Mercer

Mercer Investments' Large Asset Owner Barometer 2025

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Foreword

One of the most interesting data points to come out of this year's survey was the huge level of investment being made into risk systems, data management and compliance.

Eimear Walsh
European Head of Investments

Mercer Investments' Large Asset Owner Barometer has been designed to provide a window onto the sentiment and allocation decisions of some of the world's biggest pools of capital. The asset owners we spoke to are collectively responsible for more than US$2 trillion of assets, and they materially influence global markets, asset allocation flows and how capital is deployed.

Twelve months after we launched our inaugural report, the world economy remains in a period of heightened uncertainty. Higher inflation, geopolitical threats and evolving regulation continue to have a profound impact on businesses and households globally, compounding a range of other concerns, such as the ongoing impact of climate change and the rapid evolution of AI.

Currently, equity, fixed income and currency markets are experiencing extreme volatility due to elevated trade tensions arising from shifting US policy. From our data, we can see that large asset owners are positioned for the long term and are largely sanguine about shorter-term market moves. At the same time, they are making strategic adjustments to portfolios to mitigate the risks they regard as most significant.

While we recognize the individuality of each large asset owner and the diverse nature of their discrete objectives (be it safeguarding future wealth, providing insurance services or driving societal impact), certain commonalities allow us to consider them collectively in a category of their own.

With greater scale, longer time horizons and more autonomy than other asset owners, this group can potentially be highly influential through their allocation of capital to a wider array of asset classes, influencing economic and societal outcomes at a crucial time for financial markets and society more broadly.

We continuously seek to understand the collective nature of this group through their investment intentions and decisions as well as detecting potential risks and opportunities. By conducting this research annually, we can track trends over time, and while uncovering several new divergences this year, we can also see how the persistence of others has remained pertinent to certain investors.

It's notable that we continue to see a dichotomy between public and private markets, with private markets continuing to see both increasing allocations and a relatively low concern around valuation evolution. At the same time, we see some selling out of several developed market equity classes such as UK and US equities.

I also found it interesting that despite the acknowledgement that we are living in a period of significant uncertainty among large asset owners, there remains a lot of confidence in the resilience of their portfolios. That isn't to say that they are without any doubts. One of the most interesting data points to come out of this year's survey was the huge level of investment being made into risk systems, data management and compliance.

This is no doubt a reflection of the pace of change we're seeing in technology and a recognition that asset owners need to adapt — those who don't will get left behind. However, while AI is universally expected to be the most influential theme over the next five to 10 years, a significant number have yet to establish or implement an AI/Gen AI policy, which shows that many are still grappling with how and where to use technological advancements.

Large asset owners are a unique and exciting category of investors. By exploring their investment, risk management and governance decisions in more depth, we aim to provide valuable intelligence for clients as they consider the allocation and oversight of their own portfolios.

I hope you find this research to be thought-provoking and useful.

A global snapshot of key trends and challenges

Mercer Investments' 2025 Large Asset Owner Barometer seeks to advance discussion and collaboration around the asset allocation decisions, risk management and governance practices of large asset owners.

Investors are facing significant uncertainty in global markets and rising systemic risks — geopolitics and an increased focus on AI among them. In this pivotal moment, this study convenes the views of 74 large asset owners with a collective US$2 trillion+ in assets under ownership. Participants share important insights and key learnings based on their current positioning, plans and principal concerns regarding:

- Growth, diversification and capital preservation
- Changing patterns in allocation to illiquid asset classes
- The current state of play and ambitions for sustainability target-setting and reporting
- How large asset owners approach governance and the management of their assets

Executive summary

- Large asset owners remain confident that their portfolios are well positioned to withstand a range of shocks over the coming year. But there is an increase in perceived vulnerability to several key risks over both the coming 12 months and the next three to five years. Among the issues they consider themselves vulnerable to, threats from geopolitics and regulation are front of mind.
- AI is considered to be the definitive long-term factor set to shape the macro environment over the next five to 10 years, yet the majority of large asset owners have not implemented or developed an AI/Gen AI policy. Only half of respondents expect to do so over the next three years.
- However, this group of investors has taken proactive steps over the past year to protect portfolios from inflation and liquidity risks while adjusting their geographic asset exposures.
- With most large asset owners confident that their portfolios are resilient to a private market valuation evolution, nearly half of respondents increased their allocations to private markets in the past 12 months. This shows little sign of stopping in the year ahead, with investors planning to increase allocations to private debt, private equity and infrastructure, all of which offer strong potential diversification benefits. This momentum is particularly notable among the largest asset owners — those with more than US$20 billion in assets under management (AUM).
- Conversely, the outlook for public markets among investors is mixed. Confidence in UK equities remains low, while large asset owners are divided on US equities. A significant proportion of participants are seeking either to increase or decrease their allocations over the next 12 months.
- While large asset owners are still more likely to increase rather than decrease their allocations to sustainability funds, the overall momentum has fallen compared to the previous year. Moreover, there are signs of a step back from certain aspects of sustainability, with a sharp rise in the number of large asset owners that are not planning to set net-zero targets.
- Monitoring workforce inclusion across internal teams and the manager selection process has grown in popularity among large asset owners.
- Outsourcing investment management to external managers continues to be the preferred option for large asset owners. This is especially true with respect to complex and resource-intensive asset classes, given resource constraints and a lack of talent and skill sets required to manage these investments internally.
- Investors admit that they need to commit meaningful resources or operational expenditures over the coming year, recognizing the need to simplify governance. More than half of respondents say overly complex governance structures prevent their organizations from making decisions in the most agile and efficient way.

Growth, diversification and capital preservation

Large asset owners are faced with navigating a rapidly changing global environment, and as this research enters its second year, it is interesting to see which trends have continued and which have fallen away.

Large asset owners are acutely aware of the vulnerabilities they face in the rapidly changeable geopolitical environment, especially as many see the possibility of government actions influencing their asset allocations in the coming years. In the short term, inflation remains a concern, while, over a longer time frame, the threats posed by changing regulation begin to come to the fore.

However, despite the changing environment, we find the actions large asset owners are taking are similar to those in the previous year. Adjustments to the duration of fixed income allocations remain the most popular action taken in portfolios, and the shift into private markets assets continues at pace, particularly in private credit and infrastructure.

Perhaps the most notable shift we have seen since our last survey is the sudden emergence of AI as a major theme. AI has rocketed to the top of asset owners' awareness as a potentially influential trend shaping markets and one that we will see play out across the entire global economy in the coming years.

Andrew McDougall
Global Head of Multi-Asset

How resilient do you believe your portfolio is in its ability to withstand the impact of the following issues in the next 12 months?

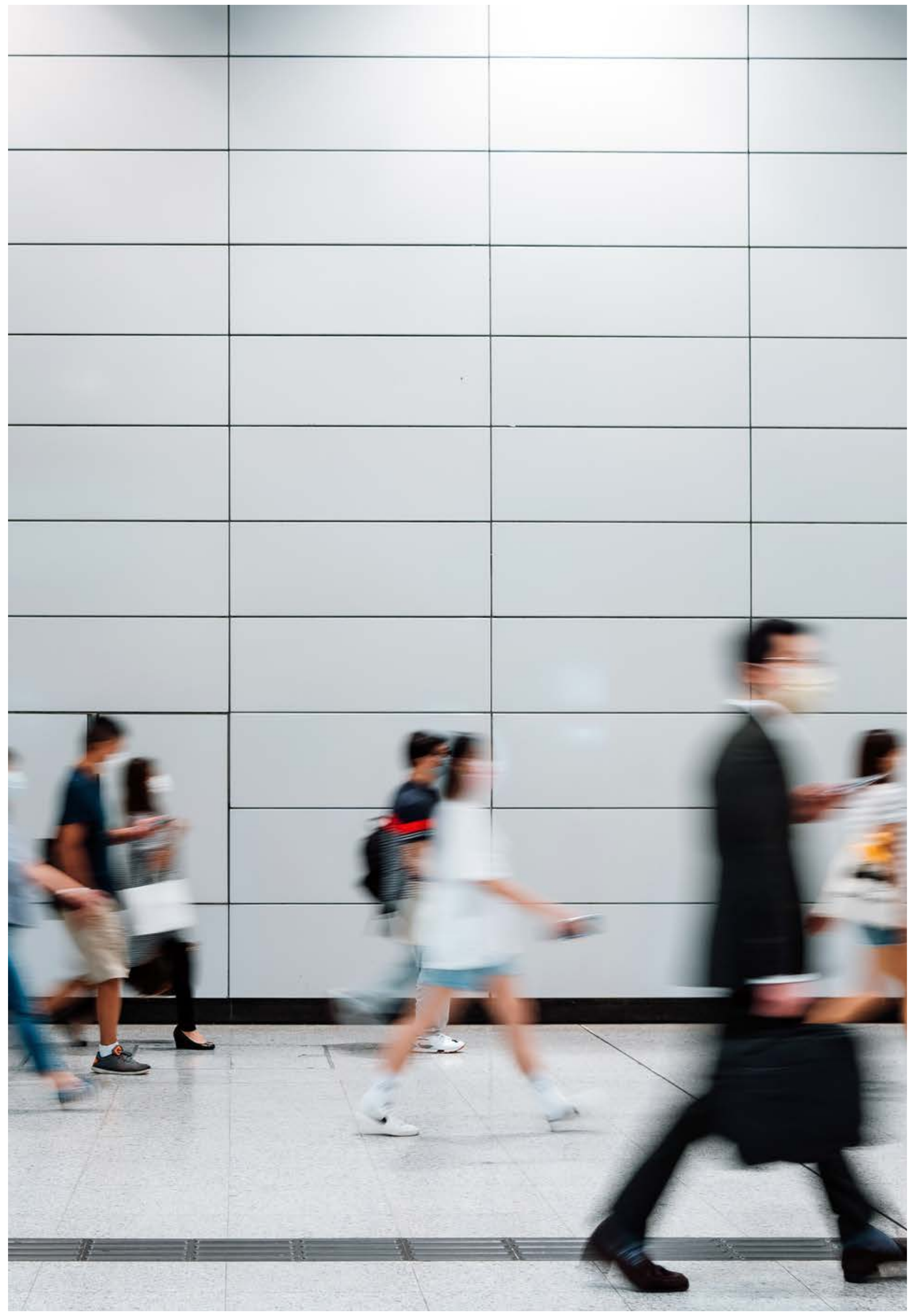
	Very resilient	Fairly resilient	Fairly vulnerable	Very vulnerable	Resilient	Vulnerable	Net change in resilience YoY
Climate change	22%	68%	10%	0%	90%	10%	+6%
Foreign exchange moves	24%	65%	11%	0%	89%	11%	+6%
Muted growth globally	22%	65%	13%	0%	87%	13%	+3%
Interest rate changes	24%	59%	14%	3%	83%	17%	+4%
Regulatory change	18%	63%	18%	1%	81%	19%	+1%
Private market valuation evolution	23%	55%	19%	3%	78%	22%	-2%
Challenged public market outlook	4%	70%	23%	3%	74%	26%	-10%
Volatility in public markets	8%	66%	23%	3%	74%	26%	0%
Volatility in valuations	14%	59%	23%	4%	73%	27%	-6%
Monetary tightening	16%	54%	29%	1%	70%	30%	-7%
Inflation	19%	50%	26%	5%	69%	31%	-9%
Geopolitics	7%	58%	34%	1%	65%	35%	-4%

1.1. Large asset owner resilience

Large asset owners remain confident that their portfolios are well positioned to withstand a range of shocks over the coming year, but there is an increase in perceived vulnerability in several key risk areas. Among the issues to which large asset owners consider themselves vulnerable, threats from geopolitics and regulation loom largest.

Consistent with our previous survey, when asked to consider how resilient or vulnerable their investments are, large asset owners continue to demonstrate a high degree of confidence, believing their portfolios are significantly more resilient than they are vulnerable to every issue analyzed. Overall, the issues large asset owners believe their portfolios are most vulnerable to over the next 12 months are:

- Geopolitical risks, with 35% of large asset owners considering their portfolios vulnerable, a 4% rise compared to the previous survey
- Inflation, with 31% considering themselves vulnerable, a 9% rise year over year
- Monetary tightening, with 30% saying they are vulnerable, a 7% rise year over year



The perceived threat from other risks has also risen over the past year. Although large asset owners consider themselves resilient to private and public market valuations overall, there was a decrease in perceived resilience year over year across several risk categories, indicative of a more uncertain investment environment. Twenty-six percent of large asset owners consider themselves vulnerable to a challenged public market outlook, up from 16% in 2024, whereas 27% consider themselves vulnerable to volatility in valuations, up from 21% in 2024.

On the other hand, nine out of 10 large asset owners feel their portfolios are resilient to climate change (90%) and foreign exchange moves (89%). Perceived resilience to muted global growth rates, interest rate fluctuations and regulatory changes is also high.

Although broadly confident about their resilience to the risks assessed, at the time of the survey, before recent market developments, European large asset owners exhibited a higher degree of concern than their peers in the US. Geopolitical risk emerged as the most pressing concern in the survey, with 38% of European-based large asset owners saying they regard themselves as vulnerable to geopolitical risks over the next 12 months, compared with just 27% in the US.

1.2. Fixed income duration remains the most popular portfolio adjustment, while demand for private market assets continues to grow

Over the past year, large asset owners have taken various measures to protect their portfolios from these risks.

In line with our previous survey, the most common action taken was adjusting the duration of fixed-income allocations, implemented by more than half of respondents (53%). This was followed by adjusting the geographic exposure of assets (47%) and increasing allocation to private markets (45%).

26% of large asset owners consider themselves vulnerable to a challenged public market outlook.

Top five portfolio adjustments implemented by large asset owners in the past year

	Percentage of organizations
Adjusted duration of fixed-income allocations	53%
Adjusted geographic exposure of assets	47%
Increased allocation to private markets	45%
Considered or implemented internal processes and procedures	41%
Considered or implemented new technology/systems/outsourcing to enable a more dynamic strategy	28%

1.3. Perceived risks

Over the longer term, the research reveals a shift in the risks to which large asset owners believe they are vulnerable. Notably, when viewed over a three-to-five-year time horizon, the perceived risk of regulatory change rises significantly.

When asked to look further into the future, confidence in resilience to most risks decreases marginally but remains high. Over a three-to-five-year view, the percentage of large asset owners that consider themselves vulnerable to geopolitical risks rises to 38%. Notably, regulatory risk is regarded as the second biggest issue, despite being one of the areas of least concern over a 12-month period, and was cited by almost a third (32%) of large asset owners, rising from 20% in last year's survey. This suggests that, after a year of major political change, asset owners are becoming more uncertain about the future direction of regulation and its impact on portfolio resilience.

A challenged public market outlook (29%) and private market valuation evolution (26%) also feature as prominent risks to which large asset owners believe their portfolios are vulnerable over the next three to five years. However, there is significantly higher resilience reported among the largest asset owners (those with more than US$20 billion in AUM) in relation to both risks.

There are also signs that large asset owners believe the resilience of their portfolios is falling overall. Across eight of the 12 risks assessed, large asset owners report their portfolios are equally as resilient as or less resilient than they were in the previous survey. The most significant increases in vulnerability come from regulatory change, monetary tightening, geopolitics and private markets valuation evolution.

As with the shorter time frame, asset owners in the US perceive themselves as comparatively more resilient than their global peers over the next three to five years. They do not consider themselves to be "very vulnerable" to any of the risks assessed while considering themselves far more resilient to the two most prominent risks found in the survey, geopolitics (82%) and regulatory change (81%), compared to the wider group. Conversely, large asset owners in the UK perceive themselves to be more resilient to volatility in public markets over the longer time frame but remain vulnerable to both geopolitics (50%) and regulatory change (40%), while 43% of European asset owners perceive themselves to be vulnerable to geopolitics and 36% say they are vulnerable to regulatory change.

How resilient do you believe your portfolio is in its ability to withstand the impact of the following issues in the next three to five years?

	Very resilient	Fairly resilient	Fairly vulnerable	Very vulnerable	Resilient	Vulnerable	Net change in resilience YoY
Foreign exchange moves	23%	66%	11%	0%	89%	11%	+1%
Interest rate changes	24%	58%	15%	3%	82%	18%	+2%
Volatility in valuations	19%	61%	19%	1%	80%	20%	-2%
Inflation	17%	61%	15%	7%	78%	22%	0%
Climate change	25%	53%	19%	3%	78%	22%	-4%
Muted growth globally	13%	64%	19%	4%	77%	23%	-1%
Volatility in public markets	9%	68%	22%	1%	77%	23%	+5%
Monetary tightening	18%	57%	24%	1%	75%	25%	-7%
Private market valuation evolution	19%	55%	23%	3%	74%	26%	-5%
Challenged public market outlook	9%	62%	26%	3%	71%	29%	-2%
Regulatory change	16%	52%	31%	1%	68%	32%	-12%
Geopolitics	5%	57%	34%	4%	62%	38%	-5%

> **Many large asset owners are also concerned about the potential for governments to attempt to influence their asset allocations.**
>
> **Eimear Walsh**
> European Head of Investment

Many large asset owners are also concerned about the potential for governments to attempt to influence their asset allocations. Almost two-thirds (61%) expect there to be attempted government intervention over the next five years, and more than a quarter (27%) see these attempted interventions as a risk. These fears are more acute among the largest asset owners, with two in five (41%) of those with over US$20 billion in AUM saying they view potential government intervention as a risk.

How much of a risk do you think government intervention — capital direction, regulation or otherwise — will present to your portfolio over the next five years?

	All organizations
I expect there to be attempts by governments to influence our capital allocation, but I do not view it as a risk.	34%
I expect there to be attempts by governments to influence our capital allocation, which I view as a risk.	27%
I don't expect there to be attempts by governments to influence our capital allocation.	39%

Note: Where risks do not add up to 100%, some respondents indicated the risk was "not applicable" to their organization.

1.4. Large asset owners remain acutely aware of the threat posed by nonfinancial risks

Market performance is seen as the most significant risk to the management of large asset owners' assets, but awareness of nonfinancial risks is also high. Again, regulatory risk is prominent and has risen sharply over the past year.

After market performance, the risks posed by reputational risk and talent management are the most widely viewed as highly significant, cited by 16% and 15% of asset owners, respectively. Smaller large asset owners are more likely to see talent management as a risk. Almost one-fifth (17%) of those with less than US$20 billion in AUM see talent management as a highly significant risk to their portfolios, compared with a little over one-tenth (11%) of those with more than US$20 billion.

The significance of regulatory risk has grown considerably, with an 11-percentage-point jump in asset owners describing it as highly significant. Talent management saw a seven-percentage-point increase in respondents viewing it as a highly significant risk, and reputational and operational risks also saw a rise in their perceived significance.

How significant do you believe the following risks are to the management of your organization's AUM?

	Highly significant	Significant	Fairly significant	Not significant
Market performance	24%	49%	23%	3%
Regulatory risk	14%	36%	31%	16%
Reputational risk	16%	34%	32%	16%
Governance	7%	42%	38%	12%
Potential for investment underperformance	9%	36%	45%	7%
Cost controls	8%	36%	36%	18%
Talent management	15%	28%	42%	12%
Operational risk	8%	31%	43%	16%

Note: Where risks do not add up to 100%, some respondents indicated the risk was "not applicable" to their organization.

1.5. AI is the definitive long-term trend shaping the macro environment over the next five to 10 years

AI and Gen AI have quickly jumped to the top of the agenda, with more than two-fifths (43%) of large asset owners surveyed saying AI will be a "highly influential" factor in shaping the macro environment in the coming five to 10 years, more than any other factor — ahead of geopolitics (34%) and the energy transition/climate change (34%).

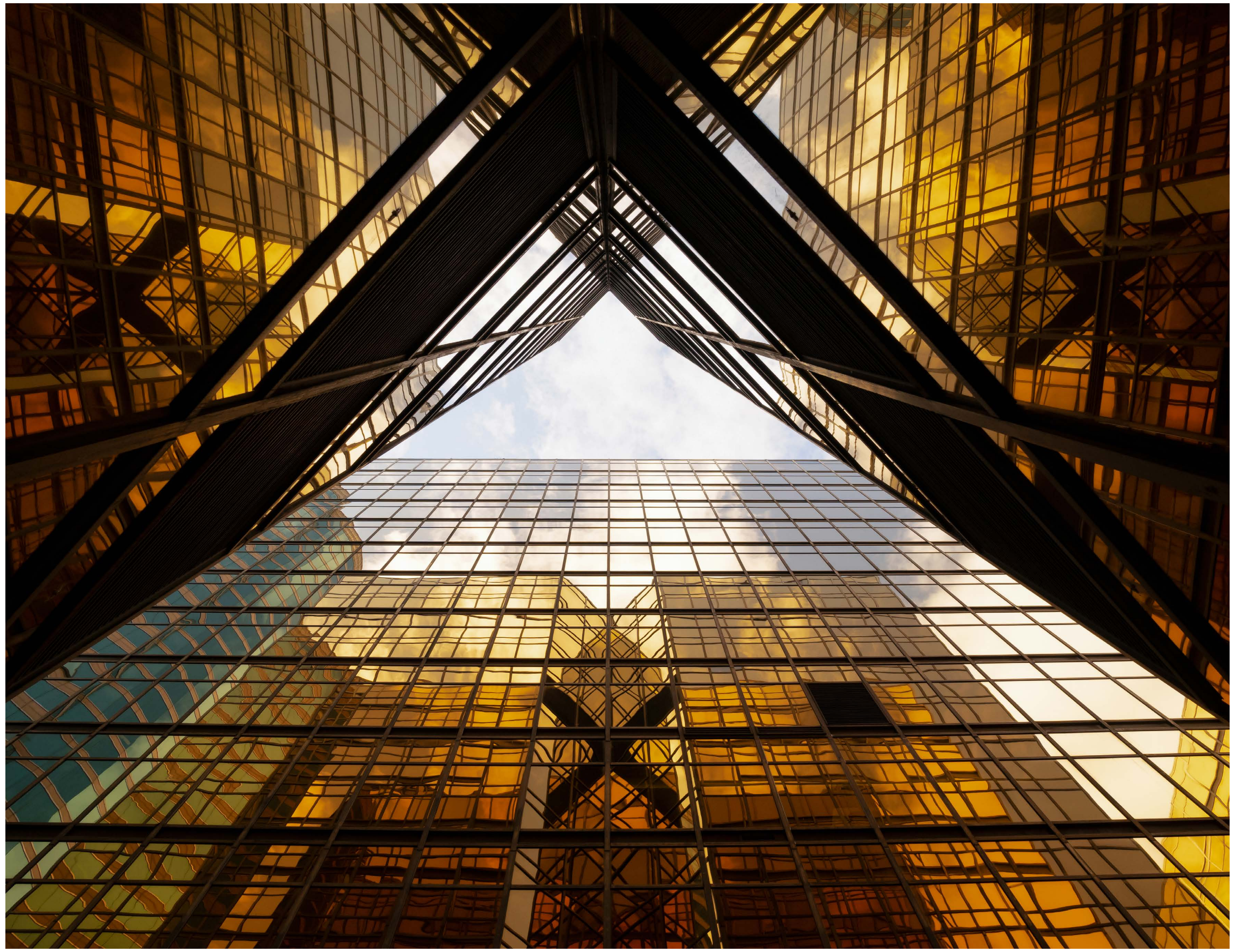
A further 38% of large asset owners say they believe AI will be "influential." This was even more pronounced in the US, with 55% of large asset owners based in the region believing it will be "highly influential."

Despite this sentiment, more than two-thirds (69%) of large asset owners say they have neither implemented nor started to develop an AI/Gen AI policy. Only 10% plan to implement an AI policy over the next year, although nearly half (49%) expect to do so over the next three years.

How influential do you think the following long-term themes will be in shaping the macro environment over the next five to 10 years?

	Highly influential	Influential	Fairly influential	Not influential
AI	43%	38%	15%	3%
The energy transition/climate change	34%	39%	22%	4%
Geopolitical tensions	34%	45%	19%	1%
Aging populations	12%	57%	27%	3%
Resource scarcity	7%	36%	47%	8%
Accelerating urbanization	1%	16%	58%	23%
Population growth	7%	32%	36%	23%

Note: Where themes do not add up to 100%, some respondents indicated the theme was "not applicable" to their organization.



1.6. Asset allocation and portfolio construction

Large asset owners plan to increase allocations to private markets and impact strategies over the coming year, favoring private credit and infrastructure in particular. Responses also suggest a potential sell-off in public markets, particularly in UK and US equities.

In 2025, we find a significant divergence between public and private markets, with large asset owners planning to increase allocations to several alternative asset classes while decreasing allocations to some more traditional asset classes.

More than three-quarters (78%) of large asset owners report being confident that their portfolios are resilient to a private market valuation evolution. This was supported by their asset-allocation decisions over the past 12 months, with 45% increasing allocations to private markets. This was even more pronounced among the largest asset owners (those with more than US$20 billion in AUM), with 59% of respondents reporting they had increased allocations.

This trend is set to continue over the coming year. Almost half (48%) of large asset owners expect to grow their portfolio allocations to private debt/credit in the next 12 months, compared with only 1% that expect to decrease theirs. This represents an 11% increase in the net expected allocations compared to last year. Half (50%) of large asset owners expect to increase their allocations to infrastructure, with only 4% expecting to decrease their allocations. Other asset classes where large asset owners expect to increase their allocations include impact strategies (29%) and global equities (34%).

The five asset classes to which large asset owners are more likely to decrease than increase their exposure over the next 12 months are UK equities, cash/money market, frontier equities, US equities and developed market credit. However, it is worth noting that in each case, the majority of respondents are planning no changes to their exposure in these asset classes.

Unlike large asset owners in the US and the UK, European asset owners appear more positive about investing in the equities of their domestic markets. Thirty-four percent of European-based large asset owners expect to increase allocations to European equities over the next 12 months, compared with 27% that expect to decrease allocations. Large asset owners in the US and the UK are, on average, more likely to decrease rather than increase allocations, not only to European equities but also to their own domestic equity markets.

It is also worth noting that in a period of heightened uncertainty that offers hedge funds/absolute-return strategies strong opportunities for generating alpha, we see the year-over-year net increase in allocations toward these strategies rising by 14%. Twelve percent of large asset owners expect to increase their allocations over the next 12 months, compared with 10% that expect to decrease allocations.

Over the next 12 months, do you expect your allocations to the following asset classes to increase, decrease or remain the same?

	Increase	Decrease	Remain the same	Net (YoY +/-)
Private debt/credit	48%	1%	26%	47% (+11%)
Infrastructure	50%	4%	24%	46% (-5%)
Impact strategies	29%	1%	27%	28%
Private equity	39%	15%	26%	24% (+11%)
Global equities	34%	15%	41%	19%
Developed market government debt	31%	14%	43%	17% (-7%)
Sustainability funds	24%	8%	24%	16% (-34%)
Commodities	12%	1%	31%	11% (+8%)
Inflation-linked assets (e.g., index-linked bonds)	20%	10%	45%	10% (-4%)
Foreign exchange	9%	3%	47%	6%
Emerging equities	23%	20%	45%	3% (-2%)
Real estate	29%	26%	34%	3% (+4%)
Hedge funds/absolute return	12%	10%	31%	2% (+14%)
Emerging market government debt	12%	10%	43%	2% (+3%)
European equities	24%	26%	36%	-2% (-4%)
Emerging market credit	8%	13%	42%	-5% (-12%)
Developed market credit	21%	27%	45%	-6% (-30%)
US equities	19%	26%	46%	-7% (-4%)
Frontier equities	4%	12%	36%	-8% (-1%)
Cash/money market	9%	23%	57%	-14% (-21%)
UK equities	8%	23%	45%	-15% (+1%)

Note: Where asset class allocations do not add up to 100%, some respondents indicated they did not invest in certain asset classes.

Allocations to private markets continue to surge

Large asset owners and many other investors in the private markets have much better transparency today into private-market portfolios and valuations than even five years ago as disclosure, technology and third-party reviews of the values of these portfolios has matured.

Our research shows that the demand for private-market assets — particularly private credit — remains strong among large asset owners. The vast majority already allocate to private markets, and many of those that don't already do so say they are in the process of building their capabilities, with the aim of allocating to private markets in the future.

Historical challenges around liquidity had been a major barrier to investment for many large asset owners, but this is changing as we see new products, such as semi-liquid and evergreen fund structures, entering the market.

David Scopelliti
Global Head of Private Equity and Private Credit

Our research shows that demand for private markets remains strong, with four-fifths (80%) of large asset owners currently allocating to private markets. The largest asset owners (those with more than US$20 billion in AUM) are markedly more likely to do so, at 93%.

- Private debt/credit is expected to see the largest inflows of all asset classes in 2025. Infrastructure and private equity also feature in the top five. A large number of asset owners are using both co-investments and secondaries as alternative ways to access private markets to tailor their investment portfolios.
- The surge in private markets is primarily driven by the largest asset owners. Seventy percent of those with more than US$20 billion in AUM intend to increase allocations to private debt/credit in the next 12 months, and 63% intend to invest more heavily in infrastructure.
- Thirty-nine percent of large asset owners expect to increase their allocations to private equity, with 15% expecting to decrease theirs. Thirty-seven percent of European large asset owners expect to increase investment in the coming year versus only 12% intending to decrease it (a net increase of 25%). In the US, 36% intend to increase private equity investment, and 27% say they will decrease it (a net increase of 9%).
- As real estate continues to show signs of recovery in several markets, large asset owners remain divided, with 29% expecting to increase their allocations and 26% expecting to decrease theirs. (Thirty-four percent expect to maintain their current allocations.)
- There is also some evidence that European large asset owners, which may have under-allocated to private markets compared with US peers, are now seeking to close this gap. Almost half (48%) of European large asset owners allocated to private markets in the past 12 months, compared with 27% of those based in the US.
- Of the small number of respondents that say they do not have an allocation to private markets, the largest proportion say liquidity requirements are the primary reason for not allocating in this area.
- However, a significant proportion comment that they are currently undertaking analysis and building expertise, as they intend to start investing in private markets.

How significant of a risk are the following in private markets?

	Highly significant	Significant	Fairly significant	Not significant	Not applicable
Valuations	20%	43%	22%	8%	7%
Liquidity	27%	34%	20%	12%	7%
Challenged exits	16%	45%	24%	8%	7%
Private credit bubble	8%	27%	45%	12%	8%
Continuation funds distorting values	5%	23%	36%	20%	15%
Stagnant IPO market	4%	30%	31%	20%	15%
Lack of transparency on valuation	15%	31%	30%	16%	8%

Sustainable investment

While certain terminology has seen a retreat in usage, sustainability continues to be a key area for large asset owners. Indeed, the past year has seen several significant changes in the way asset owners are approaching the environmental, social and governance aspects of portfolio management.

A growing majority are integrating sustainable investment goals into their policies and tracking diversity within their teams. However, we also see a shift away from certain types of climate goals, with a larger proportion of asset owners reporting that they do not plan to set net-zero or climate-transition targets.

Angelika Delen
Head of Impact Solutions,
Europe, IMETA and Asia

2.1. A growing majority of large asset owners incorporate sustainable investment goals into their investment policies

Seven in 10 large asset owners (70%) now incorporate sustainable investment goals into their investment objectives, a seven-percentage-point increase since last year. Large asset owners with more than US$20 billion in AUM are more likely to incorporate sustainability goals, with 81% including them in their investment policies. Among smaller asset owners, 64% have incorporated sustainable investment goals.

However, the intention to set climate-transition targets appears to be declining. Thirty-nine percent of large asset owners say they are not planning to set climate-transition targets versus only 8% last year.

More than two-thirds (67%) of large asset owners with more than US$20 billion in AUM have already set targets, and more than half (56%) have already implemented them. However, almost two-fifths of large asset owners do not plan to set or implement climate-transition targets, a sharp increase from 2024 (when 8% did not plan to set and 13% did not plan to implement).

Nevertheless, although fewer large asset owners may be inclined to set climate targets, they are still materially increasing their allocations to sustainable and impact-focused funds. In sustainable funds, 24% of large asset owners say they intend to increase their allocations over the next 12 months versus only 8% that intend to decrease allocations. Twenty-nine percent say they expect to increase their exposure to impact strategies versus only 1% that expect to decrease. However, it is worth noting that the rate at which large asset owners are increasing their allocations has fallen year over year, with a 34% reduction in the net expected increase in allocations toward sustainable funds being particularly notable.

European large asset owners are much more likely to invest, with 32% expecting to increase allocations, compared with 13% that expect to decrease theirs. This contrasts with more muted take-up in the US and the UK, with 10% in the former expecting to add to their allocations and 9% in the latter.

When, if ever, are you planning to set and/or implement climate transition targets?

	We have already done this	In the next 12 months	In the next 12–24 months	We are not planning on doing this
Set targets	46%	7%	8%	39%
Implement targets	38%	8%	15%	39%

Within your investment objectives, is there explicit reference to the below and/or separate policies that address how you incorporate the following?

	Yes, and the reference/ policy has remained consistent since introduction	Yes, and the reference/policy has been revised/ amended since introduction	No
The UN Sustainable Development Goals	23%	26%	51%
Climate change	38%	24%	38%
Net-zero targets	34%	20%	46%
Labor practices, health and safety, and human rights	31%	27%	42%
Impact investing	11%	24%	65%
Workforce inclusion	12%	20%	68%

More than three-fifths (62%) of large asset owners explicitly reference climate change in their investment objectives or policies. More than half reference labor practices/health and safety/human rights and net-zero targets.

The way large asset owners incorporate sustainability into their objectives is changing. The proportion of large asset owners of all sizes that reference climate change in their sustainable investment goals or policies has fallen 25 percentage points since last year to 62% of asset owners this year. However, a range of other policies have grown in popularity. Those referencing net zero have risen by almost a tenth (+9%), labor practices by 5%, impact by 4% and workforce inclusion by 3%.

2.2. The proportion of large asset owners not setting science-based net-zero targets has risen sharply

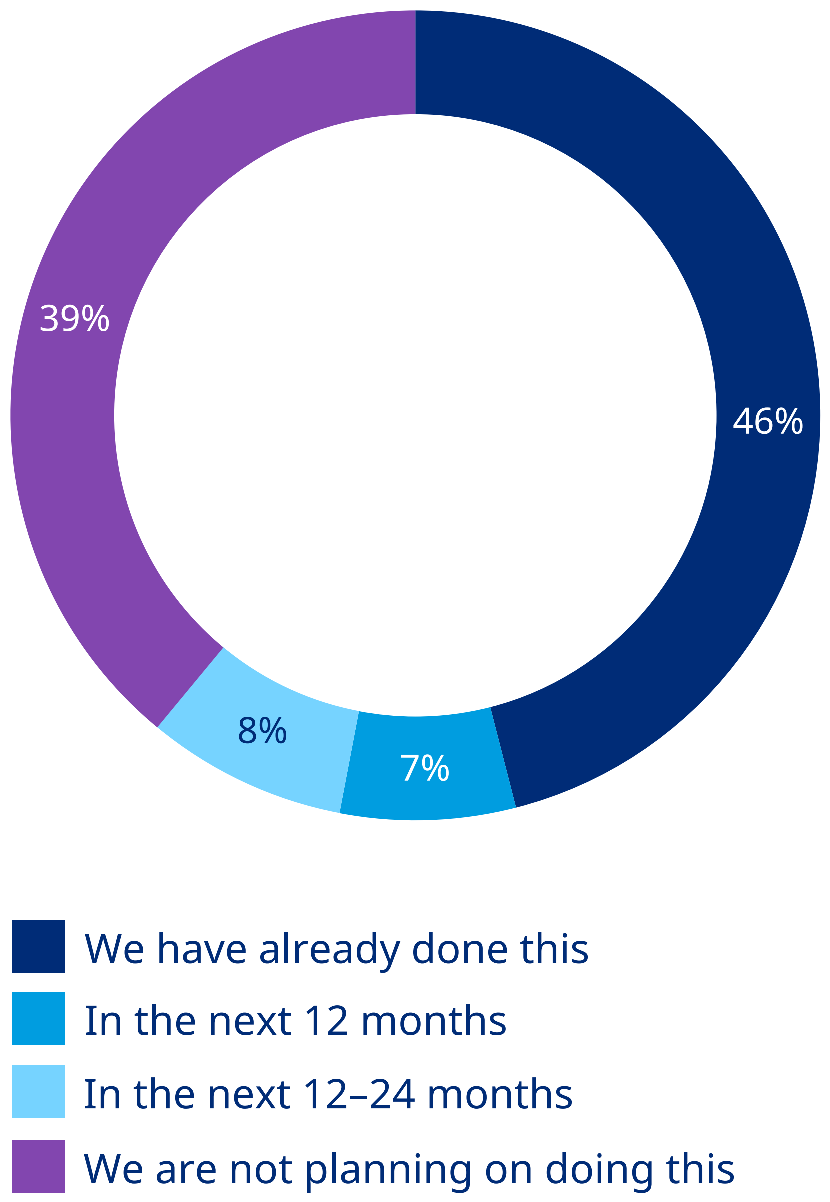
Around two-fifths (42%) of large asset owners have set a net-zero target, a 10-percentage-point drop since 2024. Around a third (34%) have set a science-based net-zero target for 2050, down 13 percentage points since last year.

The proportion of asset owners that have set a 2030 target, by contrast, has risen to 8%.

Notably, the proportion of large asset owners that say they are not planning to set a net-zero target has risen 10 percentage points to 36% since last year.

The proportion of large asset owners that say they are not planning to set a net-zero target has risen 10 percentage points to 36% since last year.

When, if ever, are you planning to set climate-transition targets?



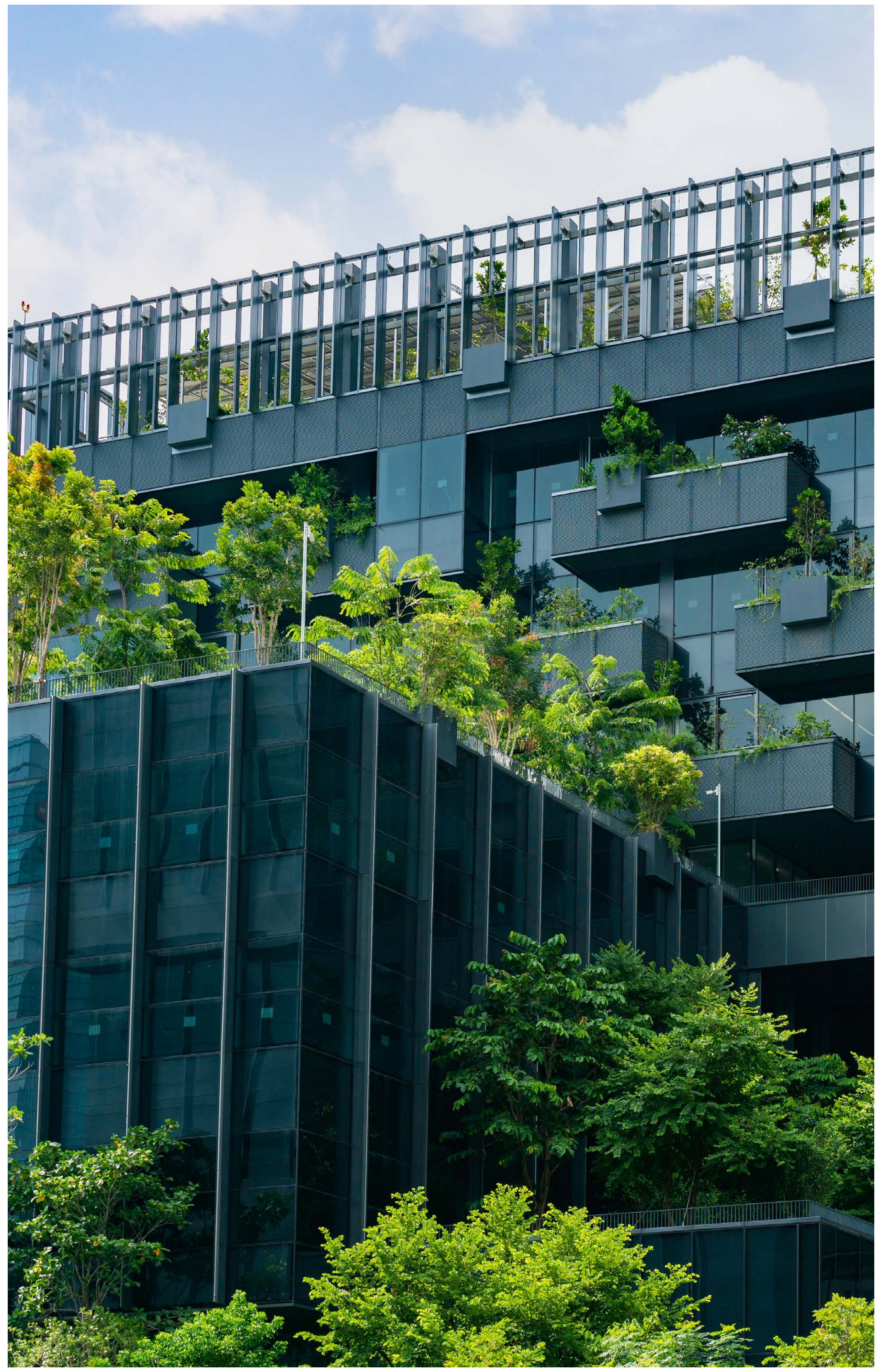
On this point, there is a clear divide between asset owners with above US$20 billion in AUM and those below. Asset owners with more than US$20 billion are more likely to have targets in place; more than half (56%) have a net-zero target in place for 2050, while a further 7% have a 2030 target.

Close to half (45%) of large asset owners with less than US$20 billion under management say they do not plan to set a net-zero target date.

Asset owners with more than US$20 billion are more likely to have targets in place.

What is your science-based net-zero target?

	Percentage of organizations
2030	8%
2050	34%
We have not set a net-zero target date but have set a broader net-zero ambition.	15%
We have not set a net-zero target date, but we are planning to do so in the next 12 months.	4%
We have not set a net-zero target date, but we are planning to do so in the next 13–24 months.	0%
We have not set a net-zero target date, but we are planning to do so in the next 25–36 months.	3%
We have not set a net-zero target date, and we are not planning to do so.	36%



2.3. Workforce inclusion tracking internally grows in popularity

Tracking workforce inclusion across internal teams and the manager selection process has grown in popularity among large asset owners.

Over two-thirds of asset owners (69%) now track workforce inclusion across internal teams, up from 63% last year. Meanwhile, tracking the manager selection process is broadly flat over last year, having risen by one percentage point to 51%.

However, workforce inclusion tracking of external managers has declined in popularity, falling 14 percentage points since last year, with 39% reporting tracking compared to 53% last year.

What is your workforce inclusion target?

	We track workforce inclusion and set targets	We track workforce inclusion but don't set targets	No
Internal teams	23%	46%	31%
Manager selection process	9%	42%	49%
Appointed external managers	4%	35%	61%

Asset owners with more than US$20 billion are more likely to have targets in place.

Governance and asset management

In an increasingly complex and uncertain investment environment, large asset owners are responding by investing in their operations where needed and by outsourcing where it makes sense for them.

The war for talent remains ongoing, particularly in private markets, where specialized talent and skill sets are needed. In response, we see significant appetite for outsourcing investment management among large asset owners, with management of the most complex asset classes being handled by outside teams more often than not.

Over half of large asset owners highlight operational complexity as a barrier to efficient decision-making within their organizations, and so a significant proportion of asset managers are planning to invest to improve their operational capabilities over the coming year, spending working capital to strengthen their risk and data systems. We believe this will lead to improved efficiency and, ultimately, better outcomes.

Rich Nuzum
Executive Director, Investments, and Global Chief Investment Strategist

Only one in 20 (5%) reports managing investments entirely in-house.

3.1. Outsourcing investment management continues to be the preferred option for large asset owners

A little more than a quarter (28%) of respondents say they do not manage any of their assets in-house, preferring to outsource investment management entirely. This trend is particularly pronounced in the US and the UK, with the proportion of large asset owners not managing any of their assets in-house at 45% and 40%, respectively.

The vast majority of large asset owners outsource at least a portion of their portfolios to external managers, citing the resource intensity and difficulty accessing investment talent as key drivers: Only one in 20 (5%) reports managing investments entirely in-house.

Consistent with last year, there is a clear pattern of large asset owners choosing to manage less complex asset classes in-house and outsourcing those requiring more specialized investment teams:

- Only 5% of respondents report managing hedge funds/absolute return strategies, while 23% report managing private equity and 27% managing private debt/credit in-house.
- This is even more prominent among the smaller large asset owners (those with less than US$20 billion in AUM), with only 17% reporting managing private equity and 19% managing private debt/credit in-house.
- Other asset classes least often managed internally include frontier equities (3%), commodities (8%), impact strategies (11%) and emerging market credit (14%).
- The asset classes most often managed by internal teams are cash/money market (54%), government bonds (42%) and real estate (38%) — although there is a significant distinction between the largest large asset owners (> US$20 billion), with 63% managing real estate in-house compared to 23% of smaller large asset owners.

Which asset classes does your organization manage in-house (versus outsourcing to an external investment manager)?

	All organizations
Cash/money market	54%
Developed market government debt	42%
Developed market credit	39%
Real estate	38%
European equities	32%
US equities	30%
Global equities	30%
Private debt/credit	27%
Infrastructure	26%
Emerging equities	23%
Private equity	23%

	All organizations
Foreign exchange	22%
Inflation-linked assets (e.g., index-linked bonds)	20%
Sustainability funds	19%
Emerging market government debt	18%
UK equities	16%
Emerging market credit	14%
Impact strategies	11%
Commodities	8%
Other	7%
Hedge funds/absolute return	5%
Frontier equities	3%

The most popular reason large asset owners give for outsourcing their investment management is how resource-intensive it is to manage assets in-house, cited by two-thirds (64%). Large asset owners also highlight the difficulties they face in hiring the talent and skill sets required.

In the asset classes where you do not manage investments in-house, which of the below describes why?

	All organizations
Too resource-intensive	64%
Requires talent and skill sets that are hard to recruit	62%
Too cost-intensive	34%
Would lead to worse outcomes for portfolios	32%
Carries reputational and governance risks for our organization	20%

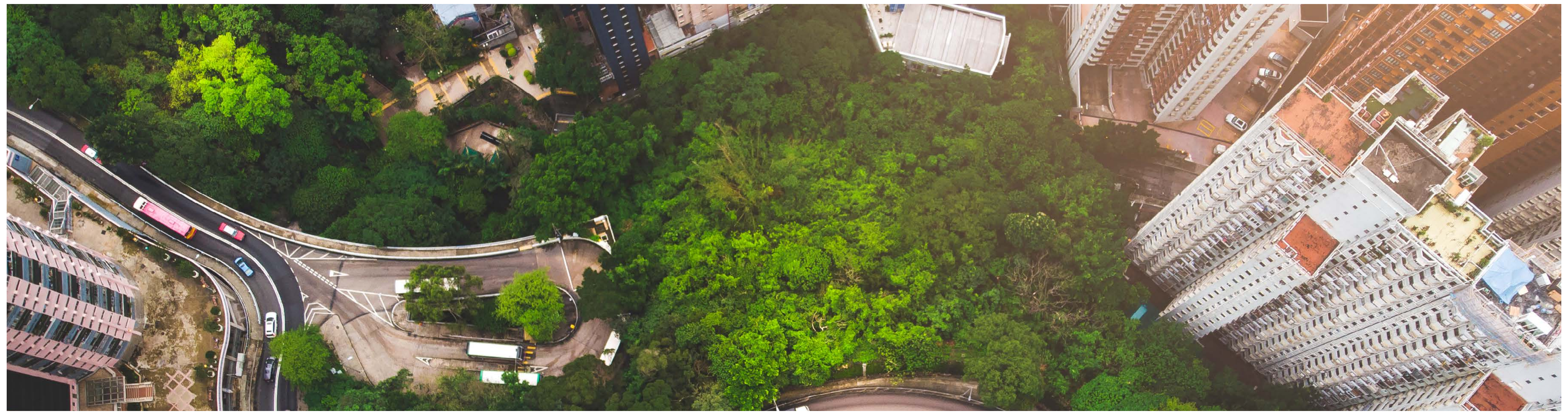
3.2. Large asset owners plan significant operational investments in the coming year

More than a quarter (28%) of large asset owners say they need to commit meaningful resources or operational expenditures over the coming year.

This proportion is higher among those with more than US$20 billion in AUM, with 37% of this group saying they need to spend more.

In which of the following areas will you spend over the next year?

	All organizations
Risk systems	52%
Data management and hygiene of sources	52%
Compliance	33%
AI	29%
Executional capabilities (e.g., trading, rebalancing)	24%
Sustainability research	24%
Investment research	19%
Other	29%



Where are the biggest talent gaps in your organization?

	All organizations
Private markets expertise	46%
Direct or co-investment expertise	40%
Manager selection	18%
Equities expertise	6%
Fixed-income expertise	4%
Other	22%

The most popular reason large asset owners give for outsourcing their investment management is how resource-intensive it is to manage assets in-house.

Conclusion

In exploring the opportunities and concerns driving the actions of the world's largest pools of capital, our second Large Asset Owner Barometer uncovers several emerging trends and illustrates the persistence of others. Such is the scale and influence of this group of investors that their asset-allocation decisions have the potential to shape investor sentiment and, ultimately, impact markets in both the short and medium term.

The clear direction of travel is toward greater allocation into private markets and for these investments to be managed by third-party specialists.

Even at a time of heightened market volatility, significant geopolitical risks, persistent inflation and the looming uncertainty around AI, large asset owners remain confident that their portfolios are resilient to the threats they face. This is due in some measure to the preemptive action they have taken to mitigate these risks, partly as a result of a strong conviction in their objectives and purpose and partly due to their trusted relationships with the external investment partners they have selected.

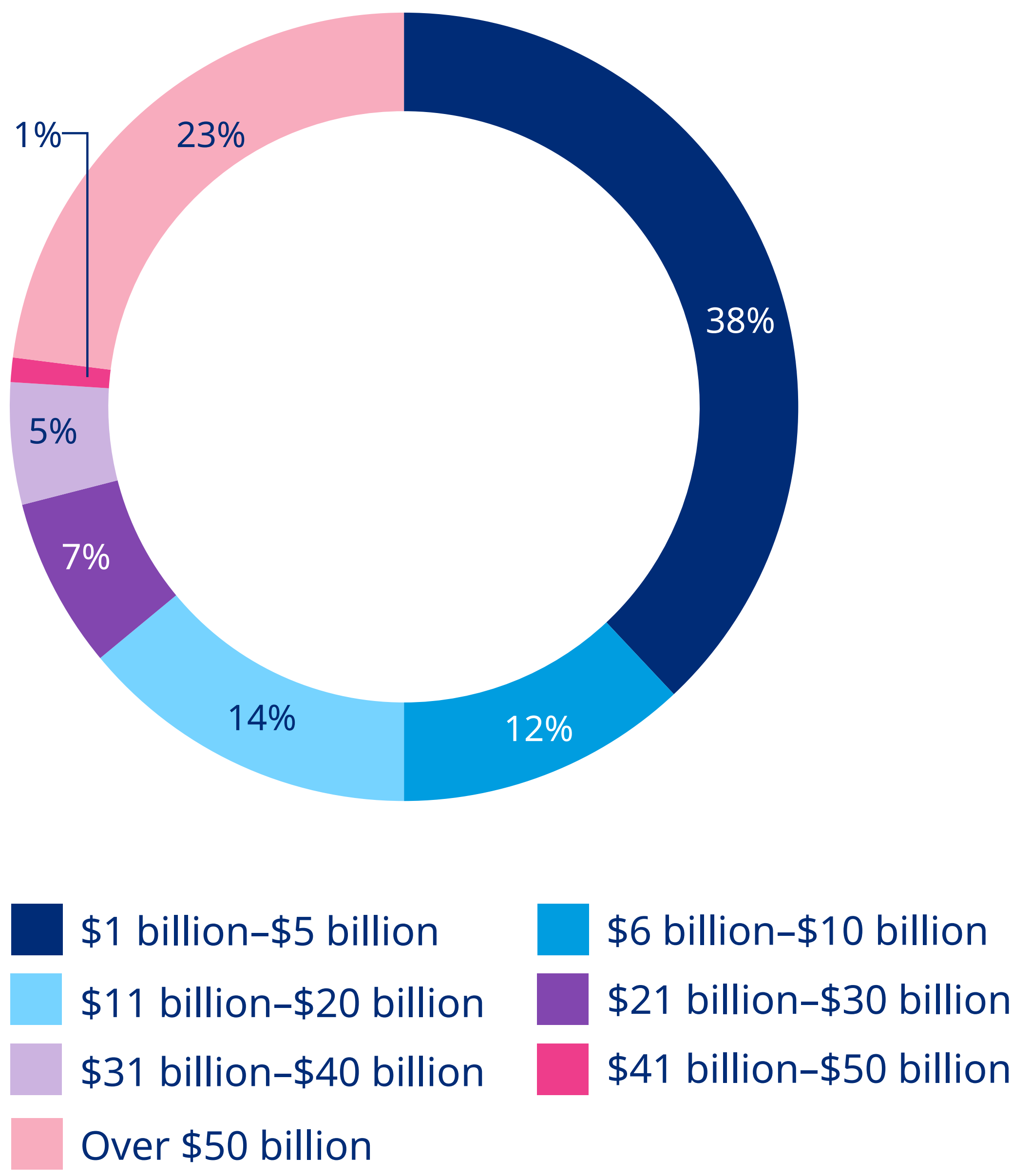
In our conversations with clients, we will be exploring these and other themes in more detail, and we will closely follow how they develop in the years to come.

The clear direction of travel is toward greater allocation into private markets and for these investments to be managed by third-party specialists.

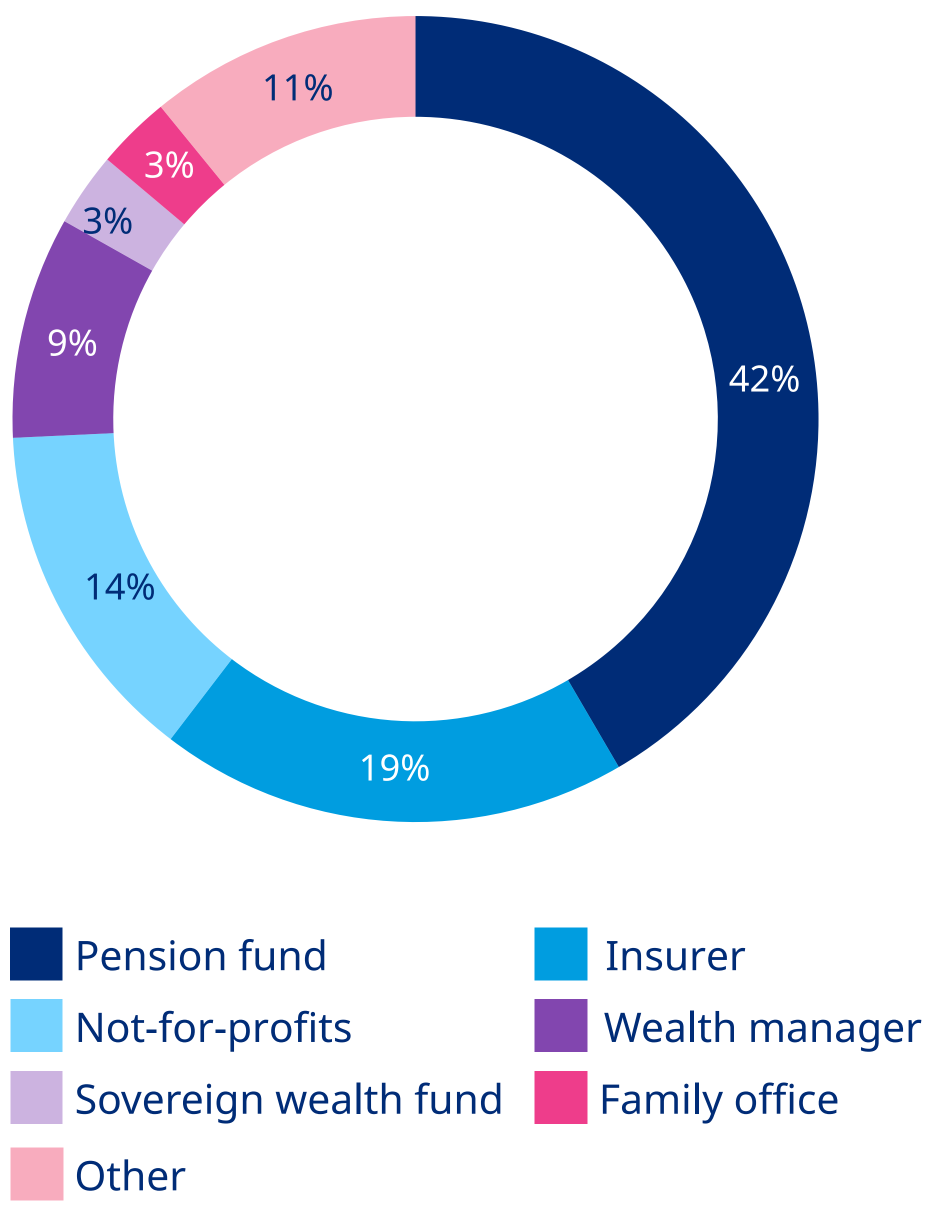
Methodology

Research was conducted via an online survey between October 1, 2024, and January 15, 2025. Large asset owner respondents are defined as having approximately US$2 billion or more under ownership and include pension funds, insurers, not-for-profits (endowments, foundations, charities), wealth managers and sovereign wealth funds. The research includes the views of respondents from more than 16 countries.

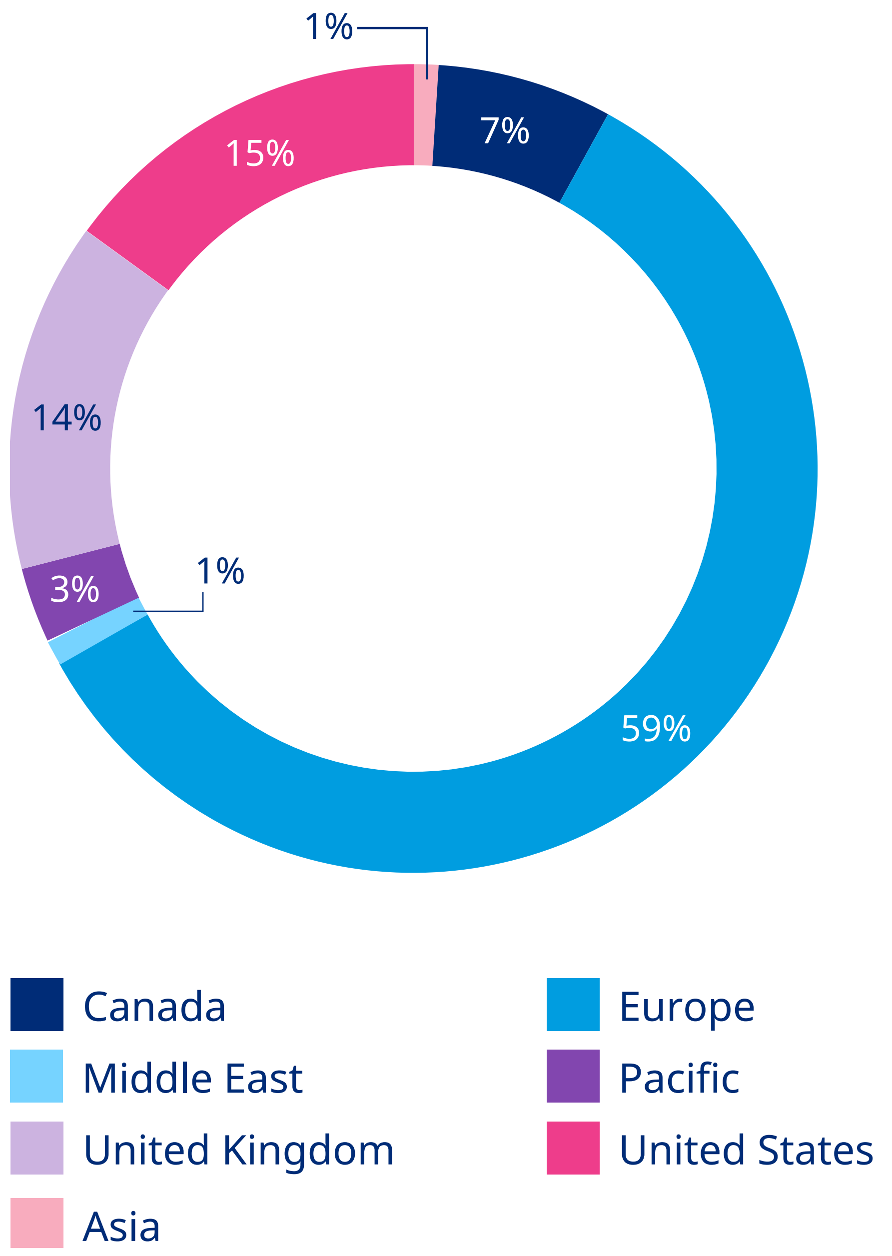
Total assets as of December 31, 2023



Type of asset owner



Organization headquarters



Contact us

If you would like to discuss the findings within this report in more detail or how we may be able to support your organization, please feel free to contact your Mercer representative. Alternatively, visit our Investment Solutions page.

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This research was conducted via an online survey between October 1, 2024, and January 15, 2025. It is important to recognize that this information is subject to inherent limitations and uncertainties. Results may not capture all relevant factors or market conditions. These results should not be construed as personalized investment advice. This should not be construed as investment advise or solicitation of any financial instrument(s)/vehicle(s).

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