

PI

JAPAN'S IRON LADY: WHAT DOES SHE MEAN FOR INVESTORS?

A European renaissance
Private equity bounces back

Nuffield Foundation interview
Going back to the start

European active ETFs
A new phase of evolution



Discover how the world's leading asset owners are staying ahead.

Our 2025 Private Markets Study reveals exclusive insights into how cutting-edge technology is transforming data and portfolio analysis — helping investors meet today's challenges with confidence.

[Download the study](#)



Going East

In *West to East: The greatest transfer of power and wealth in the history of mankind*, James Gibson addressed the increasing trend of the transfer of power and wealth from the West to the East, which has had, and will continue to have, major implications for investors.

The Easternisation question has been a big topic of discussion thanks to recent developments in Japan. In October, Sanae Takaichi made history by becoming Japan's first female prime minister.

It was news welcomed by investors and the markets, with the Topix index of Japanese shares reaching record highs. Citi estimates the Topix could be given a real boost, reaching 3,400 points by December under current market conditions. Whether this is a sign of things to come, and what opportunities the situation presents investors, are explored on page 10.

One big positive from a European perspective is within the European active ETF market, which is entering a new phase of evolution. This is one characterised by growth, diversification of strategies, and intensifying competition among asset managers. Exploring this, Morningstar's Monika Calay presents some fascinating analysis on page 6.

In a similar way, after what has been a challenging few years, Europe's private equity landscape is reasserting itself, driven by lower valuations, stabilising macro conditions, and an unprecedented push toward self-reliance. Karsten Langer unpicks this picture from page 14.

Looking at the market as a wider canvas in 2025, it is safe to say that the market environment has seen many ups and downs. James Brooke Turner, the investment director of charity the Nuffield Foundation, talks about how he has looked to overcome the turmoil through the importance of a well-put-together portfolio. You can read his interesting insight from page 18.

When it comes to wider investment concerns, Aon's Global Pension Risk Survey 2025/26 revealed that the risk of investment returns being lower than expected is the top concern for defined benefit (DB) pension schemes. This of course is a big concern among many institutional investors, reflecting the investor adage that the past does not represent the future. Rupert Kotowski explores this, and other key findings, on page 16.

I hope you enjoy the issue.

Andrew Holt

Editor

a.holt@portfolio-institutional.co.uk



In this issue

10: Cover story: Japan's Iron Lady

When Sanae Takaichi became Japan's prime minister last month Japanese shares rose to record highs. Is this a sign of things to come?



6: Market analysis: Europe active ETFs step out of their comfort zone

Monika Calay takes a deep dive into the European active ETF market to reveal some interesting trends.



14: Europe's resilient renaissance

After a challenging few years, Europe's private equity landscape is reasserting itself.



16: Endgame intentions are driving investment choices

Rupert Kotowski explores the key findings of Aon's Global Pension Risk Survey 2025/26.



18: Interview: James Brooke Turner

The investment director of the Nuffield Foundation talks about overcoming market turmoil and the importance of a well-put-together portfolio.

8: Opinion

Leandros Kalisperas on investment in UK innovative companies.

9: Opinion

Rachel Farrell on how private markets shape Nest's investments.

22: The Last Word

Doug Clark on misguided private credit fears.

23: Calendar

A woman with long dark hair, wearing a black and white fur-trimmed jacket over a purple top, sits on a grey block. A man with grey hair and glasses, wearing a grey three-piece suit and a purple tie, sits on a grey block. Between them is a purple chessboard with white and purple chess pieces. The woman is gesturing with her hand while talking to the man.

**Private
Assets,
your style.**



Whatever your
investment style,
we offer private assets
to fit your objectives.

**> Make your next
move with Natixis IM**

Europe active ETFs step out of their comfort zone

Monika Calay takes a deep dive into the European active ETF market to reveal some interesting trends.

The European active ETF market is entering a new phase of evolution – one characterised by growth, diversification of strategies, and intensifying competition among asset managers.

Yet, despite impressive momentum, active ETFs remain a niche within Europe's broader ETF ecosystem. Active ETF assets in Europe have doubled over the past two years, reaching €62.4bn (£54.83bn) as of August 2025, up from €31bn in 2023.

That growth, while striking, still represents only 2.6% of total European ETF assets, a fraction of the 10.2% share seen in the United States. In Europe, equity strategies dominate the active ETF space, accounting for roughly 70% of active ETF assets, while bonds represent 24% and allocation strategies about 5%. Flows have been an important growth engine: in the first eight months of 2025 alone, active ETFs attracted €13.4 billion in net new money, split €8.3 billion to equities and €3.7 billion to fixed income. However, European adoption remains slower than in the US, where over a third of all ETF flows now go to active products.

The provider landscape is heavily concentrated. JP Morgan Asset Management commands 56% of the active ETF market, driven by the success of its research enhanced index (REI) range, known for its benchmark-aware approach that blends fundamental research with modest active tilts. Fidelity ranks second with an 11% share, followed by Pimco at 7%.

But new entrants are reshaping the field. Firms such as Avantis, Goldman Sachs, and Robeco have launched product suites, often leaning on systematic, rules-based approaches.

Their arrival signals a competitive turning point: what began as a niche experiment led by a handful of discretionary managers has evolved into a multi-style marketplace. The number of active ETF launches hit a record 81 by August 2025, compared with an average of 10 annually during the previous decade.

Fee compression has followed. The average ongoing charge for equity active ETFs has fallen from 0.43% to 0.37% since 2022. While still above passive peers (0.27%), far below active mutual funds (1.32%).

In fixed income, fees hover just below 0.30%. For institutions with cost-sensitive mandates, this narrowing fee differential strengthens the case for active ETFs as efficient, flexible vehicles for implementing active exposures.

Morningstar's new classification framework of distinguishing discretionary from systematic active strategies brings much-needed clarity to a previously ambiguous market.

According to the analysis, 86% of European active ETF assets reside in discretionary funds where portfolio managers exercise judgment in security selection and allocation. Only around 13% of assets follow systematic, quantitatively driven approaches.

However, in 2025, systematic equity active ETFs attracted €3.5bn in net inflows, triple the prior year's total. While discretionary peers saw sharply reduced demand.

By contrast, fixed income remains overwhelmingly discretionary – over 90% of assets – reflecting the continued advantage of fundamental research in bond markets.

In equities, most active ETFs remain “shy-active” – benchmark-aware, diversified portfolios operating within tight tracking-error budgets, typically below 2%. These funds are designed as core portfolio building blocks rather than high-conviction vehicles. JP Morgan's and Fidelity's REI and Research Enhanced ranges exemplify this approach: low-cost, low-tracking-error products that deliver marginal alpha through fundamental research-led security selection.

Morningstar's data show that large-cap exposure dominates, driven by liquidity considerations and scalability. Small-cap active ETFs remain rare, though Avantis' Global Small Cap Value ETF has attracted attention and assets since it was inception.

Transparency remains the norm, though Fidelity's 2025 launch of Europe's first semi-transparent active ETF – the US



Monika Calay is director of UK manager research at Morningstar.

Fundamental Small-Mid Cap UCITS ETF – marks a potentially transformative development. It could pave the way for higher-active-share strategies that protect intellectual property while maintaining sufficient disclosure to support efficient trading. At the other end of the spectrum, a handful of high-conviction thematic products have emerged, such as ARK’s Innovation, AI and robotics, and Genomics ETFs, as well as Janus Henderson’s concentrated Pan-European High Conviction strategies. Yet these remain exceptions rather than the rule. Actively managed bond ETFs are expanding into new territory, including collateralised loan obligations (CLOs), mortgage-backed securities (MBS), and emerging-market and high-yield debt. These products provide exposure to less index-friendly asset classes where active management can exploit inefficiencies.

CLO ETFs, for instance, have grown to €603 million in assets. While nascent, this area illustrates the potential for active ETFs to deliver targeted, liquidity-sensitive exposures in credit markets.

Similarly, Janus Henderson’s active MBS ETF – the first of its kind in Europe – aims to outperform its benchmark by 50 basis points annually after fees through disciplined prepayment modelling and selective off-index exposure.

The “shy-active” phenomenon is visible here too: most fixed-income active ETFs maintain tracking errors below 1% and fees in the 0.15%–0.35% range.

Yet the segment’s evolution toward more differentiated approaches, such as Goldman Sachs’ high-yield ETF, with meaningful off-benchmark exposure, suggests an appetite for more dynamic risk-taking among investors seeking yield in an uncertain rate environment.

Morningstar’s data reveals institutional uptake within multi-asset fund-of-funds’ portfolios. The JPM US Research Enhanced Equity Active ETF alone appears in over 120 portfolios, with €12 billion in combined assets. Its success underscores how benchmark aware active ETFs are increasingly deployed as core, low-cost, and transparent building

blocks.

In fixed income, the JPM EUR IG corporate bond active ETF is currently the most widely held among fund-of-funds, with an average portfolio weight of 7.85%. While performance records remain short, early indicators are favourable. Across both equity and fixed income, active ETFs show higher success and survivorship rates than comparable open-end active funds. Fixed income, in particular, shows greater promise: active bond ETFs have materially outperformed open-end active peers in a majority of categories over one- and three-year horizons. The structural inefficiencies and dispersion inherent in bond markets, amplified by recent rate volatility, create fertile ground for active managers, particularly within credit and securitised assets.

For institutional investors, the European active ETF market presents both a diversification opportunity and an operational challenge. On one hand, the blend of lower costs, active insight, and ETF liquidity offers an attractive middle ground between passive index tracking and traditional mutual funds.

On the other, the growing complexity of the active ETF universe, spanning discretionary, systematic, and other formats, demands enhanced due diligence. As such, institutional investors should view active ETFs less as a monolithic asset class and more as a spectrum of choices.

Europe’s active ETF landscape is maturing rapidly, but it remains defined by cautious innovation. The next phase will hinge on whether investors embrace higher-conviction, higher-active-share products as credible complements to existing active mandates. If they do, Europe’s active ETF market could evolve from its current “shy-active” stance into a more dynamic, conviction-led ecosystem.

For now, growth is steady, not explosive; competition is deepening; and product complexity is rising. Active ETFs are stepping out of their comfort zone, and for institutions seeking flexible, transparent, and cost-efficient tools for alpha generation, that is a development worth watching.



Leandros Kalisperas is chief investment officer at the British Business Bank.

Unlocking the UK's innovation potential: The investment opportunity

Leandros Kalisperas highlights how the foundations are in place for greater investment in UK innovative companies.

We are at a pivotal point in the development of the UK's innovation ecosystem, and its place on the world stage. Over the last 20 years, I have witnessed first-hand the many innovative, IP-rich companies that have high growth potential. Several of these have gone on to become unicorns and proved to be successful investments. But there are hundreds of others that deserve the same attention, and there is a scale up capital gap that risks losing them to overseas markets. As the first chief investment officer of the British Business Bank, I step into this new role with a determination to capture this potential.

Since starting at the British Business Bank in January, one of the most significant developments has been the UK Government's Spending Review and its modern Industrial Strategy which will support our most promising businesses in its eight priority sectors to scale and stay here.

This saw the total financial capacity of the British Business Bank, already the largest investor in UK venture and venture growth capital funds, increased to £25.6bn, enabling a two-thirds increase in investments to around £2.5bn each year.

Crucially, the Bank also has a newly permanent and more fungible capital base, with greater flexibility to allocate across sectors over the long-term.

It is with this new capacity and scale that the Bank renews its focus on mobilising institutional capital at scale, which was confirmed at the recent Regional Investment Summit by the secretary of state for business and trade who set out his mandate for the bank in a new statement of strategic priorities.

The statement gives the bank a clear direction for the next five years and confirms its critical role in supporting the government's growth mission by helping smaller businesses get the finance they need to start, scale, and stay in the UK.

Despite the UK having the second largest pool of long-term capital globally – nearly £5trn held in pension and insurance funds – it makes the smallest allocation to alternative assets among P7 nations, at less than 10% versus the 19% average. This underinvestment is particularly striking given that the UK hosts four of the world's top ten universities and boasts world-leading research and development capabilities. The result of this gap is that breakthrough companies either grow more slowly than their potential allows, or they migrate to overseas markets – precisely at the point they become economically significant to the UK.

The British Business Bank has been at the heart of the innovation economy for more than a decade, consistently investing primarily via funds but latterly with an increasing co-investments presence around £600m annually into commercial opportunities.

We have supported 23 UK unicorns through our equity programmes, representing 59% of all current UK unicorns, and more than 48,000 high growth, high potential companies currently receive funding through our Investment business.

Ultimately, with the greater capital allocated to us and an established funds track record alongside an expanding in-house capability, including the establishment of the British Growth Partnership to catalyse further pension fund capital, we are well-placed to encourage other institutional investors to invest in venture capital alongside us.

I recognise the challenges institutional investors have historically faced in accessing the market and navigating the perception of riskier assets. However, as someone with a large asset owner background myself, I would ask fellow institutional allocators of capital to consider that UK venture capital performance can match that of US venture capital; offers modest correlation with other asset classes, providing valuable portfolio diversification benefits; and provides beneficiaries with exposure to primary, productive investment opportunities in the UK.

It has been less than a year since I was appointed, and the progress in that time demonstrates what can be achieved with the collective effort of our entire investment ecosystem. The foundations are in place, and the potential returns, both financial and societal, make this an investment in the UK's future worth making. I look forward to what we can jointly achieve in the next year.



Rachel Farrell is director of public and private markets at Nest.

Private markets and institutional investment

Rachel Farrell reveals how private markets are shaping Nest's investment strategy.

Private markets are becoming an increasingly important component of institutional investment strategies. For long-term UK investors, private markets now represent one of the most exciting and dynamic areas of capital deployment – offering diversification, inflation protection, and exposure to growth sectors.

In the UK, this shift is being accelerated by policy changes and industry initiatives. The Pension Schemes Bill is helping schemes build the scale needed to access opportunities. The government's push to foster greater investment in the UK – from convening investor groups to developing a pipeline of investable domestic assets, including the recently-launched Sterling 20 initiatives is reshaping the landscape. Together, these initiatives are making private market investing more accessible, signalling that it is no longer out of reach but a viable path for more pension schemes to explore.

As the UK's largest pension scheme serving a third of the workforce, we view private markets as a way to deliver strong, consistent long-term returns for our members while additionally making meaningful investments in the real economy.

Nest's private market strategy is deliberately broad, spanning five key asset classes: private equity, infrastructure, private credit, real estate, and natural capital. This diversification helps manage risk and ensures members' savings are exposed to a wide range of long-term opportunities.

By investing across sectors – from renewable energy to mid-market business lending – we aim to build a resilient portfolio that can deliver stable, sustainable returns over decades. Since 2019, Nest has been steadily increasing our private markets allocation. With over £55bn assets under manage-

ment today, around 18% is allocated to private assets. We aspire to increase this to 30% over the coming years.

This ambition is underpinned by several key themes.

First, private markets can offer the potential for higher long-term returns. Because private assets are illiquid, investors like us believe there's an "illiquidity premium" in exchange for locking up capital. The active nature of these investments – with direct engagement on strategy and operations – also allows us to drive value creation rather than simply ride market beta.

Second, they allow schemes to diversify key risks. Private assets behave differently from listed equities and bonds, providing exposure to uncorrelated income streams and new sources of growth. This is particularly important in the current environment, where public valuations can be distorted by sentiment and liquidity cycles.

Third, they align naturally with Nest's long-term investment horizons. Pension schemes are, by definition, patient investors. The ability to hold assets for 10–20 years and beyond enables us to weather short-term market noise and focus on compounding returns over time.

Finally, the nature of our private market deals, in that we can invest directly into specific assets and not through funds of funds, allows for more active ownership. Investors in private equity or infrastructure can have a seat at the table when it comes to governance, sustainability, and long-term planning – something that is far harder to achieve with large, listed companies.

The recent collapse of the First Brands Group serves as a reminder that not all private investments are created equal. Simply being in private markets isn't enough – success depends on rigorous due diligence and specialist expertise.

That discipline shapes how we approach private equity. These deals offer exciting investment opportunities for our members, who are mostly low-to-moderate income earners and were previously excluded from these investments.

Infrastructure investments are another area where private markets provide both resilience and potential returns. Under Nest's strategic partnership with IFM Investors, we have brought fresh capital to essential UK infrastructure.

Beyond these investments, Nest has committed a total of £4bn already to UK private markets and has an ambition to reach £12bn by 2030. While the growing emphasis on private markets dovetails with the UK's push to boost domestic investment, our growing domestic allocation is aligned with our mission to create lasting opportunities that benefit our members and the communities they live in.

When Sanae Takaichi became Japan's prime minister last month Japanese shares rose to record highs. Is this a sign of things to come?
Andrew Holt investigates.

JAPAN'S IRON LADY: WHAT DOES SHE MEAN FOR INVESTORS?

Japan has its own Iron Lady. Sanae Takaichi made history in October, becoming Japan's first female prime minister with much fanfare. Her elevation to prime minister sent the Topix index of Japanese shares to record highs.

Investors reacted positively to the incoming PM's "responsible fiscal policy" aimed at reducing debt-to-GDP ratios in the long run. In fact, Japan has seen its own "Takaichi trade" – a rise in equities, and bonds and the yen seeing a fall. As a result, Citi estimates the Topix could reach 3,400 points by December under current market conditions, and motor on to 3,500 points by March 2026. At the time of writing it stands at 3,285.

Like the British Iron Lady, Takaichi wants to bring about a stronger Japan. "She follows in the footsteps of her political mentor, the late PM Shinzo Abe, in that regard. Ms Takaichi has cited Margaret Thatcher as a role model in the past," says Anca Vasilov, head of equities at Asset Management One International.

Although the current environment in Japan, with inflation levels above the Bank of Japan's (BoJ) target for over two years, differs markedly from the early days of Abenomics, when Japan was in the grip of deflation.

So the context in comparison to Abenomics, which ran from 2012-2020, is very different for the Iron Lady. But one of the central tenets of Abenomics, fiscal stimulus, remains the same.

"The new Japanese PM is on a mission, so it seems. Spend, spend, spend. At least that is the rhetoric," says David Roberts, head of fixed income at Nedgroup Investments.

It could be a bit of an irony that given Takaichi advocates fiscal expansion that she has been termed the Iron Lady. As such a policy sits at the opposite end of the economic spectrum to the British Iron Lady, Margaret Thatcher. For Mrs T, fiscal expansion represented the worst heretic ideas of Keynesianism.

Good and bad news

When it comes to policy moves, the markets expect the Iron Lady to pressure the Bank of Japan to leave interest rates alone, while ignoring the inflation rate, which is a touch on the high side at 2.9%. If this proves to be the case, it will impact in two ways. "It should be bad news for the yen, but great news for all overseas earnings," adds Roberts. Hence, the stockmarket rally.

But bad news from the perspective of bonds. "In bond land, it's just another reason to be really worried about Japanese government bonds – taking further risks with inflation could store up a world of pain, making medium term higher rates seem almost inevitable," says Roberts.

"We continue to be heavily underweight Japan, happy to ignore a possible short-term rally in shorter maturity bonds," adds Roberts. "Our only position remains in long dates. They are already blindingly cheap compared with most shorter bonds, and of course, delaying interest-rate hikes now should mean the curve eventually bear flattens."

Roberts says he is encouraged by statements from the BoJ which suggest they would intervene if long yields rise much further.

When it comes to inflation, the Iron Lady views it currently as being of a "cost-push" type, rather than "demand-pull" – a cycle brought about by rising real incomes and rising prices, says Vasilov.

Nonetheless, in an evolution from earlier statements seemingly levelling the critique at the BoJ for premature tightening, Takaichi has stated that no revision of the BoJ government accord is imminent, adds Vasilov, and "the Bank of Japan will choose the appropriate tools for reaching monetary policy goals".

With real rates still negative and another spring wage negotiation round expected in Q1 2026, Asset Management One's economists expect the BoJ to stay the course of monetary policy normalisation, with the next policy rate increase anticipated in January 2026.

Importantly, the appointment of Satsuki Katayama as finance minister seems to have reassured financial markets that a proactive fiscal policy will be implemented with a parallel commitment to fiscal discipline.

On a mission

Another positive for the Iron lady is that some political factors have played into her hands. Reduced tariff pressure for example has supported the improved outlook for Japanese businesses.

Some investors view the reduction in the Japan-US tariff rate from 25% to 15% in late July as being behind the diminishing of downward pressure on Japanese economic growth. And the BoJ's September Tankan survey has indicated that corporate sentiment has showed real resilience.

"Although US tariffs on Japanese imports pose a downside risk to the economy, the impact has so far been limited to specific sectors such as automobiles, with limited impact on overall exports and corporate earnings," says Kazuhiko Hosaka, senior product specialist at Asset Management One. Additionally, the current Business Conditions Diffusion Index – used to gauge various sectors of the economy – has improved for large manufacturers and the automotive

sector – two sectors that have seen the largest impact from US tariffs.

Outside of manufacturing, the Tankan's Diffusion Index – a key indicator of Japanese business sentiment – has remained high for large companies. Capital expenditure plans for the current fiscal year were slightly revised upward, indicating something of a solid investment appetite.

Foster consensus

Is Takaichi therefore likely to reshape Japan like the other Iron Lady before her helped re-shape Britain? “That remains to be seen,” says Dina Ting, head of global index portfolio management at Franklin Templeton. “We believe Takaichi's approach isn't about sweeping privatisations or fiscal austerity; but rather a national-security-first, fiscally proactive agenda on top of on-going corporate reform.”

It is worth noting that for the time being, Takaichi leads a minority government, which means things will not always be plain sailing. “She will need to balance priorities and foster consensus both within the Liberal Democratic Party (LDP) – which remains somewhat divided about the causes for the loss of majority support – as well as in the two chambers of the Diet, Japan's legislature,” says Vasilov.

Within the Iron Lady's armoury there are evident narratives that should make investors take note. “Relating to geopolitics, we believe prime minister Takaichi may hold a more assertive defence posture and alignment with Washington, which could reshape Japan's fiscal and industrial priorities,” says Ting.

Investment opportunities

It is on defence where an investment opportunity could come straight from the Iron Lady's policies. “Engaging constructively with the US on priorities such as increasing defence spending, feature high on the incoming PM's agenda,” says Vasilov.

“On the structural front, Ms Takaichi advocates for measures that would strengthen Japan's security – such as fostering disaster prevention related industries, building national defence capable of responding to new forms of warfare, as well as promoting investment in essential growth sectors for economic security: AI, nuclear fusion and all-solid-state batteries,” adds Vasilov.

This defence narrative is a strong one based centrally on the Iron Lady's conservative principles. “A conservative protégé of the late Shinzo Abe, she holds hawkish security views and a pro-US stance,” says Ting. “We expect more proactive fis-

cal support – via tax relief and supplementary budget – and faster government spending on defence to help support earnings, especially for exporters.”

And Ting notes this will shape other economic factors. “Given Tokyo's expected focus on defence spending toward 2% of GDP, we see a softer yen benefiting exporters,” she says. “This combination of fiscal acceleration, energy transition and governance reform should position well among global markets.”

More specifically, Ting notes: “An accelerated build-up of defence capabilities may benefit aerospace, shipbuilding, cybersecurity, and advanced electronics manufacturers supplying both domestic and allied defence networks.”

At the same time, the Iron Lady's emphasis on energy security and nuclear restarts suggests on-going opportunities across utilities, engineering, and equipment suppliers tied to grid modernisation and fuel-cycle infrastructure.

“A firmer US-Japan alliance may also reinforce semiconductor and supply-chain resilience initiatives, supporting technology hardware and materials sectors that anchor Japan's strategic industries,” adds Ting.

Other benefits coming to the fore for the Iron Lady have existed for some time. In recent years investors have enjoyed the tailwinds in Japan. The economy exited deflation and listed companies were spurred on by a proactive Tokyo Stock Exchange embarking on a big drive to improve capital efficiency and implement management reforms.

“The capital efficiency measures actively undertaken by a wide range of Japanese corporates have been the focus of international investors for some time, and the momentum is expected to continue,” says Vasilov.

But some benefits are more straightforward. “The main additional opportunity for investors from Ms Takaichi's election is the return of a higher degree of political stability,” adds Vasilov. The new government is using this solidity to embark on longer-term plans. “This is to secure and strengthen Japan's position in a changing world,” notes Vasilov.

For overseas investors, currency dynamics are always an important consideration. “The yen weakened in response to Ms Takaichi's victory in the LDP leadership election, as investors tempered their expectations of further monetary policy tightening by the Bank of Japan in the short term,” says Vasilov.

Strong equities

It is though on Japanese equities that Japan's Iron Lady is likely to have the biggest boost. So much so, that investors

have their raised their forecasts for the profitability of Japanese companies to be given a significant boost.

The consensus forecast for earnings-per-share growth for Japanese companies in the 2026 financial year has been raised to 12.8% on the previous year, says Asset Management One, which took the temperature of the investor mood.

Japanese equities have seemed to get a boost based on the focus of a return to the Iron Lady's commitment to Abeonomics. "Japanese equities like the prospect of a prime minister returning to reform policies enacted by Shinzo Abe," says Anthony Willis, senior economist at Columbia Threadneedle Investments.

Prime Minister Takaichi may hold a more assertive defence posture and alignment with Washington, which could reshape Japan's fiscal and industrial priorities.

Dina Ting, Franklin Templeton

Naomi Fink, chief global strategist at Amova Asset Management is also positive about Japanese equities in the current circumstances, albeit with some qualifications. "We remain positive on the trend for Japan and Japanese equities. We continue to be confident in Japan while remaining vigilant over the market's near-term buoyancy and its potential to outrun fundamentals, which could lead to a corrective phase," she says.

The value play

But the opportunity to invest in Japan's shares as a value play has a long way to run, according to Asset Management One. The asset manager says that value investors, who target shares that trade below their intrinsic value, can find a unique set of value investing opportunities within Japanese equities. This adds up when you see that around 40% of Japanese companies traded at a price to book ratio of below 1 as of June 2025.

In comparison only 3% of companies in the US S&P 500 traded below their book value. Similarly, in the Eurozone

only 16% of companies have a market capitalisation below their book value.

"The value investment case in Japan is very solid, especially as there are some clear catalysts that should help deliver performance for value stocks," says Oleg Kapinos, head of global distribution strategy at Asset Management One.

Moreover, Japan's widescale and ambitious campaign to improve shareholder returns and improve corporate governance could be seen as a powerful catalyst for Japanese shares to close their discount to book value.

As well as forcing companies to ensure their overall corporate strategy focuses on shareholder returns, the Tokyo Stock Exchange's corporate governance campaign has encouraged companies to make greater use of share buybacks to help close their discount to book value.

Another possible benefit is the long-awaited turning of the interest-rate cycle in Japan is expected to improve the profits of Japan's banking sector. In recent years banks have been a sizeable component of a value investor's target list both in Japan and Europe.

Japan's escape from a long period of deflation has seen interest rates rise and continues to fuel expectations of further hikes, helping to improve bank profit margins.

According to Asset Management One, the difference between the five-year and one-year Japanese Government Bond yields – seen as a rough proxy for the lending margin that banks profit from – has risen from 4 basis points in 2020 to 49 basis points (0.49%) now.

"You have several trends that should improve earnings for Japanese value stocks – corporate governance reforms, growth in the economy and far better trading conditions for Japanese banks," adds Kapinos. "The end of the period of stagflation in Japan has turned Japan from being a value trap into a strong value play."

Fink also says there is a global appetite for risk assets, in part, thanks to plentiful amounts of market liquidity. "Within this context, there has been some positive re-rating of Japanese stocks as part of global diversification from US stocks, which form the core of global equity portfolios," she says.

Putting the attraction of the Japanese market together, Fink notes: "There are strong fundamental reasons for diversification into Japanese stocks, including reflation, corporate governance reforms, and reallocation of household assets from cash into financial markets."

The Iron Lady may well mean that Japanese equities are an iron investment.

Europe's resilient renaissance

After a challenging few years, Europe's private equity landscape is reasserting itself, driven by lower valuations, stabilising macro conditions, and an unprecedented push toward self-reliance, finds *Karsten Langer*.

In recent years, global investors could have been forgiven for reducing their focus on Europe. The United States, home to a booming technology sector and equity market, has drawn the lion's share of global capital, while Europe struggled with sluggish growth, political disunity and even a land war on its doorstep.

Yet beneath the noise, Europe has been quietly regaining its footing. The continent's economy has proven unexpectedly resilient, and the balance of opportunity between the US and Europe has firmly shifted.

For private equity investors willing to take a closer look, particularly in the lower mid-market, Europe today presents one of the most compelling entry points in years.

Resilience amid volatility

The defining feature of Europe's current recovery is its composure in the face of volatility. Despite geopolitical tensions and trade disruptions, the business climate has been steadily improving.

Inflation in the eurozone has fallen back toward the European Central Bank's 2% target, while interest rates are declining. With the ECB's deposit facility rate at roughly 2%, financing conditions are more favourable than in the US, where the Federal Funds Rate remains higher and inflation stickier. This divergence matters. Europe's inflation-focused monetary mandate has created predictability, while the Fed's dual focus on inflation and employment leaves US markets exposed to greater uncertainty.

For investors, Europe's lower and more stable rate environment is reigniting M&A activity, supporting both buyouts and the buy-and-build strategies that underpin much of the region's private equity value creation.

Meanwhile, the euro has appreciated roughly 12% against the dollar year-to-date, reflecting renewed confidence in Europe's stability and adding incremental returns for US-based investors holding euro-denominated assets. The recovery is not only psychological – it's financial.

Trade, tariffs and opportunity

Much ink has been spilled over the US's protectionist turn. But contrary to the narrative, Europe's economy is less dependent on global trade than many assume. In fact, trade as a share of GDP has been broadly stable, and the region has quietly diversified its export relationships far beyond the US.

While American tariffs have captured headlines, their practical impact on European exporters has been modest. In several sectors, European firms have even turned disruption into advantage – expanding into the US through local production or acquiring distressed assets at attractive valuations.

Perhaps the most powerful drivers of Europe's investment appeal are its new imperatives – defence, energy independence, and industrial self-reliance. None are optional, and each carries deep economic implications.

The war in Ukraine and on-going geopolitical instability have forced a step-change in European defence spending. The European Commission's €800bn (£704bn) defence package and NATO's renewed spending commitments are not short-term measures; they mark a structural realignment of industrial priorities. That means sustained capital flows into aerospace, logistics, manufacturing, and related supply chains.

Energy independence is another structural theme. Europe's green transition is not simply ideological – it's economic. More than half of the continent's electricity already comes from renewable sources, and producing power from solar now costs roughly half as much as from natural gas.

This transition is also generating an ecosystem of secondary opportunities – in energy data, predictive analytics, and infrastructure management – that mirror the software revolution of a decade ago. Europe's drive for smarter energy use is becoming a growth engine in its own right.

A third structural tailwind is the “reshoring” of critical manufacturing capacity. From pharmaceuticals and semiconductors to clean-tech components, European industries are rediscovering the strategic value of local production.

The pandemic and geopolitical fragmentation exposed the fragility of long global supply chains. Europe's response – a push to rebuild industrial depth – is translating into sustained demand for capital, technology, and expertise.

In public markets, the shift is already visible. The EuroStoxx 600 has returned 22% over the past 12 months, outpacing the S&P 500's 18%. Crucially, European equities remain less concentrated and more reasonably valued.

Global asset allocators are taking note. Institutional portfolios are now overweight European equities for the first time in years, and several of the largest global private equity managers have publicly signaled a shift toward greater European allocation.

Heart of the opportunity

Within this broader resurgence, the most attractive opportunities lie not in the mega-cap names but in the lower mid-

market – the entrepreneurial heart of Europe's economy. Around 40% of European businesses employ between 20 and 250 people. Many are family-owned, undercapitalised, and seeking partners to institutionalise their operations and accelerate growth.

This segment is vast – hundreds of thousands of potential targets – but it is also inefficient, with fewer euros chasing a larger pool of deals. Around 90% of European private equity transactions involve enterprises valued below €500 million. For experienced investors, that asymmetry is powerful.

Entry multiples in the lower mid-market remain meaningfully below those in the US – around 11x in Europe versus nearly 13x across the Atlantic – and skilled managers can often reduce these further through operational improvement and add-on acquisitions. The result is a fertile environment for multiple expansion and long-term value creation.

Performance data bears this out. According to Invest Europe, over the past decade, European middle-market private equity has delivered a 17% net internal rate of return – outperforming both public equities in the region and comparable US mid-market funds.

The spread of returns, however, is wide: manager selection remains critical. The opportunity is real, but it rewards depth of experience and disciplined execution.

One of the quiet strengths of Europe's lower mid-market is its liquidity at exit. Successful companies in this bracket are consistently in demand from strategic buyers and larger private equity firms.

Unlike in the large-cap arena, exits here do not depend on buoyant IPO markets or complex syndicated debt. The result is a market where realised returns, not just paper valuations, define success.

Europe's moment

For global investors, the question is no longer whether Europe can compete – it's how effectively it will. The continent has confronted its vulnerabilities, from defence to energy, and is turning them into catalysts for growth. Its macro fundamentals are stabilising, valuations are attractive, and its vast ecosystem of small and mid-sized enterprises offers depth and diversity.

In short, Europe's lower mid-market represents both opportunity and resilience: competitive returns, true diversification, and exposure to the structural transformations reshaping the continent's economy.

Karsten Langer is managing partner at Riverside Europe.

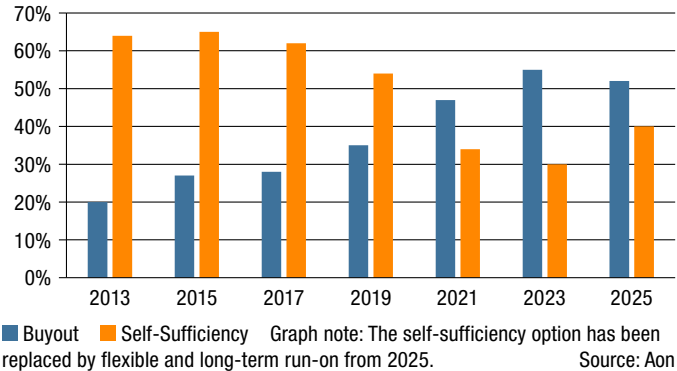
Endgame intentions are driving investment choice

Aon’s Global Pension Risk Survey 2025/26 found that the risk of investment returns being lower than expected is the top concern for defined benefit (DB) pension schemes. *Rupert Kotowski* explores the key findings relating to investment.

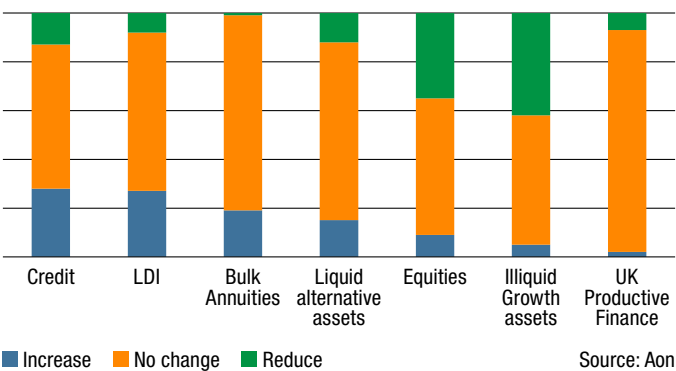
Significant improvements in funding levels since 2022 have led to an increased focus on endgame strategies in the DB pensions industry. This, in turn, has led to an increase in the range of available endgame options: from third-party solutions such as superfunds and pension captives to in-scheme options, such as active run-on. However, buying out as soon as affordable remains the most popular long-term strategy, with the insurance market remaining buoyant

This year’s survey, which is published every two years, highlights that the proportion of DB schemes aiming for buyout as soon as it is affordable has decreased slightly from 2023, falling from 55% to 52%. Those targeting run-on has increased from 30% to 40%. The timescale to achieving the chosen target has also reduced, now standing at to 6.5 years. Derisking therefore continues to be the dominant theme in the asset allocation decisions of DB schemes. With the objective and timeframe being key determinants of the investment strategy, the survey shows credit, liability driven investment and annuities are again the asset classes that are increasing in popularity. This reflects both derisking, shortening timescales, and risk settlement journeys – but the pace of that change has slowed from two years ago. One of the most notable exceptions emerging from this year’s survey is the marked increase in schemes planning to

Development of buyout and self-sufficiency targets



Investment strategy changes expected in the next 12 months





Rupert Kotowski is an associate partner at Aon.

disinvest from illiquid growth assets. Currently, 42% of schemes expect to reduce their holdings in these assets, a notable rise from 35% in 2023.

It is likely that this shift is driven by the growing number of schemes preparing for annuity purchases. Despite this overall move towards derisking, there remains a minority – 5% of respondents - who plan to increase their allocations to illiquid growth assets.

This suggests that some schemes, particularly those pursuing a run-on strategy, continue to see value in maintaining their exposure to illiquids rather than targeting an approaching buy-in.

UK productive finance

We introduced UK productive finance – investments that support UK economic growth and development – as a new asset class in this year's survey and the majority of investors felt that there would be no change to their allocation in the next 12 months in favour of that.

Thirty nine per cent indicated that they would not choose to invest, however, there remains a further 39%, who have yet to form a view.

This suggests that there is the potential for attitudes to shift as the market and policy environment evolves.

For those open to considering UK productive finance, the survey highlights several preferred characteristics. DB schemes favour investments in liquid, listed equities that offer straightforward and cost-effective access to UK market listings.

For DB pension funds a preferred feature of any UK productive finance investment would be to ensure that the vehicles

are sufficiently liquid and flexible to be transferred into insurers or superfunds as the market continues to consolidate. This would address the risk that a UK productive finance investment may impact the timing or price of a future transaction.

The survey also highlights the importance of incentives to investing more in UK productive finance. These include tax breaks (39%) or government-backed first-loss guarantees (26%) which can make these investments more attractive.

ESG approach

Despite the changing priorities in the US, UK respondents still indicated a significant desire to change portfolios to both take advantage of environmental, social and governance (ESG) opportunities and to guard against ESG risks.

At least 50% of equity and credit portfolios now either incorporate an ESG focus or investors are planning to increase the ESG focus of their investments in these asset classes.

In the area of credit, 24% of respondents plan to implement a higher ESG focus. This tallies with Aon's recent experience that investors now prefer including ESG factors when derisking and reshaping credit portfolios.

The trend to schemes delegating investment decision-making continues, with a substantial 38% of respondents now having delegated investment decisions through a fiduciary or outsourced chief investment officer (OCIO) approach. Of the remainder, 24% have decided not to delegate, while 35% have not considered it recently.

In a world of ever-increasing regulation and demands on trustees, there is a potential advantage to delegating investment structure and asset management responsibilities to a third party, freeing up valuable governance time.

But it is also an area that is increasingly competitive – we have seen a number of larger pension schemes reconsidering the approach they take to delegation and the partner they use – particularly as they prepare for the next phase of their journey.



James Brooke Turner:

Going back to the start

The investment director of the Nuffield Foundation, a charity that aims to improve social policy through funding research into education, welfare and justice, tells *Andrew Holt* about overcoming market turmoil and the importance of a well-put-together portfolio.

What did the recent market turmoil mean for you? Based on one, charity spending, and two, your investments?

Well, we have ended up where we began. We started with a bit, lost a bit, and we now find ourselves back where we started. It just means it is very confusing.

What it makes me realise is since nobody has got any idea what is going to happen next there is no point in trying to do anything. If you take action, it is as much as a guess about the future set of circumstances as anything. We rely on our alternative strategy.

Have you made any changes to your portfolio based on the market turmoil?

We were quite frightened. When you have an overseas-dominated portfolio like us, the effect of a declining dollar and a declining market would double our pain. So we did start to hedge, two or three years ago, which has been okay, as the dollar has got weaker, that's been helpful.

We have now stopped hedging, because we have taken most of that pain off as sterling moved from the bottom of the range back towards the middle. Our policy is not to hedge normally, but did at that point so we didn't slip through the net.

The other change is we have 20% in venture capital and private equity – and we are increasing that to 25%. So we are going in the opposite directions to some investors. We feel we have more room to commit, as more companies stay private.

So private markets appeal going forward?

We like them. There are different sorts of private markets. There are companies based on ingenuity and skill, and some based on financial engineering. We try and avoid the latter.

So our portfolio is under geared compared to others. We go for what we call old-fashioned companies. They are old fashioned in the sense that they are prudent.

But they could be modern companies in terms of technical advancements?

Yes. I really enjoy asking a pensions manager in San Francisco if they consider themselves to be old fashioned, and the best ones say: 'Oh yes, very old fashioned'.

Are they your assessment of old fashioned?

Yes, we need those who are not going to stuff everything with leverage and hope for the best. That's what we mean.

We don't mean old fashioned like using a pen and paper. It is the principle of being well measured.

Could you give me an insight into what your portfolio looks like?

It is worth £540m or so. And still got 10% in short-dated gilts, 20% currently in venture and private, and 70% in global equities.

Given the volatility in the global market is that global equities segment likely to change any time soon, or are you going to stick it out?

“ There are different sorts of private markets. There are companies based on ingenuity and skill, and some based on financial engineering. We try and avoid the latter.

It is about how companies are going to earn. Our enemy is inflation; we don't have strict liabilities. And we think about that a lot. There isn't anywhere else for us to go apart from holding equities.

So the way we think about investments is: how do returns in the future look? Are they going to be lower? But then recognising that returns in the past have been higher than expected. We think of the last ten years, and the next ten years, and things will even out. We will end up where we started.

That is how we think about it. We think ahead of the game now and prepare to keep spending. Even if we spend more than we earn.

You mentioned the higher inflationary environment, what impact has high inflation had on your portfolio?

We increase our spending by inflation every year. So we are spending the same amount in real terms every year. We are giving away more money – but not in real terms. But it costs more, as the portfolio is not going up. That's the issue for us.

How do you deal with that?

We tend to think anecdotally. If inflation in Britain is troublesome it reflects in the weakening currency. And so holding overseas assets improves our lot. We see non-UK assets as a good hedge to the health of the UK.

In a way, if the UK is struggling for money to spend, on say social science, we find overseas assets are helpful. Conversely of course, if the UK is doing fantastically and overseas assets have fallen, then the UK is going to need us a bit less. So the two are negatively correlated.

Are we out of the woods as far as inflation is concerned?

No. Not at all.

Also, there is UK inflation: how does this affect us? But then there is global inflation: and how does that affect markets? UK inflation affects our spending. And global inflation, meaning US inflation, is better than UK inflation – which for us is slightly more worrying.

But inflation is not dead yet. And it is never going down to nought again.

You have touched on this, but a survey last year noted that senior executives at a number of major UK charities said the value of their investable assets had dropped in the past few years: is that something you have experienced?

What is different is we have not been making hand over fist like we have been in the recent past. But we don't expect that, year in, year out. We tolerate that. And we deal with it.

If you are a charity like us, a grant-making foundation working in difficult fields it takes much longer to start something up – a programme – it can take years.

The Nuffield Foundation's funding and operations

Around 75% of the foundation's annual funding comes from its investment activities – so there is a big responsibility on the investment strategy to deliver.

The amount the foundation spends each year is calculated as a percentage of the endowment's historical value, adjusted for inflation.

On its charitable activities, the majority of the foundation's spending, about 89%, goes toward its charitable activities, with the rest going to operational costs.

So the one thing you cannot do is stop and start. Spending money is much longer. So it is important when there is volatility that we have a spending policy to smooth out market volatility and translate that into stable spending. So we want a volatile investment portfolio because that is going to make us more money. On the other hand, we want a stable budget. So we have to have a spending formula that deals with that problem.

“ The way we think about investments is: how do returns in the future look? Are they going to be lower? But then recognising that returns in the past have been higher than expected.

On another level, why does your charity hold investments – is it for ballast or growth?

We hold ours for growth. We want our investments to provide a high level of income and high level of returns so we can spend that. Some charities want it for liquidity: so when something goes really badly they have the cash. Because we only ever spend 5% of our assets, we have plenty of liquidity.

Investors always want one of three things: a reasonable amount to spend, inflation protection and a stable capital base. But you can only ever have two of them. So you always have to decide which is the least important to the others.

When it comes to charity investments, what actions should trustees take?

Generally, the answer is: believe in your strategy. And always make sure your strategy is up to date.

ESG investing has come in for some criticism from some quarters. Has this changed your view on sustainable investments and your approach to net zero?

No. We are just as interested. It has made us more interested in the parameters we use: we look for good evidence about what companies are doing and the results they are getting.

I think the ESG pushback is temporary. When it comes to the economic gravity and impact of climate change – there is no question about that.

So is the ESG investment pushback just political?

We think so. With new ideas there is often some type of pushback. But even with that it isn't going to be like it was before, because the world has changed. So there will be this pushback, but I don't see it being long term.

What are the risks ahead?

One of the big risks is governments – which always need thinking through carefully.

Inflation is always a risk.

I also think about the passive versus active debate. I think everyone wants a world run with a portfolio that invests in growing steams. That is very subjective. You can end up measuring against a phantom UK market. And that can become very painful when you are underperforming. Whereas over the longer term, a thoughtful well-put-together portfolio should outperform.

The five key component parts of the Nuffield Foundation's investment strategy

- ▶ First is the focus on the long-term horizon. The foundation has a committed long-term investment horizon and focuses on companies with strong capital discipline, good governance, and attractive long-term performance.
- ▶ Two, is the equity portfolio: the public equity investments are managed by six global managers with the same mandate but different approaches to create an uncorrelated portfolio. The foundation rebalances between these managers.
- ▶ Three is private equity/venture capital. The private equity and venture capital portfolio is deliberately concentrated on smaller funds.
- ▶ Four is liquidity. A portion of the endowment is invested in short-dated gilts to provide security and liquidity for the foundation's current obligations.
- ▶ Five is a focus on responsible investing. The foundation incorporates responsible investing principles, using the UN Sustainable Development Goals and the Paris Climate Accord to shape its approach.

Private credit: Misguided fears and the real risks



Doug Clark is head of research and solutions at Brightwell.

Private credit recently hit the headlines for all the wrong reasons due to the collapse of First Brands and Tricolor. But these are not typical of private credit investments, argues Doug Clark.

Recent credit issues at First Brands and Tricolor have prompted alarmist headlines about private credit.

Three main arguments are typically cited, firstly that these defaults signal a broader wave of credit losses, secondly that private credit's lighter regulation poses systemic risk and thirdly, that lending standards have weakened.

While each contains a kernel of truth, they largely miss where the real risks lie.

Defaults are not the warning sign many think

In our view, the two high-profile bankruptcies do not reflect the health of private credit.

Neither First Brands nor Tricolor were financed primarily through private credit structures – one used syndicated loans, the other asset-based lending. Both lacked private equity sponsors, unlike most private credit deals.

Both cases involve alleged frauds, which tend to be isolated rather than systemic.

Ironically, the greater risk today may be the lack of defaults. In recent years, “liability management exercises” and “amend-and-extend” arrangements have often replaced traditional defaults.

These mechanisms can mask underlying distress, delay recognition of losses, and erode recovery prospects.

Regulation and systemic risk

Calls to regulate private credit like banks overlook fundamental differences. Private credit funds are not leveraged deposit-takers; they have limited maturity mismatches and

better alignment between capital and assets.

Banks, by contrast, rely on flighty deposits and operate with much higher leverage.

Even after rapid growth, private credit remains modest in scale – around 10% of U.S. corporate lending versus 35% for banks.

JP Morgan's balance sheet alone is larger than the size of the entire private lending market. It is therefore reasonable that regulation differs in intensity.

Lending standards and market context

Lending standards have undoubtedly loosened. However, this trend is largely consistent across credit markets more broadly, including both public credit markets and traditional bank lending.

In addition, aggregate equity market valuations remain at historically elevated levels. Consequently, any relaxation in private credit lending standards is generally reflective of the increased risk appetite we see in many other markets.

The lesson from recent bankruptcies is not that private credit is inherently fragile. Instead, investors should focus on ‘5Ds’ to help them manage risks going forward:

- ▶ Diversification: to prevent single-name events from damaging portfolios
- ▶ Default experience: favouring managers who have navigated full default cycles
- ▶ Due diligence: rigorous credit work remains the best defence; and
- ▶ Discipline: maintaining lending standards during periods of excess
- ▶ Dynamic: ability to reduce risk and evolve portfolio exposures

Private credit carries risks, but not the ones most headlines suggest.

Calendar

Topics for upcoming *portfolio institutional* events*

Conferences 2026

- 26 March** – pi Private Markets Conference, London
- 04 June** – pi Master Trust Private Markets Forum, London
- 09 July** – pi Investment Conference, London
- 30 September** – pi LGPS Private Markets Forum, Manchester

Roundtables 2026

- January** – Real Estate Debt, London
- January** – Shariah-compliant investing:
Evolving benchmarks and market demand, London

Regional discussions 2026

- 15 January** – LGPS Confidential, London
- 06 March** – LGPS Confidential, Cardiff
- 14 May** – LGPS Confidential, Birmingham
- 16 July** – LGPS Confidential, Leeds

Contacts

For information on sponsorship, contact:

Clarissa Huber
c.huber@portfolio-institutional.co.uk

To attend an event, contact:

Sabrina Corrigan
s.corrigan@portfolio-institutional.co.uk

*Subject to change

Publisher

portfolio Verlag
Smithfield Offices
5 St. Johns Lane
London
EC1M 4BH
+44 (0)20 7250 4700
london@portfolio-verlag.com

Editor

Andrew Holt
a.holt@portfolio-institutional.co.uk

Commercial Director

Clarissa Huber
c.huber@portfolio-institutional.co.uk

Marketing executive

Sabrina Corrigan
s.corrigan@portfolio-institutional.co.uk

Speaker acquisition & stakeholder engagement Manager

Mary Brocklebank
m.brocklebank@portfolio-institutional.co.uk

Subscriptions

Claudia Ajagbe
c.ajagbe@portfolio-verlag.com

Design and production

portfolio Verlag

© Copyright portfolio Verlagsgesellschaft mbH. All rights reserved. No part of this publication may be reproduced in any form without the prior permission of the publisher. Although the publishers have made every effort to ensure the accuracy of the information contained in this publication, neither portfolio Verlagsgesellschaft mbH or any contributing author can accept any legal responsibility whatsoever for any consequences that may arise from errors or omissions contained in the publication.

ISSN: 2045-3833

**It should actually read:
all information, opinions
and news relevant to
institutional investors.
But that was too long,
so we just called it *pi*.**

**Subscribe to the magazine and newsletter :
<https://www.portfolio-institutional.co.uk/>**

Everything for institutional investors