eroded returns, low transparency around the risk framework and a high staff turnover. Their ability to explain market shifts and provide granular reporting was limited.

This performance variability within the two groups of external service providers is notable. It underscores the role of the selection process and criteria in both cases. It also implies that as an investment discipline, DAA is still evolving. Thus far, it has worked well for some respondents but less so for others.

Interview quotes

"Going dynamic has become essential but its outcomes are not guaranteed. Selecting the right partners is vital."

"As a pension investor, alpha is in the eye of the beholder. It is about how we meet our regulatory obligations to our members."

INSIGHTS

The 2008 credit crisis marked a turning point

The crisis inflicted a 28% loss on our portfolio at a time when 60% of our members were due to retire over the next ten years. Prior to that, having reached the affordability ceiling, we had decided to go into risky assets, as did other Dutch pension plans. But the crisis exposed weaknesses in the way we did investing, forcing us to suspend the indexation of retirement benefits.

The Dutch regulators duly stepped in with a raft of measures in the nation's so called FTK pension framework that lays down solvency rules. Henceforth, the discount rate to be used in asset liability calculations was based on the actual, instead of expected, long-term rate. Investment choices had to be simple. This focus marked two decisive shifts: from asset management to liability management via LDI; and from product alpha – based on excess returns – to solutions alpha that meets our contractual obligations to our members.

Liability matching sounds simple, but its value chain is far more complex than is commonly realised. Hence, we have come to rely on pension consultants for advice and asset managers for execution. This was all the more necessary as central banks pushed interest rates to near zero after the crisis that increased our liabilities dramatically.

The reliance remained once rates started to rise after Covid, as we moved towards dynamic LDI that involves closer collaboration with our consultants and managers. They are no longer distant vendors but strategic partners. This is a far cry from the pre-crisis world of a 60:40 mix of equities and bonds.

A Dutch pension plan

A new ecosystem in the making

In this century, one outstanding feature in the asset management space has been the progressive rise of the outsourcing of back, middle and front office activities to specialist best-of-breed third-party service providers. It has enabled asset managers to focus on their core competencies and externalise the rest under longer-term contracts to their strategic partners at the upstream end.

Variants of such partnerships are now also emerging between asset managers and their pension clients at the downstream end. They aim to involve asset managers that have the range of capabilities that pension plans need to achieve their investment goals, including DAA (Figure 4.3, left chart).

These asset managers are required to have experience of investing through changes in investment regimes to mitigate downside risks dynamically.

Currently, 53% of survey respondents are not engaged in such partnerships. But 36% are engaged to some extent and a further 11% to a large extent. Those engaged on a large extent are larger pension plans that invest globally, using active and passive strategies in private and public markets, and in emerging and developed markets. Some of them do a lot of investing in-house but use their partners for specialist strategies and insights. The rest rely on them for dynamic investing to benefit from changes in macro financial regimes via overlay strategies and complex multi-asset class strategies.

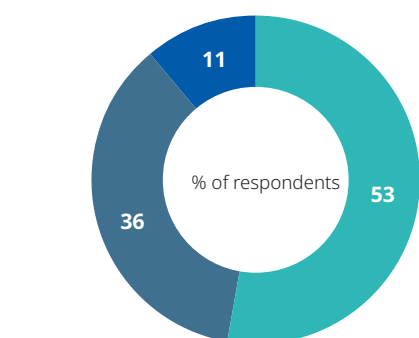
Asset managers are expected to deploy risk budgeting and scenario analysis to stress test portfolios during different regimes by having robust risk models. They are also expected to switch between active and passive strategies often, depending upon the risk-off/risk-on phases of market cycles.

In all cases, the partnerships involve asset managers who have deep understanding and a proven track record of delivering outcomes consistent with dynamic as well as SAA. These asset managers are required to have experience of investing through changes in investment regimes to mitigate downside risks dynamically, especially during market turmoil. That is to be backed by a deep talent pool and advanced technology systems and analytics in portfolio construction, security selection, risk management and periodic portfolio tilts. Investment expertise aside, there are other sets of attributes that define partnership (see INSIGHTS on the next page).

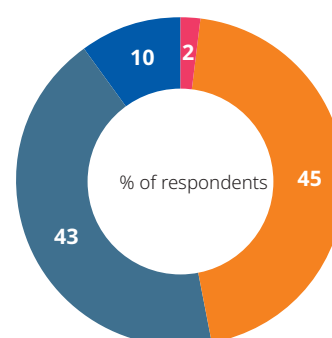
One is client engagement. This involves a deep understanding of the client's funding goals, the strength of its sponsor covenant, its risk appetite, its need for timely accurate reporting, its need for research and proactive investment ideas, and, above all, the need

Figure 4.3

To what extent does your pension plan have a strategic partnership with its external managers that includes DAA?



If your pension plan does have a partnership, how would you describe its outcomes so far?



Not at all Some extent Large extent Poor Satisfactory Good Excellent

Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Interview quotes

"Strategic partnerships seek to pull together the resources of pension plans and their asset managers to deliver specific goals."

"Through honest dialogue, our partnership has served to inject a dose of realism about what can and can't be achieved in volatile markets."

Asset managers have to earn 'close confidant' status in their clients' inner circle of advisors and also have the required culture fit.

to be treated as innovation partners in the design of new strategies. Thus, asset managers have to earn 'close confidant' status in their clients' inner circle of advisors and also have the required culture fit.

The final set of attributes is an alignment of both financial and non-financial interests. On the financial side, it means having a meritocratic fee structure that delivers long-term risk-adjusted returns and preset outcome-based goals. On the non-financial side, alignment means delivering products that clients need, not the ones that managers have. It also means ensuring that innovation avoids me-too products and genuinely serves to deliver results that are durable. Finally, it means having regular, accurate, timely and granular reporting that seeks to harness the power of the rising variety, veracity, velocity and volume of data, as artificial intelligence is increasingly used in the investment value chain.

So much for the prerequisites of strategic partnerships. As for their outcomes, the results, on the whole, are positive (Figure 4.3, right chart). On the upside, 10% rate them as excellent and a further 43% as good. On the other side, 45% rate them as satisfactory and 2% as poor.

Those asset managers receiving high ratings had one of two attributes. Some were large houses with a multiplicity of asset classes and overlay expertise and a good track record during previous eras of regime change. Some were small and medium-sized managers with a good alpha track record in the long-short space, top-class client service and culture fit.

Strategic partnerships are reconfiguring the pension value chain by enhancing the expertise base and creating an honest dialogue on what can and can't be achieved in volatile times.

Interview quotes

"Our asset managers perform regular pulse checks on their clients as a tool of continuous improvement."

"There is a lot of communication and ideas sharing between us and our asset manager partners."

INSIGHTS

Going from a distant vendor to a trusted advisor

We see investing as a 'loser's game', where the winner is not the one with the best strategy, but the one who makes fewest mistakes. In today's markets, there is ample scope for mistakes, especially when there is no consensus on what shape the Trump agenda will take, how it will affect markets when implemented in full, and what the endgame will be.

In this situation, switching between external asset managers may amount to the search for the holy grail. It seems prudent to stay with managers we have worked with over the years and treat them as strategic partners. We have such partnerships with a handful of managers, with a proven track record of navigating changing market regimes via DAA. We look out for specific attributes in our partners.

The foremost are investment capabilities, like a deep talent pool, complex scenario analysis, in-house trading desks, use of derivative overlays, multi-asset expertise, and trained insights into dynamic risks – all this evidenced by their track records over extended periods of market volatility in the past.

Another key attribute we look out for is engagement. They need to understand our liabilities and risk tolerances. They should solicit feedback from us regularly and act upon it. Above all, they should stress-test the portfolio regularly and avoid unrealistic claims about returns and their time horizons.

The final attribute covers alignment of interests. On the financial side, they should have a value-for-money fee structure that shares pain and gain with us by co-investing.

On the non-financial side, they should avoid me-too products and only provide those that are fit for purpose. They should deliver proactive investment ideas and avoid the peer herding and benchmark hugging that are so common in the asset industry.

A Swedish plan

Appendix: Survey background

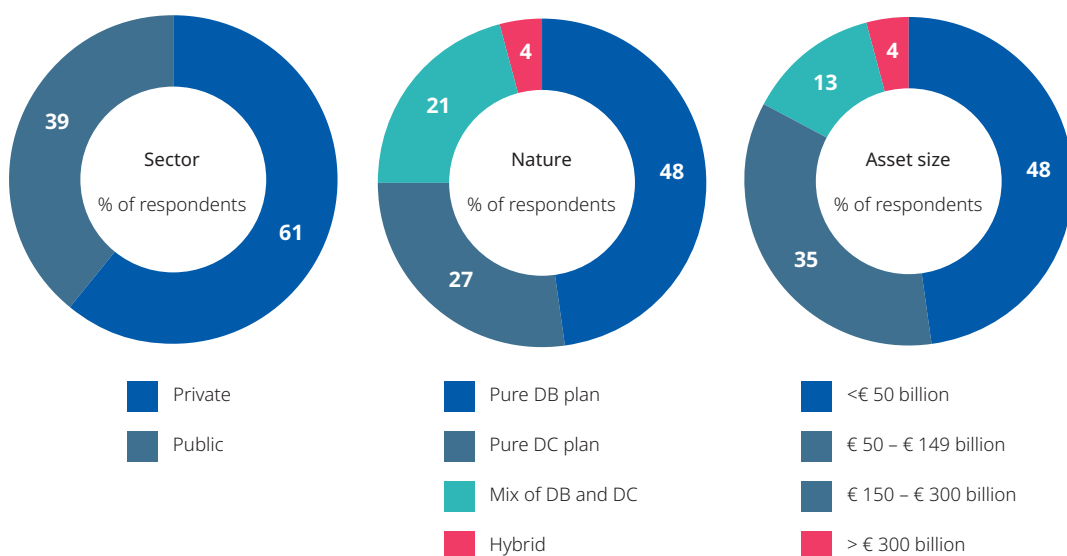
The survey

This 12th annual survey was conducted during the period June to October 2025. It aimed to assess the extent of the adoption of dynamic asset allocation amongst pension plans, its outcomes so far and its future prospects. By close, 158 plans had responded in 14 key pension jurisdictions, as shown in the following box.

Geographical coverage of research participants		
Australia	Hong Kong SAR	Switzerland
Canada	Italy	The Netherlands
Denmark	Japan	UK
France	Norway	USA
Germany	Sweden	

The three main characteristics of the survey respondents are given in the charts below:

Characteristics of survey respondents in terms of sector, nature and asset size



Source: Amundi Investment Solutions / CREATE-Research Survey 2025

Sector: Private sector plans are in the majority, as they are obliged by regulators to protect their funding status and thus have a greater incentive to undertake DAA.

Nature of plan: Defined benefit plans dominate as they tend to have more robust governance structures and skill sets to undertake DAA.

Size: Small and medium-sized plans are in the majority as they dominate the size distribution of pension population in the key jurisdictions.

Post-survey interviews

The survey was followed-up by structured interviews with senior decision-makers in 30 pension plans of varying size and geography to get a helicopter view of the diversity of approaches on the ground.

The decision makers in question were either CIOs, chief investment strategists or members of investment committees. The interviews had three objectives:

- to verify the information in the survey through a more detailed inquiry;
- to obtain information on qualitative issues that could not be covered in the survey;
- to construct a more detailed picture of the current DAA policies and practices and future plans of individual plans regarding characteristics such as nature, type and size.

The discussion guide used in the interviews is set out below:

a. Recent status and past track record

1. *Definition*
Do pension plans draw a clear distinction between SAA, DAA, with the latter also including tactical asset allocation?
2. *Current use*
What is the extent of the adoption of DAA and what are the drivers that influence the scale of its use?
3. *Interactions*
Does DAA compete with or complement SAA? Or both? Why?
4. *Expected benefits*
What investment benefits are targeted by DAA and has it served to improve portfolio resilience?
5. *Investment outcomes*
What have been the outcomes so far from using DAA?

b. Capabilities

6. *The required expertise*
What skill sets and governance structures are needed to perform DAA by pension plans and by their external asset managers?
7. *In-house or external*
To what extent is DAA done in-house by pension plans or externalised to asset managers, drawing distinctions between advisory and execution activities?
8. *Strategic partnership*
To what extent do pension plans engage in strategic partnerships with their external asset managers when doing DAA? What does that involve?

c. Future trends

9. *Past constraints*
What factors have constrained the use of DAA so far?
10. *Future drivers*
What macro and micro factors are likely to drive DAA over the next three years?
11. *Risk tolerance*
What is the risk tolerance of pension plans that facilitate DAA?
12. *Asset classes*
Which asset classes are most likely to be used in DAA over the next three years, duly separating active from passive funds?
13. *Manager selection*
Which criteria are likely to be used for selecting external managers when doing DAA and how do you rate their performance so far?

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[1] Source: IPE "Top 500 Asset Managers" published in June 2025, based on assets under management as at 31 December 2024

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Date of first use: December 4 2025.

Document issued by Amundi Asset Management, "société par actions simplifiée"- SAS with a capital of €1,143,615,555 - Portfolio manager regulated by the AMF under number GP04000036 - Head office: 91-93 boulevard Pasteur - 75015 Paris- France - 437 574 452 RCS Paris - www.amundi.com

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