



# POSITIONING YOUR PORTFOLIO FOR 2025

## Key Takeaways from NEPC's Annual Internal Investment Offsite

Defined Benefit Team

January 2025

Our annual internal investment offsite, held on January 15-16 at the Boston Harbor Hotel, brought together teams from across NEPC—from Research and Consulting to Operations—to collaborate on innovative ideas and strategies for the year ahead. Below, we share key market themes and actionable insights designed to help our Corporate Pension clients successfully navigate 2025 and beyond.

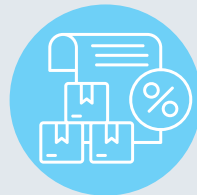
### NEPC'S KEY MARKET THEMES



**POCKETS OF EUPHORIA**



**AI SPENDING**



**TARIFFS EXPLAINED**



**WORLD AFFAIRS**

- **Are we in a bubble?** While broad markets show no signs of a bubble, concentrated areas like cryptocurrencies and AI stocks are at elevated levels.
- **Rate Environment:** Significant Federal Reserve rate cuts are unlikely in 2025, with economic strength underpinned by a healthy job market and consumer spending.
- **Risks to Watch:** Inflation resurgence, market concentration, and geopolitical tensions remain critical factors to monitor.

### PORTFOLIO POSITIONING

#### Equities

Diversify U.S. large-cap exposure with quality and value tilts, while exploring alpha opportunities in small caps, global equities, and emerging markets

#### Fixed Income

Prioritize safe-haven assets like Treasuries, with a focus on liquidity to address portfolio needs. Within corporate bonds, look to overweight intermediate duration compared to long duration as spreads remain tight and are at historically low levels.

## 2025 DEFINED BENEFIT ACTION ITEMS FOR CLIENTS

### MARKET THEMES

**Strong 2024 Performance:** Return-seeking assets delivered continued robust results, boosting funded status for many plan sponsors to over 100%.

**Protection Focus:** Emphasize safeguarding funded status while minimizing long-term cash contributions and PBGC premiums.

**Interest Rate Impacts:** Evaluate the effects of current interest rates on investment strategies; consider maintaining or increasing interest rate hedge ratios as appropriate.

### INVESTMENT PORTFOLIO

**Growth Asset Diversification:** Adapt to shifting return expectations by prioritizing diversification within growth assets.

**Yield Curve Management:** Monitor yield curve exposures for liabilities and hedging portfolios; evaluate the potential benefits of a completion manager.

**Credit Allocation:** Focus on intermediate credit within LDI portfolios, with readiness to add credit exposure if spreads widen.

### PLAN GOVERNANCE

**Cash Flow and Liquidity:** Assess expected incoming and outgoing cash flows alongside the plan's liquidity profile to ensure alignment.

**Pension Risk Transfer (PRT):** Fully evaluate PRT and incorporate any activity into investment strategy for better synergy.

**Long-Term Objectives:** Regularly evaluate plan goals, including surplus opportunities, plan hibernation, and the evolving fiduciary landscape of PRT.

This strategic framework is designed to help plan sponsors optimize their defined benefit plans amidst evolving market dynamics and regulatory considerations. Contact your NEPC consultant for further guidance on implementing these action items.

### IMPORTANT DISCLOSURES

Past performance is no guarantee of future results.

All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.

This memo should not be considered customized investment advice. Please contact NEPC for advice specific to your investment program.

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