

Market Musings 03/26

For Professional Investors only

Setting the scene

How pension reforms shape the European credit markets

Across several European markets, pension systems are being reformed to enhance long-term sustainability in light of demographic and fiscal pressures. The Netherlands is widely considered to be one of the most advanced cases, illustrating broader trends in pension reform, particularly the shift from collective guarantees towards more individualised pension capital and risk sharing.

The Dutch pension system is one of the largest and most sophisticated in the world, with total assets in excess of €1.8 trillion covering around 11 million participants. The Future of Pension Act (Wet toekomst pensioenen – WTP) in the Netherlands, which became effective on 1 July 2023, represents the largest pension overhaul since the introduction of the Modern System in 1957. The enactment of the WTP is the outcome of an extensive reform trajectory, prompted by persistent demographic pressures and concerns about the financial sustainability of the pension system since the early 2000s, particularly given volatility in funding ratios and political and societal dissatisfaction with the lack of indexation during the 2008-2019 period.

A changing landscape for pension systems

Following the introduction of the WTP, all pension funds are required to move from defined benefit (DB) style collective entitlements to defined contribution (DC) capital combined with an element of collective investment and risk sharing. Lifetime benefit payments will remain and risk pooling for longevity risk and investment shocks is partially retained. The transition window for pension funds is until 1 January 2028. This shift represents the end of the fixed pension promises of the past, the adoption of age-dependent

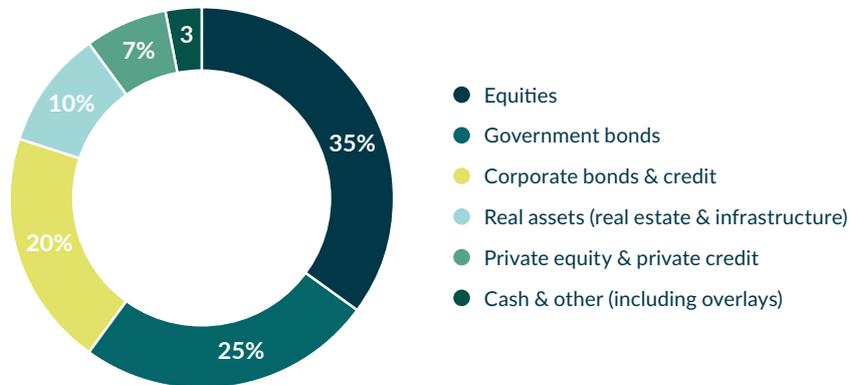
investment risk and the creation of individually accrued pension capital for every member.

As one of Europe's most prominent institutional investor groups, Dutch pension funds have historically played a pivotal role in shaping demand for long-dated government bonds, interest-rate swaps and high-quality credit. Under the WTP, it is estimated that the accumulated collective DB entitlements will be converted into individual pension capital, creating one of the largest asset reallocations in European history. It is clear that the transition to the new pension system involves a structural shift, with an expected profound impact on demand across the fixed income universe.

Investment implications

For Dutch pension funds, the emphasis is shifting away from funding ratio management toward achieving more sustainable long term investment returns. This shift is prompting a reconsideration of the balance between perceived 'safer' assets and higher risk categories, as well as a reassessment of duration hedging strategies. As a result, meaningful reallocations across fixed income, credit and alternative investments are expected. These dynamics observed in the Netherlands mirror patterns typically seen when pension funds transition to more individualised retirement frameworks.

Graph 1: Estimated aggregate asset mix of Dutch pension funds 2025



Source: DNB Dashboards

Dutch pension funds under the former FTK (Financieel Toetsingskader) hold, on average, a quarter of their portfolios in sovereign bonds and roughly 45% in fixed income overall. Under the WTP, it is expected that Dutch pension funds will gradually reduce their holdings of ultra-long government bonds (30-50 years) as well as long-dated interest rate swaps, that are primarily used for DB liability hedging. Asset allocation is therefore shifting to allow portfolios to take more age dependent investment risk across cohorts.

For European credit investors, these structural shifts carry clear implications. Euro swap curves may steepen with reduced reliance on long duration hedges. The rebalancing of portfolios is likely to impact demand for corporate credit, asset backed securities and supranational instruments.

With pension funds expected to transition until 2028, credit investors should be prepared for episodic volatility, sporadic substantial rebalancing flows and shifting liquidity conditions, particularly around key transition dates.

What have we seen so far

Around one third of pension funds in the Netherlands have now transitioned to the new system. Expectations of heightened volatility around 1 January 2026 proved misplaced for some market participants, particularly hedge funds that anticipated a steepening of the interest rate swap curve. Instead, the swap curve has flattened since 31 December 2025.

Most funds that transitioned on 1 January 2026 started to reposition portfolios in advance when rates decreased ('voorsorteren'). Smaller and mid-sized funds were able to reduce duration rapidly, often within weeks and, in some cases, within days. The larger funds were however unable to reposition their portfolios within a short timeframe without disrupting the market. These funds gradually reduced duration over a period of months and this, combined with the hedge fund prepositioning, may have caused the spread widening in the second half of 2025. The larger funds appear to have stopped selling duration in January 2026, reducing downward pressure in long rates.

Less than half of the pension funds that transitioned to the new system increased hedge ratios ahead of the transition to the new pension system to safeguard coverage ratios, particularly between September and November 2025 when interest rates were trending higher. Swaptions were the preferred hedging instruments, becoming effective in a declining rates environment. The majority of funds reduced their hedges in the final period leading to the transition. One fund used swaptions to 'automate' the hedge reduction after the transition to the new pension system, while still keeping the upward potential.

Graph 2: Euro Interest Rate Swap Curve (Euro 10y30y swaps)



Source: Bloomberg, date as of 31-01-2026

Van Lanschot Kempen perspectives on asset allocation

Van Lanschot Kempen serves as fiduciary manager for a number of pension funds (pension assets totalling around €60 billion) and provides customised investment solutions and advice, with a strong focus on supporting the transition to the new pension system. We are seeing a gradual shift toward more risk on asset allocation strategies as funds prepare for age dependent investing under the new system. As part of this move, pension funds are reducing their exposure to ultra long government bonds (20+ years), high rated corporate bonds and mortgages, and are reallocating toward higher risk assets. Within fixed income specifically, this translates into a preference for instruments with maturities below 15 years, which better align with the shorter duration profiles required under the new investment framework.

Contrary to many other market participants, we do not anticipate a large rotation into corporate credit at this stage. So far we have seen a net sell off in credit by our Dutch pension fund clients, ranging between 7% to 12%.

The largest Dutch pension fund that transitioned has adopted a higher allocation to growth assets supported by a WTP aligned lifecycle structure, with lower long duration hedges and built in flexibility to rebalance as cohorts progress through the age profile.

Given the increased 'return' component of Dutch pension funds' lifecycle portfolios, we expect an increased allocation to higher yielding assets including equities, direct lending, infrastructure assets, private equity and opportunistic credit.

With the largest Dutch pension fund scheduled to transition on 1 January 2027, European credit investors may face a year of rebalancing flows and periodic volatility, all of which create both risks and opportunities across European bond markets.

Conclusion

The Dutch experience offers a valuable case study for understanding the wider implications of pension reform for European fixed-income markets. Dutch pension funds are large, sophisticated institutions and/or are advised by large well-established fiduciary managers. These entities are fully aware that longer-dated swaps can be illiquid and will do their utmost not to disturb pricing here. Furthermore, we do not expect an increased allocation to investment grade and high yield credit investments, in contrast to Deutsche Bank's prediction of €40 to €75 billion inflow in investment grade and ~€10 to €20 billion inflow in high yield.

Investments in government bonds, mortgages and supranational bonds will decline but, on balance, this will be invested in higher risk assets such as equities and illiquid alternative investments.

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Portfolio Manager Credits

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