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The value of active strategies in old-age provision

The end of artificially low interest rates, and a greater focus on “value for money”, support the case for active over passive strategies in unit-linked and pension products.



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The health benefits of staying physically active in retirement are well known. But what about the benefits to financial health of investing in active strategies?

Passive strategies, such as exchange-traded funds (ETFs), are often favoured for their simplicity and cost efficiency. Yet these strategies gained popularity during a decade dominated by a single global factor: artificially low interest rates. This environment created consistent growth and low volatility across asset classes, which worked to the advantage of static, index-tracking funds.

Today, we believe that advantage has eroded. The post-low-yield era presents a more challenging environment characterised by divergent growth risks, inflation

KEY TAKEAWAYS

- The choice between active and passive strategies should not be reduced to a binary decision, eg, based solely on fees.
- Instead, it should reflect the investor’s unique goals, the product framework (eg, unit-linked or pension plans) and the market environment.
- In the context of old-age provision, we question the suitability of passive strategies. In a competitive market situation, with greater volatility and structural shifts, we think active approaches with selective decisions have greater potential to outperform and protect wealth.

pressures and structural shifts across regions and sectors. In our opinion, these dynamics demand a more active and flexible approach.

Active strategies offer dynamic risk management, tailored solutions and sustainability integration. They also encompass a range of options including, for example, systematic investing, which combines the adaptability of active management with diversification, ensuring consistency and stability in long-term retirement portfolios (see case study).

In this article, we look at the pros and cons of active and passive strategies as they relate to retirement, particularly in unit-linked and pension products. We conclude that, in our view, active strategies are well positioned to deliver financial security and stability in old age.

The landscape of retirement planning is evolving

The world is undergoing a profound demographic transformation. Life expectancy has risen from 45 years in 1950 to over 73 years today, and is projected to reach 77 by 2050.¹ At the same time, the number of retirees is set to double from 806 million in 2023 to 1.6 billion by mid-century.² This shift places huge pressure on pension systems, which are struggling to meet the needs of ageing populations. As a result, individuals must take on greater responsibility for planning and securing their retirement income.

This demographic change is happening alongside a fundamental shift in the economic environment. Previously, artificially low interest rates tended to boost asset classes such as equities. This contributed to lower volatility and arguably minimised the need for active management. But in the post-low-yield era, global markets face an array of divergent growth risks. Higher interest rates, inflationary pressures and geopolitical tensions have created a complex environment in which, we believe, static, index-tracking strategies may be increasingly vulnerable. In our view, investors today require solutions that can adapt dynamically to structural shifts while actively managing risks in a more fragmented global economy.

Investment products for retirees may offer better value for money than ever

In parallel with these changes, regulators and supervisors such

as the European Insurance and Occupational Pensions Authority have introduced the concept of “value for money” as a benchmark for evaluating financial products. While cost efficiency is important, “value for money” expands the focus to include the overall benefits delivered to retail investors.³

According to the authority, financial products that offer “value for money” should: deliver appropriate returns for the level of risk taken; navigate market volatility and structural shifts over time; incorporate environmental, social and governance (ESG) factors to align investments with societal expectations; and safeguard against downside risks, particularly for long-term retirement objectives.

For unit-linked and pension products, a focus on value for money is particularly beneficial; it means investors can potentially access tailored retirement solutions with institutional-grade funds and pricing.



1) United Nations, **World Population Ageing 2023: Challenges and opportunities of population ageing in the least developed countries**

2) Ibid.

3) **EIOPA methodology on value-for-money benchmark 2024**; see also **EIOPA annual report 2026**

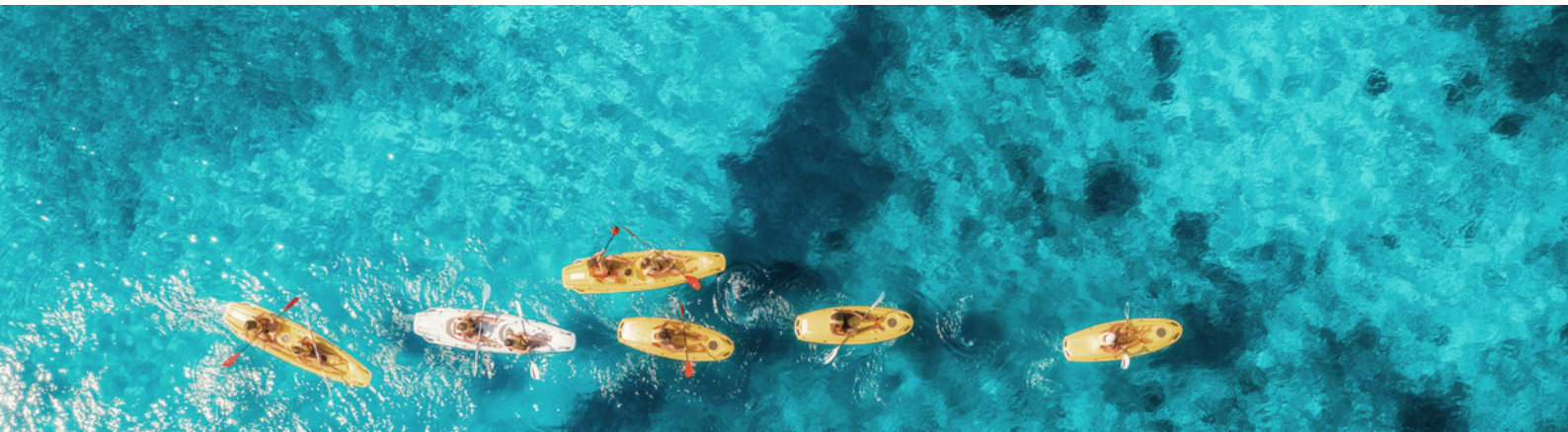
Benefits of **active strategies** in retirement

To make the selection between active and passive strategies in retirement, it is important to understand the benefits and drawbacks of each strategy as they relate to old-age provision. First, let's examine actively managed strategies.

- 1. Potentially higher returns:** Active fund managers aim to outperform the general market or a benchmark index.
- 2. Flexibility:** Fund managers can adapt their investment strategy to changing market conditions and invest in opportunities they deem promising. Markets experience volatility over time, which can impact old-age provision.
- 3. Ability to control risk:** Active fund managers have the flexibility to change the composition of the portfolio with the aim of reducing risk and improving the return-risk balance. (This is particularly relevant if target-driven active strategies are used, which give the investor an "autopilot" function where the fund manager works to a pre-determined risk tolerance.)
- 4. Sustainability and active security selection:** Active fund managers can dynamically adapt to sustainability standards and select individual securities to meet the needs and preferences of investors based on their judgment, whereas passive funds, such as ESG ETFs, may be less responsive due to their reliance on static, exclusion-based indices.

Drawbacks of **active strategies** in retirement

- 1. Higher costs:** Active management requires more resources and therefore typically incurs higher management costs, which can reduce the fund's overall return. However, new unit-linked tariffs and defined contribution-type pension plans often use institutional share classes with significant discounts compared with the standard retail offering.
- 2. Potentially worse performance:** Studies have shown that many active funds fail to outperform the market over the long term, which can lead to disappointing returns for investors. However, most of these analyses consider retail share classes, which include advisory fee components for distribution partners, which are not relevant within standard old-age provision contracts today.⁴
- 3. Tax consequences:** Active funds may be rotated more frequently, which may result in higher tax charges when capital gains are realised. But these tax challenges are typically not relevant in unit-linked structures.
- 4. Potential focus on short-term trends:** In retail portfolios, shorter-term trend portfolios may have a higher share of allocations. However, old-age provision structures are mostly linked to long-term investment ideas, or make use of dedicated asset allocation models suitable for special investment targets and horizon, such as lifecycle strategies within target-date portfolios.



4) In most markets, publicly traded insurance companies often hold legal ownership of fund shares within unit-linked contracts, thus using institutional share classes.

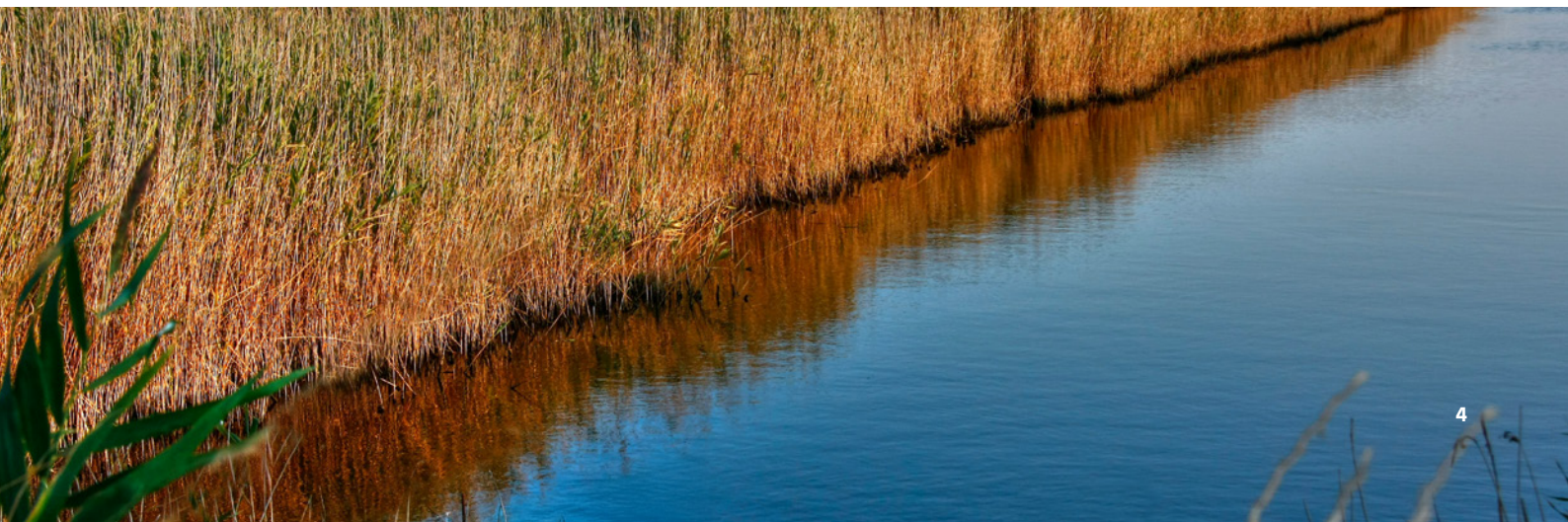
Benefits of **passive strategies** in retirement

It is now time to examine passive strategies to understand how they compare with active in terms of old-age provision. First, the benefits.

- 1. Lower costs:** Passive funds typically have lower management and transaction costs because there is no active management or frequent turnover of assets. This leaves more return potential for investors.
- 2. Broad diversification:** Passive funds usually track a specific index consisting of a variety of securities. This reduces risk through broad diversification across different assets and sectors. However, passive diversification may unintentionally create sector bias and concentration exposure.
- 3. Transparency:** The investment strategy of a passive fund is clearly defined as it simply tracks the underlying index. Investors know exactly which assets the fund is invested in. But for many retail investors, the exact composition of underlying indices is not widely understood. These underlying indices are complex, for example, indices like the S&P 500 or Nasdaq 100 include hundreds of stocks, each with different weightings. Understanding the exact composition and the methodology behind these indices requires a deep dive into financial data and index construction rules.
- 4. Easy to invest:** Passive funds are considered relatively easy to understand and buy. Investors can gain access to a wide range of assets by purchasing a passive fund without having to select individual stocks or bonds.

Drawbacks of **passive strategies** in retirement

- 1. Limited return prospects:** Because passive funds only track the market, they usually have little or no potential to outperform the market. The fund performance is therefore dependent on the index, and if it performs poorly, the fund will match that poor performance.
- 2. No active risk management:** Passive funds do not adapt to changing market conditions, which means they may not perform as well during volatile market periods as active funds, which can adjust their portfolios. Nearing retirement age also means reaching the retirement “risk zone” with the highest vulnerability to market shocks. Passive investing has the potential to expose retirees to major market drawdowns, leading to lower final wealth if downturns occur just before withdrawal years.
- 3. Cluster risk:** In passive funds, certain companies or sectors can grow to become overrepresented in the underlying index, creating potential “cluster risk”. Poor performance by these companies or sectors can have a disproportionately negative impact on the performance of the index and the passive funds tracking it.
- 4. Limited control over sustainability aspects:** ESG ETFs often differ in their approach, which means it may be challenging for investors to select funds to reflect their sustainability goals and preferences.



Active managers are arguably better positioned to address sustainability

There are further differences when it comes to sustainability. Passive strategies, such as socially responsible ETFs, face inherent limitations due to their reliance on static, exclusion-based indices. These funds may be slower to adapt to evolving ESG data or controversies, which may mean they continue to hold companies with emerging environmental or social issues longer than actively managed sustainable funds. The rapid growth of ESG-labelled ETFs has also raised greenwashing concerns, as many rely on broad ratings rather than rigorous analysis.⁵ This standardised approach often misses companies transitioning toward sustainability, which may reduce the effectiveness of passive ESG strategies.⁶

In contrast, active managers can integrate ESG factors throughout the investment process, using in-depth research and direct engagement to identify risks and seize sustainability opportunities. Unlike passive strategies that may rely on exclusions, they can divest from companies with poor ESG practices or engage with management to push for improvement. This flexibility is particularly valuable under evolving regulations such as the Sustainable Finance Disclosure Regulation in Europe, because it enables active managers to update criteria and reallocate to companies making ESG progress, thereby aligning portfolios with investor expectations for meaningful impact. This adaptability

aligns with investor expectations for genuine, impact-driven ESG integration.⁷

Another difference is that active managers can engage directly with companies by using dialogue to drive change in areas such as transparency, climate action and social responsibility. This stewardship advantage aligns investments more closely with investor values and regulatory goals. In contrast, passive funds are constrained by index-tracking mandates, which may limit their ability to advocate for meaningful ESG improvements.

Sustainability is also relevant to regulators' focus on "value for money", because the concept extends to evaluating overall utility, including risk-adjusted returns, financial protection and sustainable wealth growth. This regulatory direction has a vital role in safeguarding long-term investor interests.

Securing the future for long-term success

Selecting between active and passive investment strategies is often seen as a balancing act. While passive strategies are favoured for their perceived simplicity and lower fees, this narrative often fails to account for the complexities and demands of a forward-looking market environment. We believe the evolving financial landscape, marked by increased market volatility, structural shifts and heightened sustainability goals, calls for solutions that can adapt dynamically and manage risks

proactively. Active strategies aim to deliver on these needs by offering tailored risk management, dynamic asset allocation, unique access to institutional-grade underlying funds, and sustainability integration.

In the context of retirement, it's important to note that the cost narrative that once supported passive strategies diminishes within the context of unit-linked products. Institutional share classes may narrow the fee gap significantly, while we would argue that active strategies justify their higher costs by delivering enhanced value through potentially better risk-adjusted returns and proactive stewardship.

In the end, success in retirement planning hinges on careful preparation, regular review and a commitment to long-term objectives. We believe active strategies offer not just a method, but a philosophy – one that prioritises adaptability, foresight, value and alignment with the unique needs of retirement-focused investors.

5) Financial Times, April 2023 **Investors warned of 'greenwashing' risk as ESG-labelled funds double**

6) MorningStar research 2023, 2024

7) Bloomberg 2024 ESG data as the key differentiator between active and passive strategies

CASE STUDY

A systematic edge in asset management

This case study examines the performance of the Allianz Best Styles Global Equity Strategy against the iShares Core MSCI World ETF, a passive investment that aims to track the MSCI World Index. Systematic equity strategies such as Best Styles combine the benefits of active decision-making with the consistency and diversification of systematic frameworks.

Best Styles seeks to realise equity excess returns from risk premia associated with five investment styles – Value, Momentum,

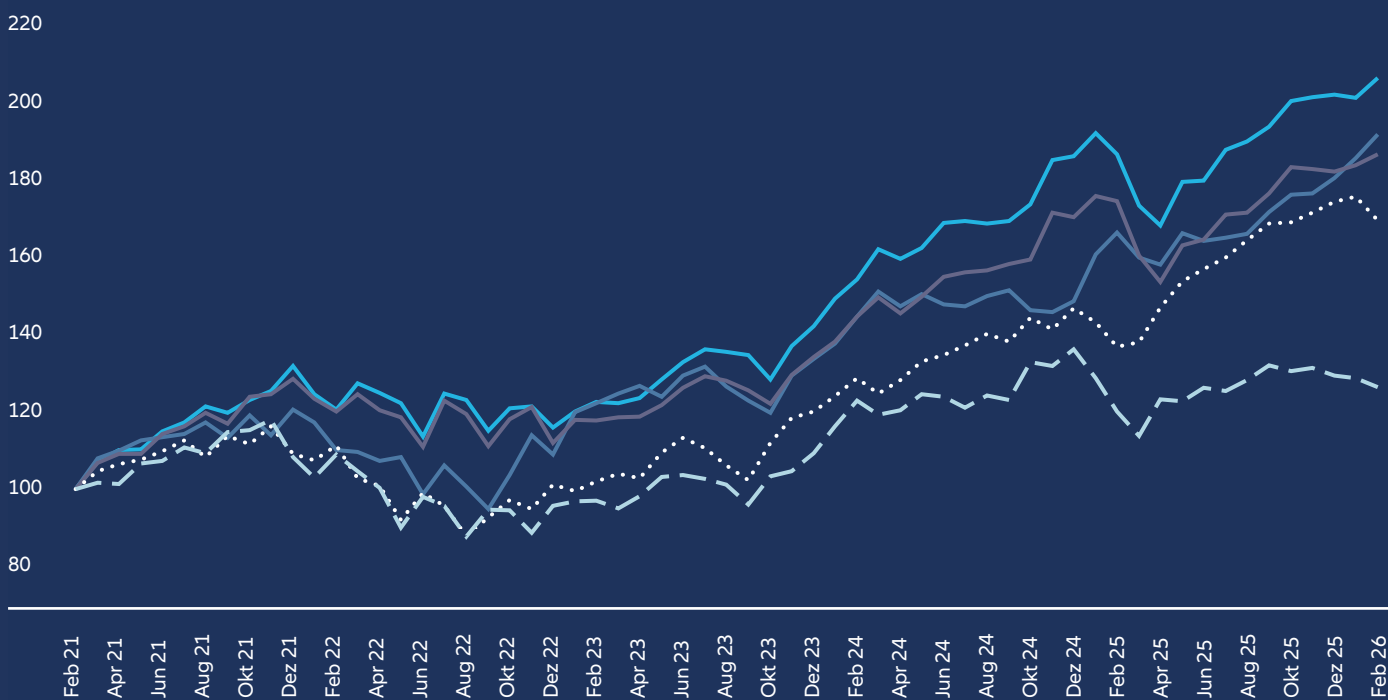
Revisions, Growth and Quality. By diversifying across five styles, the strategy reduces risks of over-concentration and underperformance related to a single style. It also aims to produce a more stable excess return stream that is independent of economic and market conditions, helping the strategy navigate through different market cycles and environments – an essential feature for long-term investors.

The iShares Core MSCI World ETF seeks to track the MSCI World Index, which

means it replicates the performance of this index by holding a portfolio that closely matches it. While the MSCI World Index offers consistent exposure to the global equity market, it has a significant concentration in certain regions (ie, the US at around 71%), and in certain sectors, such as technology (over 26.5%).

Over the last five years, Best Styles outperformed the iShares Core MSCI World ETF (Exhibit 1).

Exhibit 1: Performance of Best Styles strategy versus iShares Core MSCI World ETF



Key metrics	Allianz Best Styles Global Equity - W - EUR	iShares MSCI World ETF
Expense ratio	0.50%	0.20%
Diversification	Across factors, regions, and sectors	Static replication of index
2022 drawdown	-14.3%	-18.2%
Risk-adjusted return (5 years)	Higher Sharpe ratio	Lower Sharpe ratio

- Allianz Best Styles Global Equity - W - EUR
- iShares Core MSCI World ETF
- MSCI World Index Total Return (Net) in EUR (Allianz Best Styles Benchmark)
- - UBS ETF MSCI World Soc. Resp. UCITIS ETF
- EURO STOXX 50 index

Source: "Performance Comparison in UL Framework" Whitepaper, Bloomberg, AllianzGI research. Numbers are based on reference share classes used in unit-linked contracts of AllianzGI in Europe. Past performance is no indicator for future returns.

CASE STUDY

A systematic edge in asset management (continued)

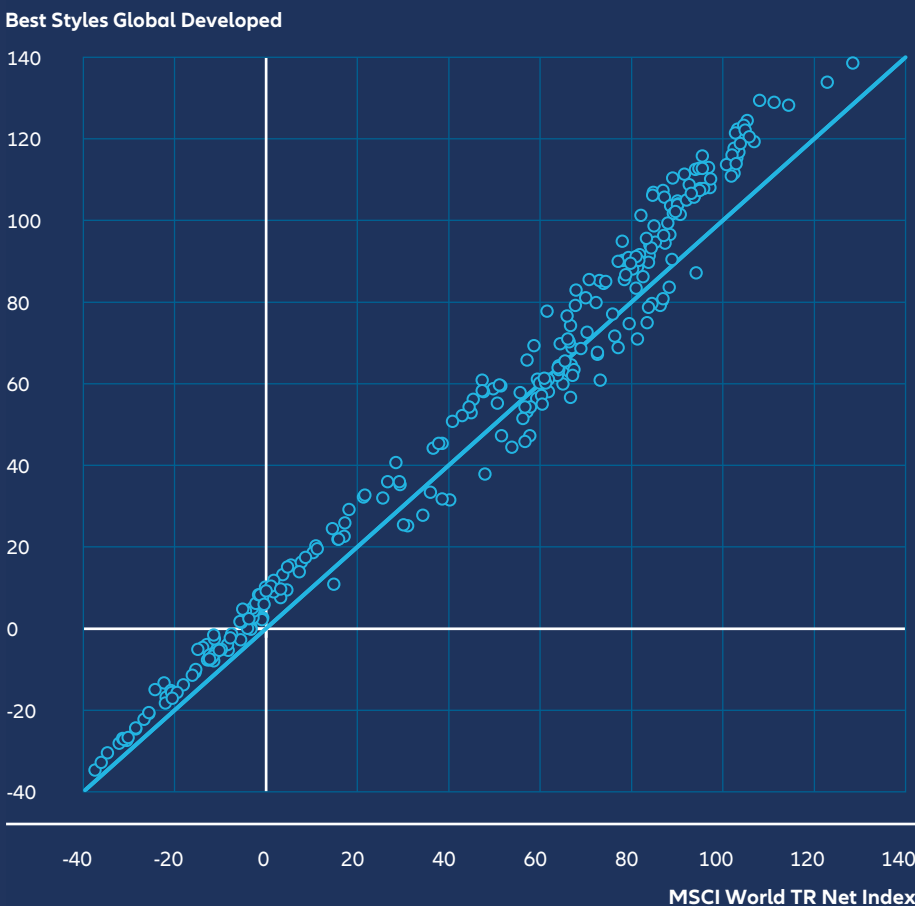
The outperformance of Best Styles was particularly notable in 2022. In the first quarter of that year, global equities retreated due to accelerating inflation, which heightened concerns about more aggressive interest rate hikes by central banks. The second quarter was a mixed environment, witnessing global equities suffer one of their worst quarterly declines on record as inflation continued to accelerate.

The Value investment style initially outperformed due to rising inflation

expectations and interest rates, but faced challenges as recession concerns emerged in June, ultimately closing the quarter positively. The Revisions style struggled as it did not fully reflect the macroeconomic backdrop, losing ground when commodity prices declined. Meanwhile, Quality and Growth performed well in April and May but turned negative in June. Overall, gains from Value, Momentum, Growth and Quality outweighed the losses in Revisions, leading to outperformance for Best Styles in the quarter.

During the third quarter, global equities experienced significant volatility. Shares initially rallied as slowing economic growth boosted hopes that central banks might be less aggressive in raising rates. However, the rally ended abruptly in mid-August following hawkish comments from central banks, and the sell-off accelerated in September. Best Styles continued to outperform thanks to its diversification strategy, which provided stability and resilience.

Exhibit 2: Performance of the Best Styles strategy in five-year rolling periods



Rolling returns – Outperformance in 218 out of 267 (rolling 5-year periods as per 28/02/2026)

Best Styles has met its target of excess return stability and consistency independent of market and economic environments, demonstrating the convincing performance of systematic active management strategy.

Past performance does not predict future returns. Source: IDS as of 28/02/2026, in US dollars, gross of fees. AllianzGI Best Styles Global Equity Composite performance inception date: 31 January 1999. The performance shown above is gross and does not reflect the deduction of investment advisory fees. Rolling five-year returns are supplemental information and supplement the AllianzGI Best Styles Global Equity GIPS compliant composite presentation in the Appendix. Past performance does not predict future returns. See additional disclosure at the end of this presentation.

CASE STUDY

A systematic edge in asset management (continued)

Key takeaways

Systematic equity strategies combine the adaptability of active management with robust diversification, ensuring consistent performance over the long term. The

key to Best Styles' outperformance in 2022 lay in its balanced style exposure and disciplined approach to factor allocation. By maintaining a diversified mix of investment styles, the fund was able to navigate volatility and avoid the pitfalls of

single-style portfolios. This approach, combined with sophisticated risk management, allowed Best Styles to deliver consistent, stable outperformance throughout the year, demonstrating its ability to adapt and thrive in various market conditions.

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