Patient capital in impatient times

Navigating the global longevity, debt and tech revolution

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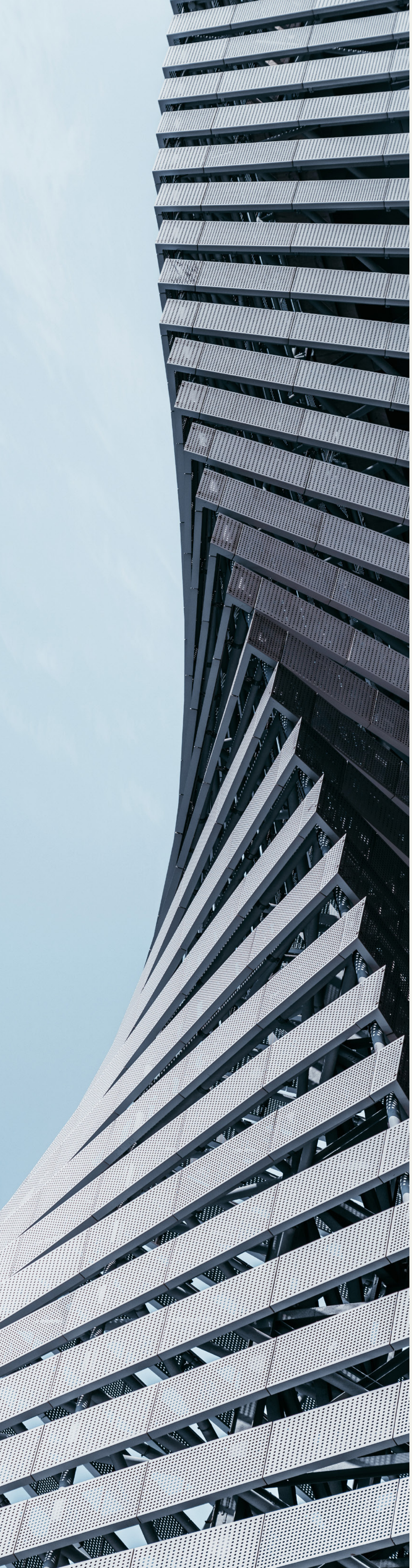


About the project

The goal of this project is to identify the longer-term themes that are important for institutional investors as they build their portfolios. We particularly want to get beyond short-term tactical considerations to understand what's strategically important from a 5–10-year perspective. Our approach combined background research and interviews with both academic and other subject matter experts and a diverse range of institutional investors. The interviews encompassed American, European, Australian, and Asian investors representing institutions such as insurance companies, sovereign wealth funds, pension funds, and defined contribution retirement plans. In this paper, we describe the main challenges and opportunities we uncovered and the ways in which institutional investors are approaching these.

Key takeaways

1. Institutional investors now face a convergence of structural forces that will create a more volatile and complex investment environment than in past decades.
2. Country risk has returned to developed markets as the post-war system of stable alliances erodes.
3. Private markets have evolved from yield enhancement tools to essential portfolio construction instruments.
4. Everyone agrees AI will be transformative, but no one knows who will capture the economic value.
5. Sustainability integration has become pragmatic rather than ideological.
6. Institutional investors face increasing pressure to justify their value and portfolio holdings to stakeholders.
7. The search for inflation protection with attractive returns has accelerated as a priority.
8. Human judgment remains essential despite AI advances.

INTRODUCTION

Longevity, debt, and tech: What does the future hold?

The investment landscape is at a critical juncture. After an extended period characterized by robust returns and accommodative monetary policy, institutional investors now face a more challenging environment. Several powerful, slow-moving forces are converging to reshape the architecture of global markets and fundamentally alter how institutional capital must be deployed.

The post-World War II system of global alliances and open trade is fragmenting, leading to regional blocs, bilateral agreements, and increased hostility. The shift from optimizing efficiency through globalization toward a more resilience-focused regional approach is increasing costs, volatility, and the complexity of portfolio construction. Country risk, which in recent years has been less relevant for developed markets, has returned as a critical consideration.

Increasing longevity represents an inexorable trend. Population aging will accelerate at a time when governments are already grappling with debt overhangs that constrain policy flexibility and raise questions about long-term fiscal sustainability. This demographic transition, combined with structural forces pushing toward deglobalization and onshoring, points to a regime of higher and more volatile inflation than investors experienced in the 2010s.

Rapid developments in technology, particularly artificial intelligence (AI), offer vast opportunity but also introduce new uncertainty. The acceleration of innovation could boost productivity, extend working lives, and create new investment opportunities. The required massive investment in physical capital for the energy transition and AI infrastructure has the potential to stimulate growth. On the other hand, AI is only at the start of driving changes in global employment structures and is disrupting societies more broadly, with potentially unexpected implications for investing and corporate governance.

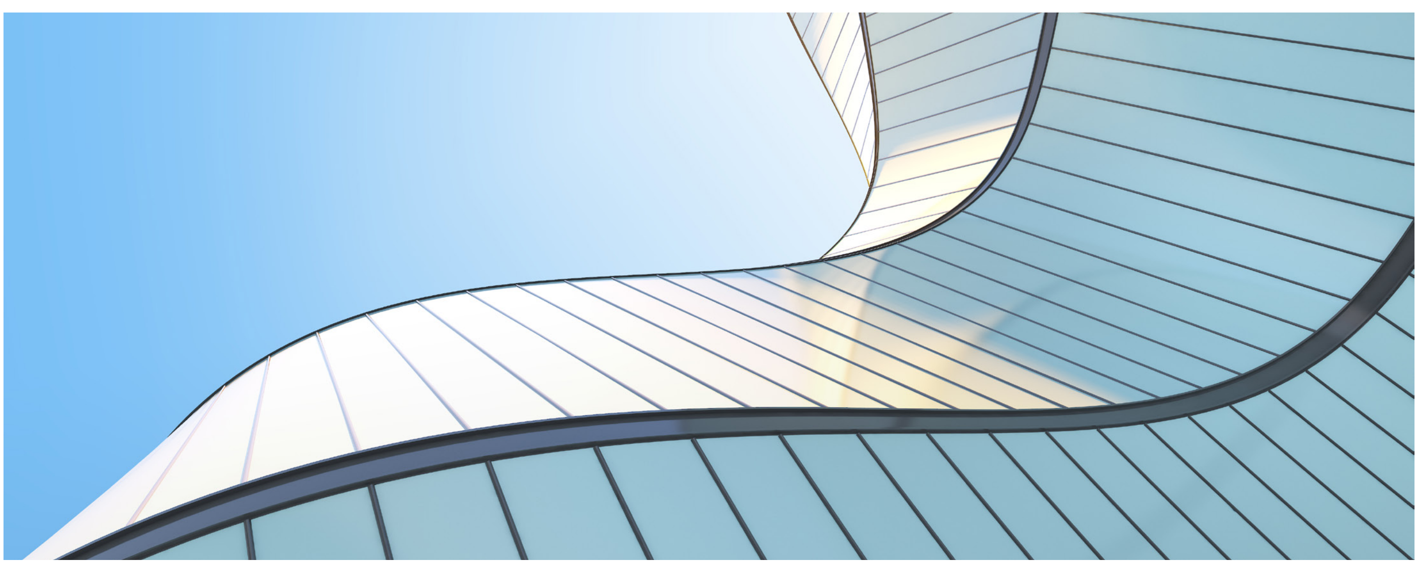
Significant questions remain about who will capture the economic value created, what returns companies will achieve from AI adoption, and how labor markets will adjust. Historical precedents, from electricity adoption to the internet revolution, suggest that transformative technologies often require decades to fully manifest their productivity benefits. The challenge for investors is that they know they cannot afford to wait on the sidelines, yet the investors we interviewed expressed a high degree of uncertainty around who the ultimate winners and losers will be.

Sustainability considerations have moved from ethical concern to pragmatic long-term risk and return factors. Institutional investors are incorporating environmental, social, and governance factors into portfolio construction when relevant, viewing them as material to long-term returns and systemic resilience rather than as standalone ethical mandates.

For institutional investors managing capital across decades, the central challenge is distinguishing signal from noise amid this complexity. Which trends represent fundamental shifts demanding portfolio repositioning? Which are transitory fluctuations? And how should long-term fiduciaries adapt their approach to achieve their objectives in this evolving environment while demonstrating clear value to increasingly vigilant stakeholders?

THIS REPORT EXAMINES SIX CRITICAL AREAS:

- Transition from efficiency to resilience
- Inflation protection strategies
- AI investment challenge
- AI's role in portfolio management itself
- Evolving sustainability integration
- Changing value proposition for institutional investors



The new risk premium: Resilience over efficiency

Globally, the system of alliances that has been in place since World War II has been eroding for some time, making way for regional blocs and bilateral agreements. While Covid and the Russian invasion of Ukraine may have been the turning point, recent U.S. policies imposing bilateral tariffs and retreating from global agreements have accelerated and exacerbated this trend. In addition to making the world more complex and harder to predict, this has also eroded trust. As one Australian investor put it, "You can no longer rely on the club to keep partners in line."

At the same time, the long-term globalization trend is reversing course, and the focus is shifting from optimizing cost efficiency to resiliency and national security. This is likely to increase costs, leading to higher inflation. It may also imply that inflation will become more volatile. Several investors mentioned an interest in assets that provide both growth potential and inflation protection.

Country risk returns to developed markets

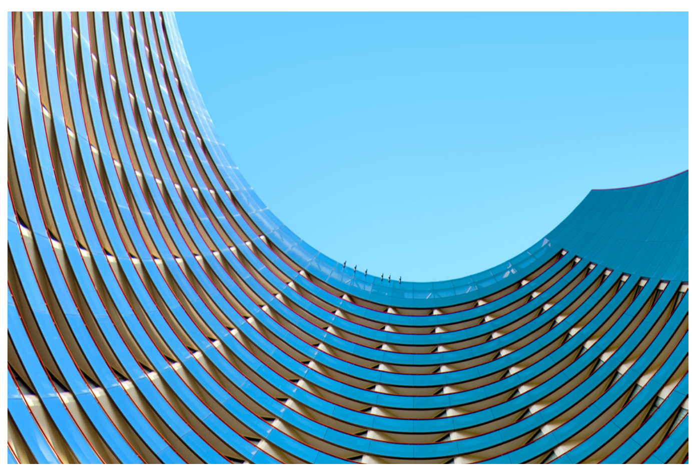
From the investor's perspective, these developments increase the need for careful analysis of investment targets. The country risk premium, which had been subdued in developed equity markets in recent years, is resurging. French and British government bond markets recently experienced sharp spikes in yields due to fiscal instability concerns, effectively forcing the Truss (U.K.) and Barnier (France) governments to reverse their policies.[1,2] Even Japanese bond yields have recently started to rise.[3]

Apart from fiscal concerns, country-specific reputation risk may also play an increasing role in portfolio construction in an era of enhanced public scrutiny. Investors may choose to avoid small but potentially controversial markets which, even in a best-case scenario, can only have a limited impact on portfolio performance.

> "The country risk premium is becoming more important. The winners will be countries with fiscal space, institutional capacity, and quality of bureaucrats." (Asian investor)

In addition to monitoring debtors' ability to pay their obligations, there's also a new wariness regarding their willingness to pay. In a world with more reliance on bilateral, transactional agreements rather than stable, long-term alliances, debtors might think more strategically about which obligations they're prepared to honor. Some investors mentioned an enhanced focus on the legal documents associated with credit issuance and increased interest in multi-issuer debt, where the promise to pay is underwritten by multiple signatories.

> "We have minimum requirements for investing in a market. Could the United States potentially fall below this minimum standard in the future?" (European investor)



1 George Glover, "These 3 charts show the chaos that ran through markets during the 45 days that Liz Truss was UK prime minister," Business Insider, October 20, 2022. markets.businessinsider.com/news/currencies/charts-liz-truss-resignation-uk-markets-gilts-pound-dollar-treasurys-2022-10.

2 Nathalie Benatia, "Graph of the Week – What next for French government bond yields?" Viewpoint, BNP Paribas, December 5, 2024. viewpoint.bnpparibas-am.com/graph-of-the-week-what-next-for-french-government-bond-yields/.

3 The Wall Street Journal, "Stock Market Today: Bond Yields Rise in the U.S. and Japan," December 4, 2025. wsj.com/livecoverage/stock-market-today-dow-sp-500-nasdaq-12-04-2025.

Differing global perspectives

The United States, which accounts for approximately 50% of global equity markets and 40% of global bond markets, plays a significant role in all global portfolios.[4] Unsurprisingly, all the investors, regardless of their country of origin, had strong opinions on recent U.S. policy regarding trade and global alliances.

There was a marked difference in perspective between U.S.-based and non-U.S.-based investors. Attitudes regarding the U.S. government's recent actions with respect to tariffs and foreign policy ranged from mildly critical to strongly concerned.

Several voiced concerns regarding the rule of law in the United States and the independence of the central bank. By contrast, U.S.-based investors, while not necessarily endorsing all the current administration's policies, were far more sanguine. They noted that in their view, the bankruptcy courts are both efficient and unbiased and that impact of the tariffs was likely to be limited.

> "The United States is pulling apart institutions, but that's not necessarily bad for equities." (Australian investor)

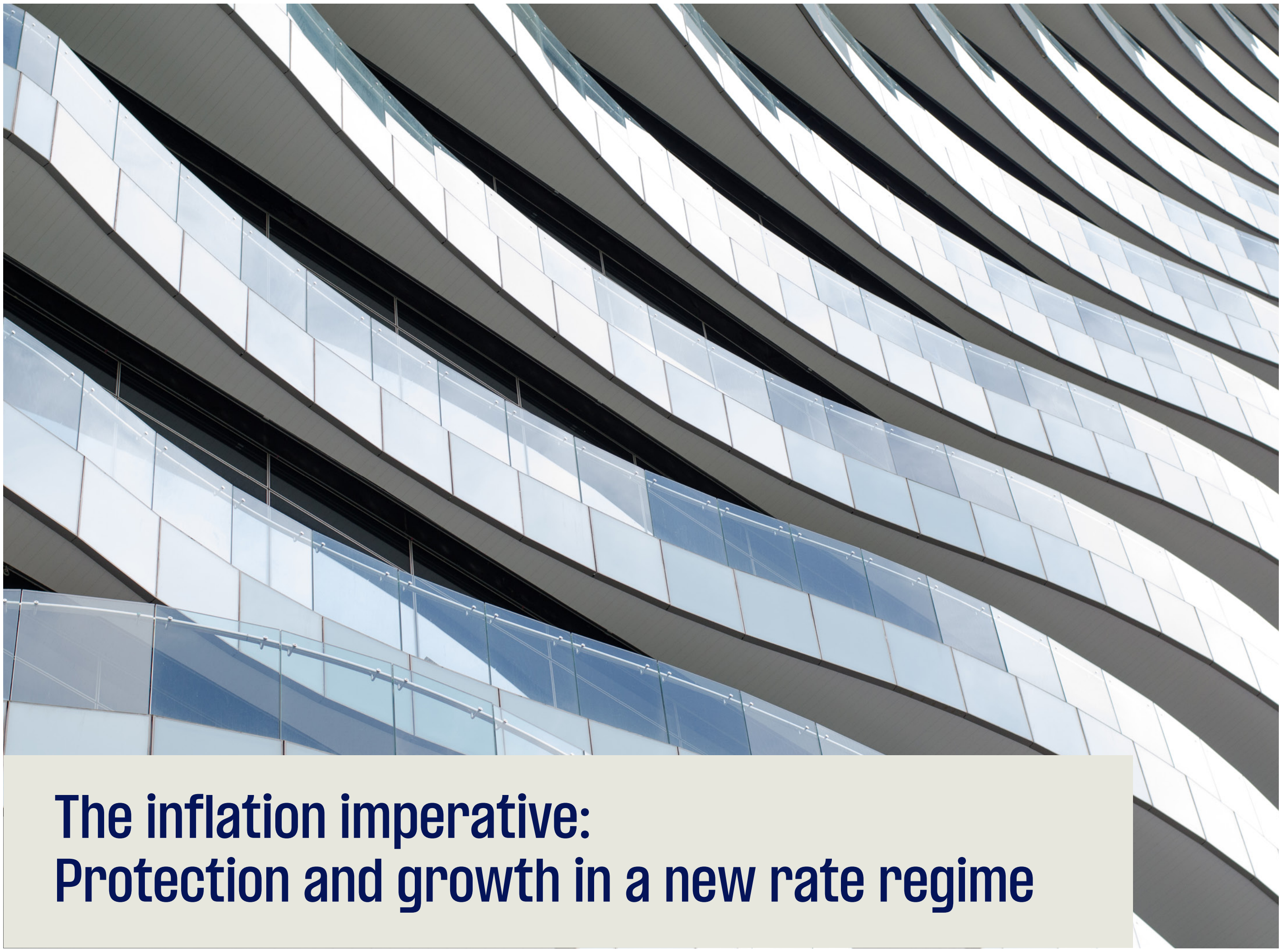
> "One of the greatest features from the perspective of an investor in the United States is the bankruptcy courts; you can have high confidence in their impartiality." (U.S. investor)

> "Investment in the United States is a bet on technology. Investors aren't going to bet against technology; this provides stability to U.S. currency and markets." (U.S. investor)

On the positive side, some global investors noted that the administration's regulatory approach was seen as conducive to growth. For long-term investors, new investment incentives are often negative, as they can put existing investments at a disadvantage. From this perspective, the relatively stable, non-interventionist approach to environmental investments in the United States is perceived as positive.

Few if any of the investors we spoke to had made significant changes to their U.S. holdings, but many said they had become more watchful and were monitoring the situation closely. Some mentioned a preference for doing more business with local partners than their previous U.S. partners. Apart from the sheer size of the U.S. market, the importance of the U.S.-based technology sector also makes it less attractive for investors to divest from the market, particularly in the short term.

4 SIFMA, Capital Markets Fact Book 2025, July 28, 2025. sifma.org/research/statistics/fact-book.



The inflation imperative: Protection and growth in a new rate regime

The fiscal trilemma: Debt, demographics, and deficits

In the aftermath of the pandemic, most developed economies are experiencing elevated government debt and persistent deficits. Furthermore, population aging will likely place an additional burden on public finances in the coming decades. Combined with the universal lack of political will to make the difficult decisions to bring government spending onto a more sustainable level, and the structural shift toward deglobalization and onshoring, this points to a regime of higher and more volatile inflation relative to the 2010s.

While a great deal of public discourse tends to center on the risks emanating from higher U.S. debt and deficits combined with an aging population, the United States is sadly not unique in this respect. The debt and deficit profiles in the European Union and China are very similar, and Japan already has had far higher debt levels for several decades without triggering a crisis. China also faces one of the fastest aging populations in the world.[5] However, the unique role of the dollar as the global reserve currency and the importance of U.S. Treasury bills as the risk-free benchmark, make the U.S. deficit and currency outlook particularly relevant for investors globally regardless of their country of origin.

5 United Nations, World Population Prospects 2024, population.un.org/wpp/.

Strong vigilance rather than action on U.S. fiscal fundamentals

Despite deteriorating U.S. fundamentals, and in the absence of compelling alternatives, the dollar is likely to retain its role as the predominant reserve currency. The euro and the renminbi have both gained some ground in recent years, but their role is still marginal compared to the dollar. While the share of the renminbi has increased, this is mainly due to bilateral commercial agreements, as the renminbi is not a freely convertible currency.[6] Nonetheless, international investors are acutely aware of the risks associated with prolonged dollar depreciation driven by elevated debt levels and are factoring this into their long-term portfolio thinking. Likewise, the role of treasuries as the risk-free rate can no longer be taken for granted in the long run. For example, in September 2025, the yields on AAA-rated Microsoft bonds briefly dipped below the risk-free rate.[7]

The investors we interviewed assigned a low probability of a change in the role of the dollar as the predominant reserve currency, although they did expect some gradual erosion. A greater concern was the possibility that the government would resort to monetizing the debt by allowing the dollar to depreciate. For equity portfolios, many saw positive opportunities on U.S. markets but were reviewing their currency basket exposure and whether they should hedge more currency risk. For bond portfolios, a commonly voiced concern was that long U.S. Treasuries would look less attractive if the dollar depreciation scenario materialized.

The coveted balance: Attractive returns with inflation protection

The challenge for investors in an inflationary environment is finding investments that simultaneously protect against inflation and offer good long-term returns. Equities offer inflation protection on a sufficiently long-term horizon but with high short-term volatility. For more stable medium-term returns, some investors mentioned that real assets with inflation-linked cash flows are attractive. Infrastructure investments with revenues indexed to inflation, real estate with rent escalation clauses, and similar structures offer more direct inflation linkage. The massive energy infrastructure buildout required for both the energy transition and AI deployment is creating hybrid asset categories that combine real estate, energy infrastructure, and technology exposure, all with inflation-sensitive characteristics.

For the investment industry, the challenge will be to develop asset management offerings and portfolio structures specifically designed to enhance inflation resilience without sacrificing returns. In many cases, the most effective means of building these inflation-resilient exposures to meet the needs of institutional investors will be through private markets, where structures can be more precisely tailored to specific objectives.

"There's a low probability of actual default. The real default risk is the things you need to do to manage the deficit and debt that lower growth." (Asian investor)

"The U.S. dollar is the best house in a bad neighborhood." (U.S. investor)

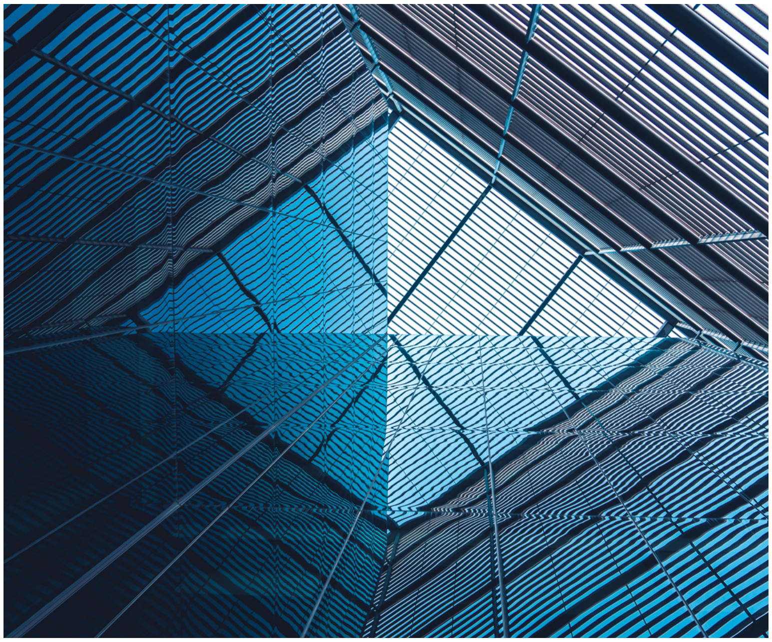
"Investing in inflation is a low Sharpe ratio trade; you don't make money on that. Hedging inflation won't pay the pensions. The only way is to invest in riskier assets with a higher Sharpe ratio." (European investor)

"The industry needs to develop asset management and product offerings designed to enhance inflation resilience." (Asian investor)

"If the dollar depreciates, you may need to reexamine the risks of long Treasuries." (Asian, Australian, and European investors)

6 Hung Tran, "The Euro's share of international transactions is likely smaller than it looks," Atlantic Council, May 21, 2024. atlanticcouncil.org/blogs/econographics/the-euros-share-of-international-transactions-is-likely-smaller-than-it-looks.

7 James Mackintosh, "Why Microsoft Has Lower Borrowing Costs Than the U.S.," The Wall Street Journal, September 28, 2025. wsj.com/finance/investing/why-microsoft-has-lower-borrowing-costs-than-the-u-s-de841633.



FOMO versus ROI: The AI investment conundrum

The productivity promise versus the displacement disruption

There's little doubt that AI will be a transformative technology in many ways. It has the potential to supercharge productivity growth, the scientific discovery process, and medical research. The physical investment in energy production capacity to power AI will boost growth and employment. It could unleash the "silver dividend," expanding the labor force by enabling people to work beyond traditional retirement ages.

On the other hand, there is also little doubt that it will be disruptive. While it will create many new jobs, it will also make other jobs obsolete. The effect on middle class jobs in industrial countries may be similar to that of globalization on blue collar jobs. It may reinforce and accelerate the trend of increasing inequality, with profits accruing to a limited number of platforms, reducing the positive impact on economic growth.

From bullion to bitcoin, or maybe not?

Many articles have heralded bitcoin as "the new gold."[8] However, bitcoin or other cryptocurrency allocations didn't play a significant role in the portfolios of most investors we interviewed. Typical criticisms centered on the difficulty of valuing it, the lack of track record, and its high volatility and correlation with risk assets. Bitcoin was seen as neither an effective diversifier nor a store of value. In fact, one investor described it as "all the downsides of gold without the track record."

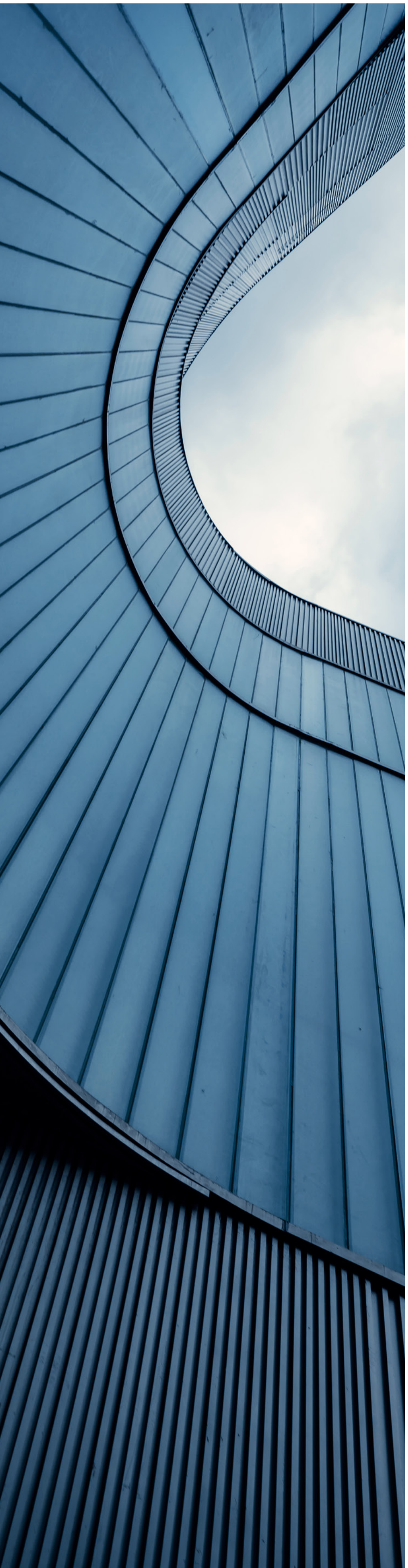
While there was limited interest in digital currency, many investors did have exposure to digital assets through their venture capital portfolios. Many also expressed an interest in digital infrastructure and saw the potential for tokenization, blockchains, and stablecoins to become more widely used.

> "I can't model it. I need to be able to fundamentally analyze it or we're not investing."
> (U.S. investor)

> "Bitcoin fails the first test of a diversifying asset; it's more closely correlated to the Nasdaq than treasuries."
> (Asian investor)

> "When AI built a portfolio, it included crypto to make it more resilient." (Australian investor)

8 Vicky Ge Huang, "These Five Wall Street Titans Thought Bitcoin Was a Fad. Here's What They Say Now," The Wall Street Journal, December 15, 2024. wsj.com/finance/currencies/bitcoin-dimon-fink-griffin-buffet-dalio-crypto-af5af1a5.



"Companies are spending a lot of time and money on this, but what's the ROI?" (U.S. investor)

"We're overestimating the impact in the short term and underestimating the impact in the long term." (U.S. investor)

The trillion-dollar question: Who will capture the value?

There's a strong consensus among investors that nobody knows who the winners and losers will be. There's an equally strong consensus that investors and companies cannot afford to sit on the sidelines and wait to find out. As a result, everybody is currently experimenting. Whether the future profit share of AI companies will be large enough to justify current lofty valuations is a frequently asked question. An even bigger question is what returns on investment other companies will achieve from employing AI tools. Due to the rapidly evolving nature of the technology, there's limited empirical data so far, but some research reports document only very modest productivity gains and labor market effects from the adoption of AI.[9,10]

"With AI, we have no idea who the winners and losers will be." (Australian investor)

"AI will also lead to huge demand for energy and power infrastructure." (U.S. investor)

Speaking in 1987, Robert Solow famously said, "You can see the computer age everywhere but in the productivity statistics."[11] With the benefit of hindsight, he was simply too hasty in his assessment. Later research has shown that the use and production of computers explained most of the acceleration in labor productivity after 1995, almost a decade after Solow's remarks.[12] Likewise, it would be hasty to dismiss the productivity-enhancing potential of AI at this early stage, particularly as companies and workers are currently only scratching the surface of how it might be used to augment and reorganize human processes. From the investor's perspective, this implies that they'll have to continue to monitor the environment, experiment, and update their assumptions based on new information as it emerges.

9 Anders Humlum and Emilie Vestergaard, "Large Language Models, Small Labor Market Effects," Becker Friedman Institute for Economics, Working Paper No. 2025-56, April 17, 2025. dx.doi.org/10.2139/ssrn.5219933.

10 Menaka Hampole, Dimitris Papanikolaou, Lawrence D.W. Schmidt, and Bryan Seegmiller, "Artificial Intelligence and the Labor Market," National Bureau of Economic Research, Working Paper 33509, February 2025. doi.org/10.3386/w33509.

11 Robert M. Solow, "We'd Better Watch Out," New York Times Book Review, July 12, 1987, p. 36

12 Stephen D. Oliner and Daniel E. Sichel, "The Resurgence of Growth in the Late 1990s: Is Information Technology the Story?" Journal of Economic Perspectives, vol. 14, no. 4, Fall 2000, doi.org/10.1257/jep.14.4.3.

AI in the portfolio process: From automation to insight

Automating the routine, augmenting the complex

While the broader investment case for AI remains uncertain, investors are already deploying AI in their own operations. The question is no longer whether AI will affect how portfolios are managed, but rather how deeply it'll penetrate the investment process.

AI excels at processing vast quantities of information, identifying patterns across diverse data sets, and enabling more sophisticated forms of analysis. For example, it makes it easier to both optimize portfolios across multiple dimensions and understand the interconnections between different factors and asset classes. Many investors mentioned that they were using it to search databases, produce reports, conduct audits, or summarize trend data and find key signals from large volumes of research reports.

> "AI agents can help with making investment decisions, providing external perspective. No one is talking about how they can be used to enhance decision-making." (Australian investor)

The limits of AI: Why human judgement still matters

While most investors we interviewed are employing AI to automate routine tasks and augment human capabilities, many expressed skepticism regarding its ability to replace human judgment in portfolio management. They mentioned that so far, large language models (LLMs) have not demonstrated sustainable alpha generation. They were also doubtful whether AI would be able to make sense of a market and design a portfolio. Furthermore, the black box nature of AI introduces transparency concerns and governance problems, including the question of who should be held accountable when AI makes a mistake. As one investor put it, "If AI makes a bad decision, I won't know why it made that decision or why it got it wrong."

> "AI is good for producing reports, searching databases, audits etc. It's more about reducing cost than adding alpha."
> (Asian investor)

Rather than replacing human judgement, the value of AI is likely to come more from its ability to enhance human decision-making and free up management time for other important tasks that AI cannot do. One executive highlighted the ability to dedicate more time to talent development or building relationships within and outside the organization.

> "AI can improve the way we analyze data, enable a different type of optimization that was very difficult to do before."
> (European investor)

AI as a sparring partner: Debiasing human decisions

On the other hand, the very fact that AI is not human may be its biggest strength for improving decision-making. An intriguing alternative approach uses agentic AI to provide multiple perspectives on investment decisions, functioning as a tool to debias human decision-making rather than replace it. Agentic AI tools can enhance the ability of strategy teams to examine multiple perspectives and identify blind spots or unrealistic assumptions precisely because it's easier to accept criticism from an unbiased, non-human source.[13]

This same approach could be used to examine portfolio assumptions. Some investors noted instances where AI-recommended portfolio allocations included assets that human managers would exclude, such as cryptocurrency allocations. This raises the possibility that AI-generated portfolios could provide useful insights leading to more robust portfolios even though humans retain the ultimate discretion.

The sustainability spectrum: Integration over isolation

Alongside these economic and technological shifts, sustainability considerations continue to evolve as a portfolio construction factor. While some markets, such as the European Union or Australia, actively encourage the incorporation of environmental or broader sustainability considerations in portfolio construction, the official approach in the United States is markedly more skeptical.

Nonetheless, a clear pattern is emerging. Even outside the United States, many institutional investors have limited interest in environmental investments as a standalone theme. Instead, we found that most investors are incorporating sustainability considerations as an integrated part of their portfolio construction process. Rather than an all-or-nothing approach, attitudes range along a spectrum, from a narrower financial approach to a broader societal approach.

From financial pragmatism to societal stewardship

At one end of the spectrum, sustainability is viewed primarily through a financial lens. Climate strategies are attractive if they offer reasonable returns and reduce downside risk, and themes like the energy or digital transition offer attractive investment opportunities. Environmental, social, and governance factors are integrated elements of evaluating the risk and return profile of investments. Investors want to avoid potential future stranded assets, with thermal coal

13 Anthea Roberts, "The Devil's Advocate: What Happens When Dissent Becomes Digital," Dragonfly Thinking. dragonflythinking.com/journal/the-devils-advocate-what-happens-when-dissent-becomes-digital.

plants being mentioned most frequently. Environmental impact assessments are also important for anticipating and evaluating regulatory risk and financial viability for long-term infrastructure investments, such as data centers.

At the other end of the spectrum, particularly those investors with very long time horizons are deeply concerned with the long-term sustainability of the society they serve. This definition of sustainability expands beyond environmental considerations to include topics such as geopolitics, inequality, or AI. Many mentioned that they feel that they have a responsibility to lead capital to areas that will improve the robustness of the economy or promote new industries that will develop solutions to real-world challenges such as biodiversity, the energy transition, or social inequality. Their motivation is not purely based on altruism. Rather, they believe these investments will generate attractive long-term returns while simultaneously strengthening the economic systems upon which their beneficiaries depend.

The energy transition as an investment opportunity

The financing requirements for the energy transition, due to both electrification and increased energy demands from AI, represent one of the most significant capital deployment opportunities of the coming decades. According to Singapore sovereign wealth fund GIC, over $126 trillion of capital investment will be needed from now until 2050, with 70% of this funding expected to come from private actors.[14] Importantly, this doesn't imply that only "environmentally compliant" companies are attractive investments. Many investors expressed interest in financing the transition of existing carbon-intensive businesses, viewing this as more impactful than targeting "clean" investments. Exclusion strategies were generally considered ineffective, with the exception of excluding potential stranded assets.

Overall, ideological positioning is not the primary driver of sustainability integration among sophisticated institutional investors. Rather, investors are engaging pragmatically with sustainability factors because they recognize these factors as material to long-term returns and institutional and societal resilience.

Private markets as essential tools for customized risk–return profiles

The broader approach to sustainability often involves expanding the range of risk factors for portfolio construction beyond financial risk and return metrics to include sustainability metrics, requiring sophisticated optimization models. Multiple investors noted that private markets often provide the only practical means of obtaining the specific risk exposures that they need for multidimensional portfolio construction. Private structures enable the creation of customized investment vehicles that can combine targeted sustainability characteristics with appropriate risk–return profiles while also providing diversification away from public equity risk concentration.

"Energy transition, health care, financial inclusion, these are all big macro themes that have good investment opportunities." (U.S. investor)

"It serves as a means of mitigating downside risk." (Asian investor)

"What's good for the environment is good for returns, don't see a contradiction." (Asian investor)

"We'll invest in climate strategies as long as they offer a decent return and improve risk management. We don't invest in green for the sake of green." (European investor)

"Brown on the path to green, the ability to transition is important." (U.S. investor)

"Private markets will continue to be important. They offer the best way to build portfolios with the specific sustainability and risk profiles we need." (European investor)

14 Viola Tang, "Beyond Financing Gaps: Sizing the Decarbonization Investment Opportunity," *ThinkSpace*, GIC, December 13, 2023. gic.com.sg/thinkspace/sustainability/beyond-financing-gaps-sizing-the-decarbonisation-investment-opportunity/.

The accountability imperative: Justifying institutional value

In addition to the forces shaping returns for institutional portfolios, the world in which institutional investors themselves operate is evolving. In an increasingly polarized world with an accelerated news cycle, investors face mounting pressure to justify their own value proposition to stakeholders, including clients, politicians, and the general public.

Beyond mandates: Explaining what you own and why

Online brokerage and trading platforms enable retail investors to access instruments and asset classes previously reserved for institutions, eroding some of the traditional institutional advantages of access and scale. At the same time, this democratization of investing has led to enhanced public scrutiny of institutional returns. Even investors with absolute return mandates face reputational and political risk if they underperform observable benchmarks or peer groups for extended periods. Investors can no longer hide behind compliance with their specific mandate. Now they must be able to explain what they own and why those holdings make sense for their specific circumstances.

> "The investment industry is the taxi industry of 15 years ago, overpriced and ripe for disruption." (Australian investor)

> "How can an institutional investor add value in a world of democratization? Would an individual pay an investment manager to provide a 60-40 strategy that they could replicate cheaply themselves?" (Asian investor)

Concentrated portfolios and specialist managers

In the same vein, many investors expressed a desire for more concentrated and targeted portfolios. One reason for this is the need to understand exactly what they own and which risks they're exposed to. Another reason is to get more value from active managers by using specialist managers with narrowly defined mandates rather than aiming to beat a broad market index. This emulates the targeted approach typically employed with private asset managers. In addition to potentially better risk-adjusted returns, this focus on narrower active mandates can help insulate the portfolio from the potentially disruptive impact of flows related to portfolio rebalancing by large index funds.

Changing investors, changing markets

After more than a decade of strong performance across asset classes where "everything worked," many investors expressed a concern that an entire cohort of both retail and professional investors has never experienced a financial crisis comparable to 2008. At the same time, the gamification of retail investing and the significant expansion of retail participation in markets may lead to extended periods of price drift from fundamental value. The marginal price-setter in some market situations may be retail participants responding to social media rather than institutional fundamental analysis. This has the potential to exacerbate volatility when market stress emerges in the future.

> "You need to know what you own and be able to explain why and what it does in your portfolio. You can't hide behind the benchmark." (European investor)

Evolving investment organizations

Some investors we interviewed also pointed to changes in their own internal organizations to deliver value efficiently. For example, the shift away from asset class buckets to the total portfolio approach requires a transition in internal incentives, team structure, and organizational culture, which can be challenging to navigate. Use of private markets is likely to continue to increase, but unlike public market portfolios, these are not scalable.

Some investors were hesitant to build large in-house organizations to evaluate and invest in private markets, instead preferring to partner with sophisticated external asset managers that have already built specialized teams and infrastructure.

> "Institutional investors must recognize that (1) our value lies in conducting investments with professional expertise and knowledge, and (2) we should continue investing with a long-term vision to support societal transformation." (Asian investor)

The value proposition: What institutional investors uniquely deliver

Institutional investors face a new set of challenges in demonstrating their own value to increasingly vigilant, but not necessarily informed, stakeholders. The answer must lie in demonstrating clear value beyond simple market exposure: sophisticated portfolio construction, access to unique opportunities, patient capital deployment, sustainable returns, integrated risk management, and professional oversight that individual investors cannot replicate. As one investor put it, "If we don't get it right by the standards of tomorrow, they'll hold us accountable."

CONCLUSION

Navigating complexity with curiosity and conviction

The institutional investment landscape stands at an inflection point where multiple structural forces are converging to create an environment fundamentally different from the one that defined the 2010s. What emerged most clearly from our conversations with chief investment officers was not anxiety about any single challenge, but rather a recognition that the entire operating context has shifted.

The era of globalization, predictable alliances, and benign monetary conditions has given way to something far more complex. Investors now operate in a world where efficiency must be balanced against resilience and where traditional frameworks are no longer sufficient for capturing interconnected risks. Country risk has returned to developed markets. Fiscal sustainability can no longer be taken for granted. The transformative potential of AI coexists with profound uncertainty about who will capture its economic value.

Yet what distinguishes sophisticated institutional investors is not their ability to predict these forces, but their capacity to adapt to them. The investors we spoke with are neither paralyzed by uncertainty nor dismissive of genuine risks. Instead, they're engaging pragmatically, experimenting with new approaches, building new organizational capabilities, expanding their analytical frameworks, and maintaining the discipline to distinguish signal from noise in an increasingly noisy environment.

This pragmatism manifests in concrete ways: integrating sustainability not as ideology but as material risk factors, using private markets to construct specific risk exposures that public markets cannot provide, adopting AI not to replace human judgment but to augment and debias it, and using specialized partners to build more concentrated, transparent portfolios that can also be clearly explained to stakeholders who increasingly demand accountability.

The democratization of market access has fundamentally altered the value proposition of institutional investment. Stakeholders no longer merely ask "What did we earn?" but "Why do we need you?" The answer lies in capabilities that individual investors genuinely cannot replicate: patient capital deployment across decades, sophisticated multidimensional portfolio construction, access to specialized opportunities, and the organizational infrastructure to execute complex strategies while maintaining governance and oversight.

Perhaps most striking was the measured confidence these fiduciaries displayed. They recognize that change and complexity create opportunity for those equipped to navigate it systematically. They also recognize that, as long-term investors, they'll be held accountable to an evolving set of future standards. Properly understood, that accountability serves not as a burden but as the organizing principle for institutional investment in an era defined by the convergence of structural forces. The investors equipped to meet this standard will be those who engage seriously with these shifts, invest in understanding rather than reacting to headlines, and maintain conviction in their ability to adapt thoughtfully to whatever emerges.

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About the TIAA Institute

Since 1998, the TIAA Institute has helped advance the ways individuals and institutions plan for financial security and organizational effectiveness. The Institute conducts in-depth research, provides access to a network of thought leaders, and enables those it serves to anticipate trends, plan future strategies and maximize opportunities for success. To learn more, visit **tiaainstitute.org**.

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Nuveen, the investment manager of TIAA, offers a comprehensive range of outcome-focused investment solutions designed to secure the long-term financial goals of institutional and individual investors. Nuveen has $1.3 trillion in assets under management as of 31 December 2024 and operations in 32 countries. Its investment specialists offer deep expertise across a comprehensive range of traditional and alternative investments through a wide array of vehicles and customized strategies. For more information, please visit **nuveen.com/retirement**.

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