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UNCONVENTIONAL THINKING ON PENSION INVESTMENT POLICIES:

ICPM AWARDS \$50,000 PRIZE TO TOP RESEARCH PAPER

"The International Centre for Pension Management (ICPM) is a global research-based network of asset owners that stimulates leading-edge thinking and practice about pension management. It focuses on fostering long-term investing, strengthening organizational governance, and improving the design of pension arrangements."

ICPM Network

"ICPM is pleased to announce the winner of the 2025 Research Awards. Our recent call for research studies garnered 70 high-quality submissions from around the world. Four finalists were invited to Toronto to present their work to the ICPM Research Council and the broader pension community in person. This provided a direct engagement opportunity with the study authors. The winning paper, "Beyond the Status Quo: A Critical Assessment of Lifecycle Investment Advice", challenges conventional thinking on pension fund investment policies and measures of risk for long-horizon investors."

ICPM Announcement
September 12, 2025

On A Personal Note

The *International Centre for Pension Management (ICPM)* is to be congratulated for its Research Awards initiative and for organizing the Research Award event this past September 3. The *ICPM Research Council* deserves extra kudos for wading through 70 research paper submissions to select the final 4. It was a personal pleasure to attend the September 3 event and see how *ICPM* has flourished since Brendan Calder and I took the *ICPM* concept to *Rotman School of Management* Dean Roger Martin way back in 2004.

Today, *ICPM* is sponsored by 54 major pension organizations from 11 countries responsible for the management of \$8 trillion of retirement savings. It sponsors 2 'live' discussion forums per annum, all located in one of the 11 home countries. There are also virtual roundtables on selected topics throughout the year, and the *Pension Governance Education Program (PGEP)* for board members at the *Rotman School of Management*. In addition to being international, *ICPM* prides itself on fostering a community culture among its members and providing a high-trust environment free of sales-related and other commercial activities.

All four finalist research papers were presented on September 3. While all were interesting, the one written by Profs. Anarkulova, Cederburg, and O'Doherty clearly stood out. As we explain below, its messages were even broader than what the paper's title "[Beyond the Status Quo: A Critical Assessment of Lifecycle Investment Advice](#)" conveys. This *Letter* also summarizes the key findings of the other three finalist papers.

Beyond the 60-40 Status Quo

In short, the winning paper's broad message is that the common long term 60-40 US Stock-Bond investment policy and its life-cycle-based Target Date variants have been historically inefficient for US investors, and that no bonds have been required for risk/reward efficiency at all. Instead, the researchers found a long-term asset mix of 1/3rd US stocks and 2/3rd Non-US Stocks to have historically dominated the traditional 60-40 US equity-US bond mix and its life-cycle based Target Date Funds (TDF) variants in investment reward/risk terms.

Here are four key facts supporting their findings:

1. Historical 1890-2023 databases were used to create the required information to conduct the study, including stock returns from 39 developed countries.
2. Asset class returns were modeled to maintain the time-series and cross-sectional properties of the investment returns over time. This is essential for modeling long-horizon investment returns in retirement savings contexts. Overall, the approach led to 2600 years of monthly country return data.
3. Key metrics that led to the study conclusions were (a) the low 1.0% real rate of return and the high correlation with inflation for US Bonds, (b) a much higher 7.0% real rate of return on the Non-US Stocks portfolio while (c) offering a similar level of diversification as US Bonds.
4. The saving rates required to achieve an adequate pension were 56% of pay with a 100% T-Bill portfolio, 19% of pay with the traditional 60% US Stocks-40% US Bonds portfolio, 16% of pay with a TDF strategy, and 10% of pay with the optimal 33% US Stocks-67% Non-US Stocks portfolio.

Like it or not, these findings raise serious questions about the role of fixed income investments in long-term pension portfolios. Over longer investment horizons, diversified portfolios of non-domestic stocks have provided equal diversification protection while providing materially higher investment returns.

Understanding the Impact of Mutual Fund Fee Variances in 401(K) Plans

The title of the #2 paper in *ICPM's* research paper competition is "[The Geography of Savings Opportunities in Retirement Plans](#)" by Profs. Pool, Sialm, Stefanescu, and Zhang. The basis for their study findings was a database of US mutual fund fees in 401(K) plans from 2011 to 2021. Their focus was to measure and explain the average plan differences in these fees.

Five key findings were:

1. Not all workers have access to 401(K) pension plans.
2. Not all workers have equal access to low-fee mutual funds as investments in the 401(K) plans.
3. There is significant mutual fund fee dispersion in the sample of 401(K) plans. Fees at the 10th percentile were 35bps, and 99bps at the 90th percentile.
4. These fee differentials were correlated to the demographics of plan memberships: older memberships paid higher fees than young memberships, lower income/education memberships paid higher fees than higher income/education memberships, and rural-based memberships paid higher fees than urban-based memberships.
5. The cost of higher fees was not offset by higher investment performance.

The authors conclude that workers with 401(K) plans continue to face significant inequities in the cost of their investment options. We would add that George Akerlof's Nobel Prize for recognizing the power of asymmetric information in determining economic outcomes is alive and well 25 years after it was awarded to him. Arguably, it is this asymmetric information problem that explains the large variances in investment costs found by the researchers, and relevant to occupational pension plans worldwide.

How Shifts from Active to Passive Investing Impact Equity Prices

The third paper titled "[Shifting From Active to Passive: How Retirement Plans Impact Equity Prices](#)" by Profs. Sabbatucci, Tamoni, and Xiao also used 401 (K) plan data to produce interesting and important conclusions. They note that these plans have become the dominant form through which US workers accumulate retirement savings, with about half of US private sector workers now members of a 401(K) plan.

The focus of the study is the implications of the material shift from active to passive management in 401(K) plans. For example, over the 2007-2020 period, the proportion passively managed increased from 19% to 37% of assets, with 401(K) plan assets growing by 110% over this period. Their research question is: does that shift from active to passive management impact equity prices?

Using a great deal of granular data, the researchers find that this shift from active to passive can lead to material price changes. For example, they found price changes as high as 30% when passive strategies are substituted for active strategies due to inflows and increased stock level ownership. At the same time, the prices of stocks overweighted by active funds declined by as much as 20% due to outflows and declining stock level ownership. These findings underscore the importance of changes in stock ownership structures caused by shifts in how 401(K) plans are managed. Once again, these findings are relevant to occupational pension plans worldwide.

Private Markets Investing in Israel

The fourth paper in ICPM's research competition has the title "[Limited Partner Investments in Private Funds: Committee Decision-Making and Realized Performance](#)" by Profs. Brav, Lakan, and Yafeh. Its focus is how Israeli Investment Committees make Private Equity investment decisions, and how those decisions have turned out.

The paper devotes considerable space to the makeup of these Investment Committees and the processes through which they make investment decisions. Though these Committees are generally populated by highly qualified people, they nevertheless face serious informational challenges, especially with the top US funds. Maybe not surprisingly, the researchers found that generally, the investment performance of Israeli-based private equity funds selected by the Committees was superior to the investment performance of the non-Israeli-based funds they selected.

In my view, the authors might have referenced a much broader study on this question by CEM Benchmarking, which we cited in an article in the April 2021 issue of the *Journal of Portfolio Management*. The key table in the article compared the 22-year performance of private equity funds in three management categories: Fund-of-Funds, Limited Partner, and Inhouse-Managed.

Private Equity Fund Performance 1996-2018

	Gross Return	Cost	Net Return	BM Return	NVA	#Obs
F-of-Fs	13.6%	4.9%	8.7%	11.0%	-2.3%	2200
LP	13.7%	3.3%	10.4%	11.1%	-0.7%	1400
In-House	12.4%	0.4%	12.0%	10.5%	+1.5%	300

Source: CEM Benchmarking

The *CEM* investment performance data tell a clear, unambiguous story. Private equity funds have created strong returns for investors, but the big beneficiaries have been the intermediaries collecting the management fees, not the end investors. The exception to this rule were investors large, sophisticated, and ambitious enough to create their own inhouse private equity groups. Those decisions have been handsomely rewarded.

In Conclusion

ICPM performs a valuable pension industry service by identifying academic research studies that provide practical insights on important industry issues. The four finalist papers for the 2025 Research Awards are excellent examples of this value-producing initiative.

Bravo!

Keith Ambachtsheer

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