2025

Invesco Global Sovereign Asset Management Study

This study is not intended for members of the public or retail investors.
Full audience information is available on the next page.

Contents

Welcome 03

Key metrics 04

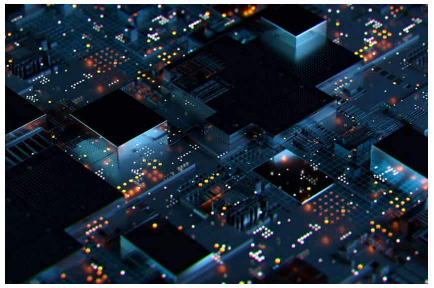
Theme 1 06

Recalibrating for a transformed investment landscape
Amid an unpredictable macro environment, sovereign investors are reassessing portfolio frameworks. Traditional models are being challenged, prompting strategic adaptations in asset allocation, risk management, and diversification.

Theme 2 15

China re-emerges as a strategic priority in a fragmented emerging market landscape
Sovereign wealth funds are adopting targeted approaches to emerging markets, with renewed interest in China. Confidence in China's innovation leadership is driving investment into critical technology, even as concerns persist around broader macroeconomic transition risks.

Theme 3 22



Digital assets: continued exploration amid structural potential
Direct allocations by sovereign wealth funds remain limited but are beginning to increase, with digital assets viewed as a source of long-term optionality. Central banks are advancing digital currency initiatives slowly, balancing innovation ambitions against potential risks to financial stability.

Theme 4 30

Beyond the benchmark: embracing active management amidst uncertainty
Sovereign wealth funds and central banks are deepening their commitment to active management as a strategic response to heightened geopolitical volatility and concerns about index concentration risk. Portfolio construction decisions are increasingly viewed as forms of active management.

Theme 5 37

Reserve resilience: adapting central bank strategies for uncertain times
Central banks are building larger, more diversified reserves to withstand volatility. Concerns around US fiscal dynamics are intensifying, but structural realities mean the dollar retains dominance, with gold's role as a strategic defensive asset strengthening.

Appendix 46

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Welcome

I am pleased to present the thirteenth edition of our annual Global Sovereign Asset Management Study, a research initiative that has tracked the evolution of sovereign investing since 2013. For this 2025 study, we have conducted comprehensive interviews with 141 senior investment professionals, including chief investment officers, heads of asset classes, and portfolio strategists, from 83 sovereign wealth funds (SWFs) and 58 central banks. These institutions collectively manage approximately US$27 trillion in assets.

The 2025 investment environment presents sovereign investors with a fundamentally altered landscape. What many had hoped were temporary post-pandemic disruptions have crystallised into enduring structural features. Geopolitical tensions, persistent inflation pressures, and fragmented global trade patterns are now recognised as permanent elements shaping long-term investment strategy rather than cyclical headwinds.

Our opening theme examines how SWFs and central banks are recalibrating their core investment assumptions. Political risk has moved from the periphery to the centre of portfolio construction, while traditional diversification models are being reconsidered as asset correlations shift. This reassessment is driving concrete changes: renewed focus on fixed income flexibility, enhanced liquidity management, and the strategic elevation of private credit within portfolio frameworks.

The second theme explores the evolving approach to emerging markets, with China's re-emergence as a strategic priority despite ongoing macro uncertainties. SWFs are adopting increasingly selective strategies, drawn particularly to China's leadership in critical technologies while remaining cautious about broader economic transition risks.

Digital assets form our third theme, where we observe continued but measured exploration. While direct allocations remain modest, they are expanding as SWFs view digital assets through the lens of long-term optionality rather than speculative positioning. Central banks are advancing their own digital currency initiatives, but balancing innovation potential against systemic stability considerations.

Theme four documents a significant shift toward active management. This trend reflects not traditional alpha-seeking behaviour, but rather a strategic response to index concentration risks and the need for greater tactical flexibility in an increasingly fragmented world. Portfolio construction itself is being reconceptualised as active management.

Our final theme examines how central banks are strengthening reserve frameworks for greater resilience. Despite growing concerns about US fiscal dynamics, the dollar's structural advantages ensure continued dominance, while gold has reasserted its role as the ultimate portfolio hedge.

The findings presented here reflect sovereign investors adapting their strategies for a world where uncertainty has become the defining characteristic. These institutions are building portfolios designed for resilience and flexibility rather than optimisation for specific scenarios.

Martin Franc
CEO, Asia ex. Japan

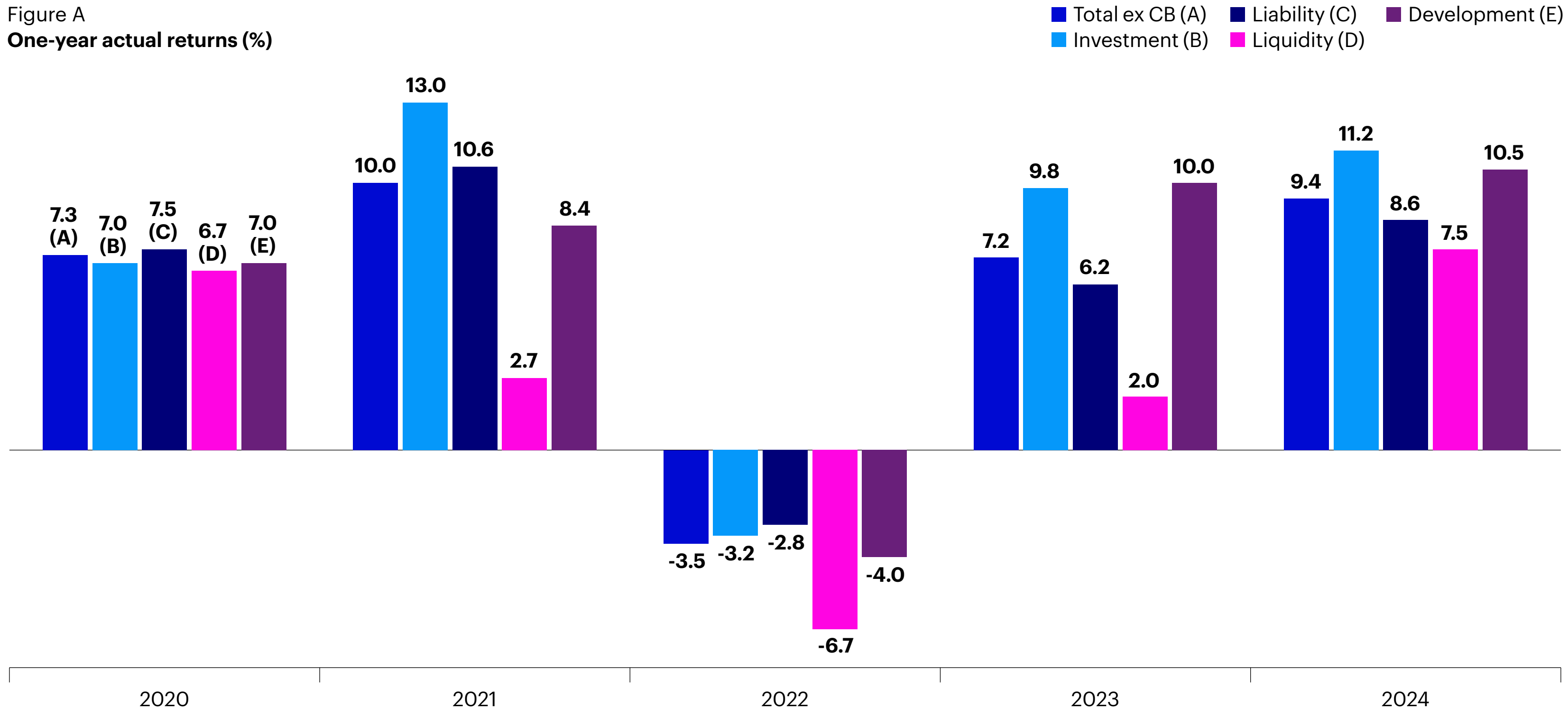
Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Key metrics

Performance

Sovereign wealth funds reported an average one-year actual return of 9.4% in 2024 following very strong performance in equity markets over the 12-month period. Investment sovereigns saw a return of 11.2%, while liability sovereigns reported a return of 8.6%. Liquidity sovereigns delivered a return of 7.5%, and development sovereigns reported a return of 10.5%.

Figure A
One-year actual returns (%)



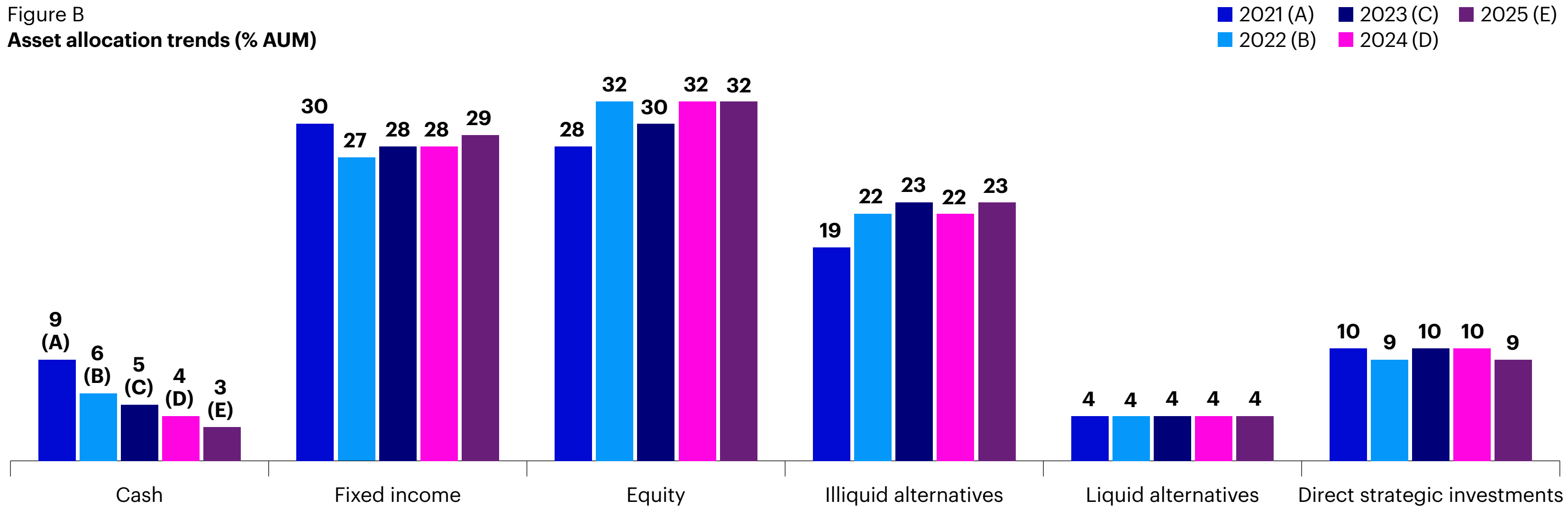
Sample size: 2020 = 61, 2021= 55, 2022 = 57, 2023 = 55, 2024 = 58.

Asset allocation

In 2025, sovereign wealth funds' allocations to fixed income increased slightly to 29%, while equity allocations remained steady at 32%. Illiquid alternatives accounted for 23% of total assets, while liquid alternatives and direct strategic investments (DSI) stood at 4% and 9%, respectively.

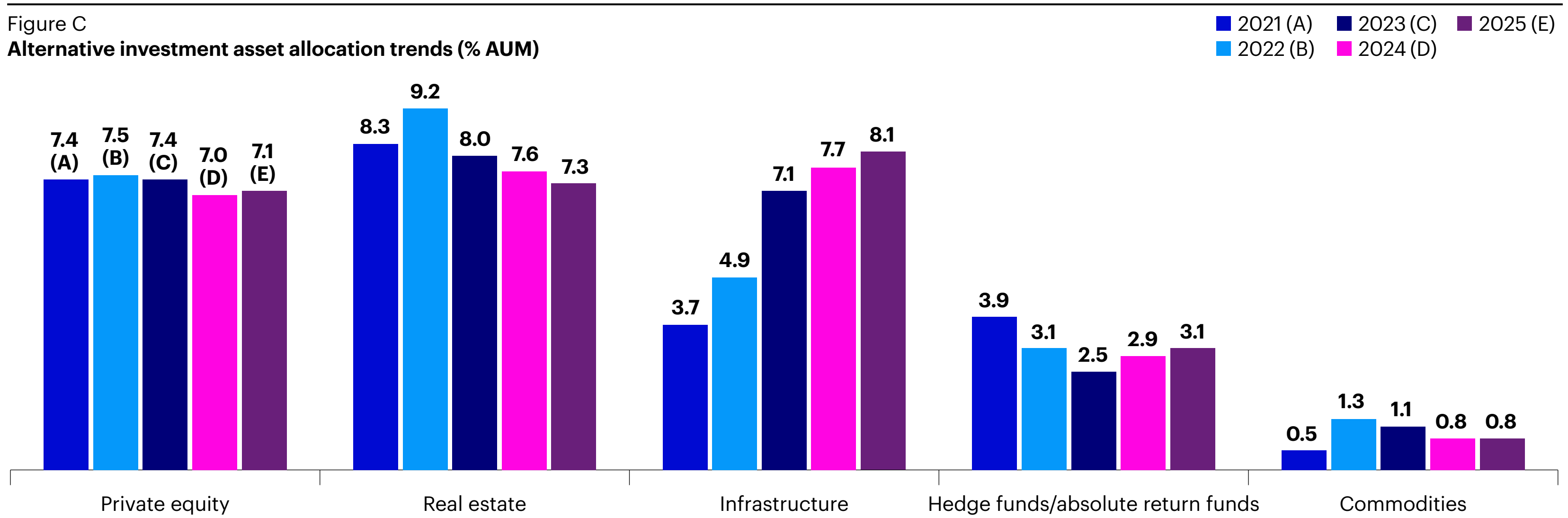
Within alternative investments, private equity allocations increased to 7.1% from 7.0% in the previous year, and real estate allocations fell from 7.6% to 7.3%. Conversely, infrastructure allocations continued to rise, reaching 8.1% from 7.7%, and hedge funds/absolute return funds increased to 3.1% from 2.9% in 2024. Commodities remained stable at 0.8%.

Figure B
Asset allocation trends (% AUM)



Sample size: 2021 = 54, 2022 = 74, 2023 = 80, 2024 = 74, 2025 = 75.

Figure C
Alternative investment asset allocation trends (% AUM)



Sample size: 2021 = 54, 2022 = 74, 2023 = 80, 2024 = 74, 2025 = 75.

THEME 1

Recalibrating for a transformed investment landscape

Sovereign wealth funds (SWFs) and central banks are reassessing macro assumptions, viewing political risk, inflation, and global fragmentation as structural rather than transitory forces shaping investment strategy.

Traditional portfolio construction models are being rethought, as shifts in asset class correlations and interest rate expectations challenge long-standing diversification and return assumptions.

Institutions are responding with targeted but strategic adaptations, including the reprioritisation of fixed income, greater emphasis on liquidity, and a growing role for private credit in building resilient portfolios.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

This year's study reveals a significant shift in how SWFs and central banks view the investment environment. Against the backdrop of President Trump's tariff policies and broader fragmentation trends, respondents increasingly consider the combination of geopolitical tensions, interest rate unpredictability, and evolving asset relationships as longer-term structural conditions rather than temporary disruptions.

As a result, political and policy decisions have moved from peripheral concerns to central drivers of investment strategy, with previously considered tail risks increasingly incorporated into planning scenarios. This fundamental reassessment is driving meaningful adjustments to strategic asset allocation, risk management, and portfolio construction across both sovereign wealth funds and central banks.

"Our risk models are undergoing recalibration to match an increasingly unpredictable landscape," an APAC-based SWF explained. "The historical cyclical patterns we relied on previously are no longer applicable." Another North American institution highlighted the tension between political and market forces: "The current US administration's policy direction fundamentally conflicts with our market outlook, creating an unprecedented strategic challenge."

The historical cyclical patterns we relied on previously are no longer applicable.

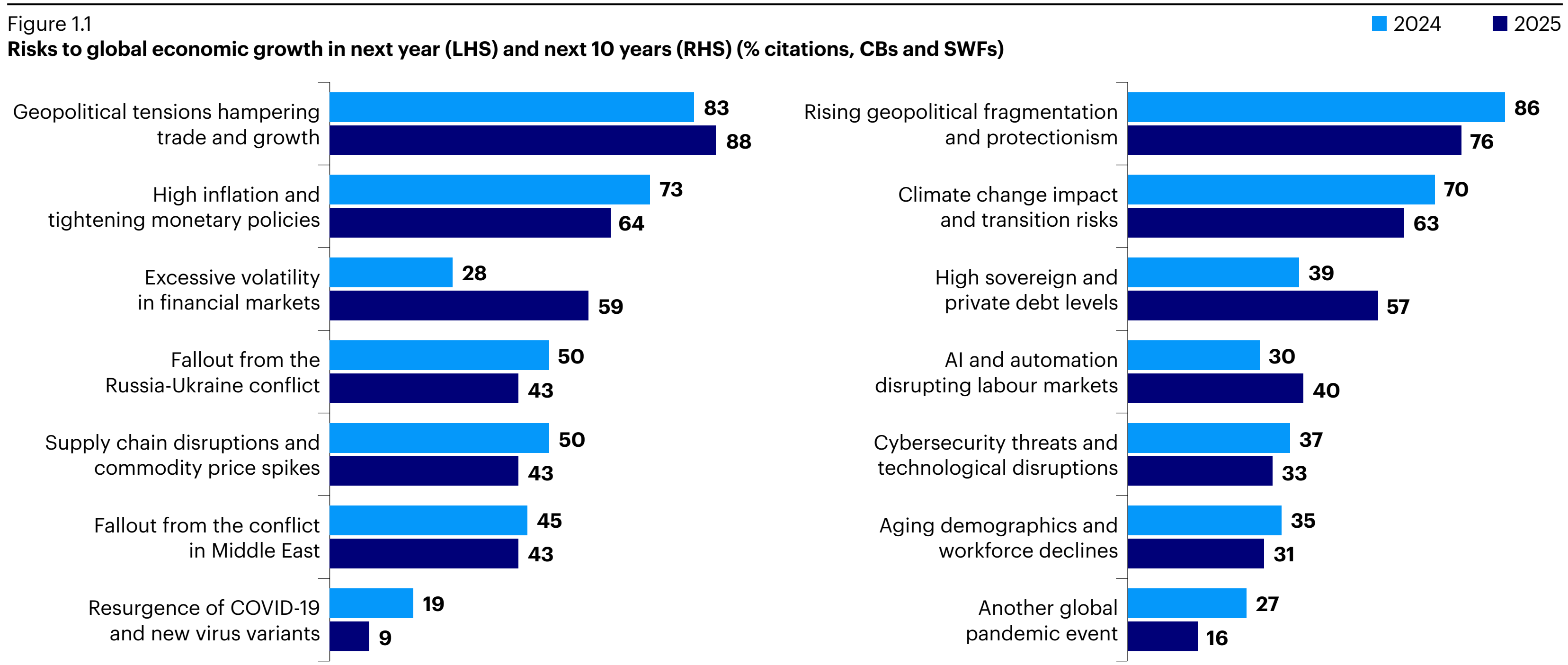
SWF
APAC

Volatility a major concern

The 2025 study identifies a significant intensification of concerns about market volatility. While geopolitical tensions (88%) and inflation pressures (64%) continue to dominate near-term risk assessments, excessive financial market volatility has emerged as a major concern (59%), a substantial increase from 2024 **(Figure 1.1)**.

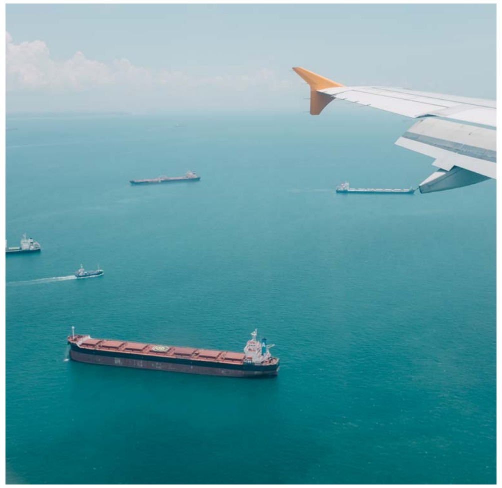
The long-term outlook shows high levels of anxiety about global fragmentation (76%), climate impacts (63%), and debt sustainability (57%), with the latter showing the most significant year-over-year increase.

Figure 1.1
Risks to global economic growth in next year (LHS) and next 10 years (RHS) (% citations, CBs and SWFs)



What do you see as the major risks to global economic growth in the next year? What do you see as the major risks to global economic growth in the next 10 years? Sample size: 136.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix



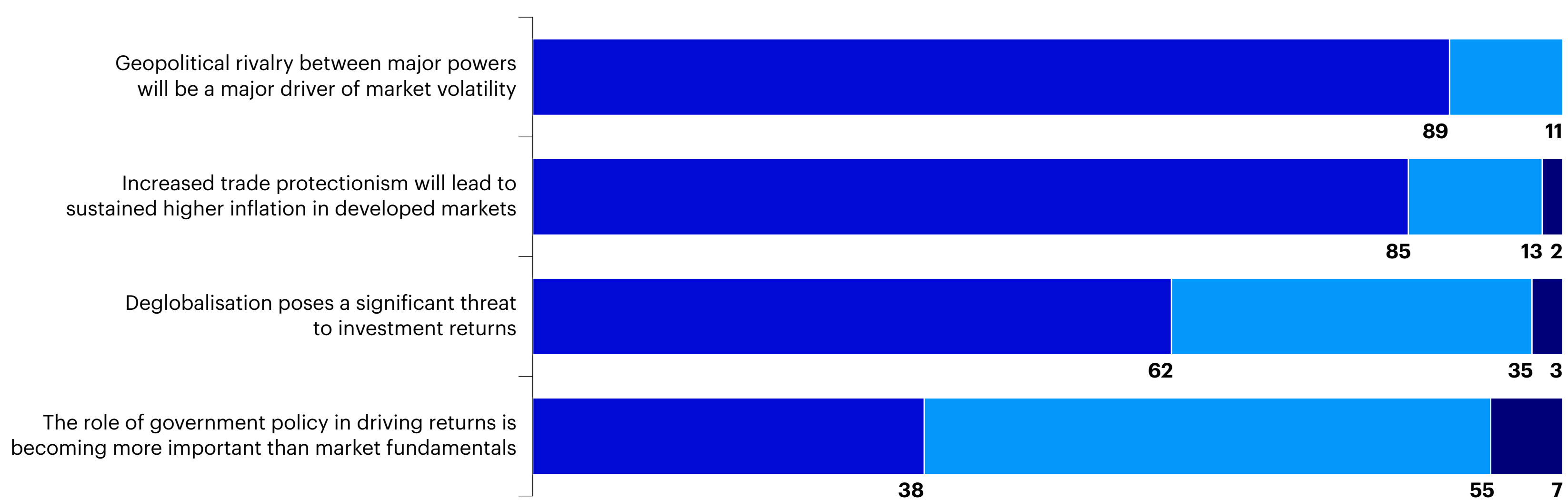
"We're observing unsustainable debt accumulation across both developed and emerging economies, with growth primarily driven by consumption and government expenditure rather than innovation,"
noted an African SWF, highlighting the structural nature of this economic vulnerability.
While these concerns were most commonly expressed about the US, respondents also pointed to recent European developments such as Germany's debt brake relaxation and the EU's ambitious infrastructure and defence spending commitments.

Market participants have internalised these new realities. Nearly 90% believe geopolitical competition will be a major driver of market volatility, while 85% anticipate that protectionist policies will embed persistent inflation into developed economies **(Figure 1.2)**. Perhaps most tellingly, 62% now view deglobalisation as a material threat to investment returns, reflecting how the market narrative has shifted profoundly.

We're observing unsustainable debt accumulation across both developed and emerging economies.

SWF
Africa

Figure 1.2
Agreement with macro statements (% citations, CBs and SWFs)



Do you agree or disagree with the following statements? Sample size: 130.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Measured portfolio adjustments in a politicised environment

Despite the dramatic nature of recent developments, SWFs and central banks have generally approached portfolio adjustments with restraint. Rather than executing wholesale realignments, respondents are more likely to have implemented targeted modifications with particular attention to their American market exposure.

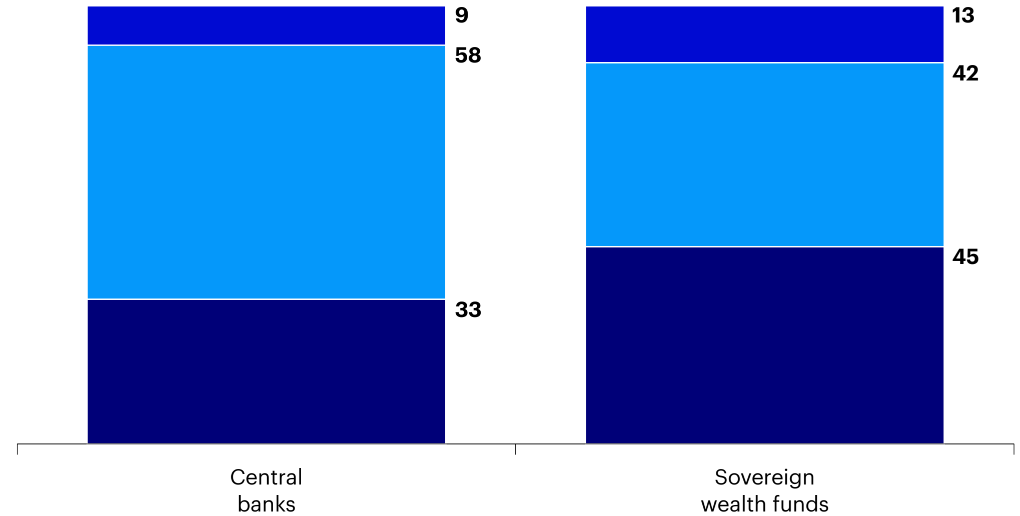
Several key adjustments have emerged including:

- Reduced allocations to longer-maturity US government debt amid concerns about fiscal sustainability and policy volatility
- Critical re-evaluation of passive index strategies, particularly those with concentrated US equity exposure (a topic explored further in Theme 4)
- Strategic shifts away from US-based financial counterparties towards alternatives in other geographies such as the EU

Rather than reacting impulsively, respondents noted that they were positioning for maximum flexibility to adapt as the situation evolves. "Creating a 'Trump-resistant' portfolio isn't realistic, nor will we overreact to administrative rhetoric," remarked one North American SWF. "We're focusing on substantive policy implementation rather than day to day political messaging."

The data reveals institutional differences in response patterns. Central banks demonstrate greater willingness to adjust portfolios in response to political developments, with 67% implementing significant or moderate changes, compared to 55% of sovereign wealth funds **(Figure 1.3)**, a result discussed in more detail in Theme 5.

Figure 1.3
Impact of Trump presidency on portfolio (% citations, CBs and SWFs)



What impact do you expect a Trump presidency to have on your portfolio? Sample size: 125.

Re-rating interest rate expectations

The current political and economic realignment marks, in the eyes of many respondents, the end of the low interest rate era. A clear majority (74%) of respondents expect medium-term interest rates and bond yields to stabilise in the mid-single digit range, up slightly from 71% in 2024 **(Figure 1.4)**. Only 11% foresee a return to ultra-low or negative rates, pointing to a broad reassessment of the monetary environment.

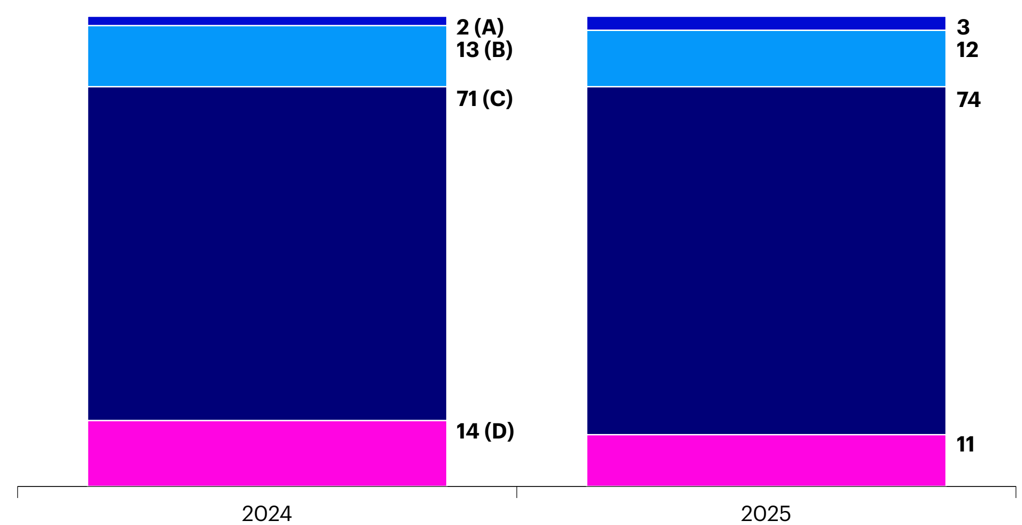
This normalised rate environment represents a generational shift for portfolio managers. Sovereign institutions are subsequently updating their capital market assumptions, risk models, and strategic asset allocations to accommodate this new reality. "The negative rate environment isn't coming back," stated a Latin American central bank confidently. "Our baseline scenario resembles the pre-financial crisis cycle."

The Trump administration's policies have introduced additional complexity to this outlook. Rising costs from trade tariffs and labour market constraints linked to immigration policy could both contribute to inflationary pressure, placing upward pressure on interest rates and complicating the task of monetary policymakers.

Central banks predominantly anticipate a more accommodative Federal Reserve (50%). However, SWFs show more divided expectations: 34% predict monetary easing, 34% expect tightening, and 32% foresee minimal policy change. This split reflects uncertainty about how these countervailing pressures might influence Fed policy **(Figure 1.5, next page)**.

Respondents pointed to two major implications: first, the expectation of persistently higher rates is prompting a recalibration of duration exposure and return assumptions; and second, the uncertain policy landscape is reinforcing the importance of flexibility and scenario planning. These shifts reflect a growing institutional recognition that portfolio strategies must adapt to a fundamentally different interest rate environment.

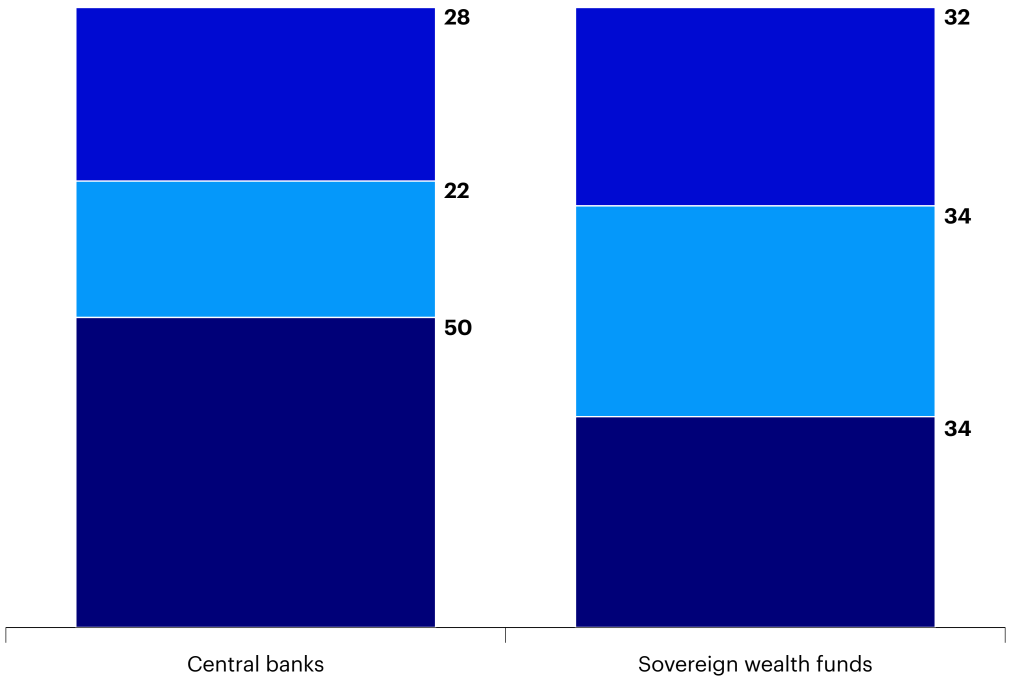
Figure 1.4
Long-term outlook for interest rates and bond yields (% citations, CBs and SWFs)



How do you expect interest rates and major-economy long-term bond yields to be evolve over time? Sample size: 120.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Figure 1.5
Expected evolution of US monetary policy under Trump presidency (% citations, CBs and SWFs)



How do you expect US monetary policy to evolve under a second Trump presidency? Sample size: 111.

The negative rate environment isn't coming back.

Central Bank
Latin America

Structural challenges to portfolio diversification

The combination of geopolitical shifts and interest rate normalisation has also prompted a structural reassessment of diversification. A key development is the erosion of the negative stock-bond correlation that underpinned traditional portfolio models. In today's higher-inflation, higher-rate environment, equities and bonds are increasingly correlated, diminishing fixed income's effectiveness as a diversification tool.

Compounding these challenges, sovereign investors noted that US stocks, bonds, and the dollar are increasingly moving together, magnifying losses for unhedged foreign investors when all three assets decline simultaneously. These shifts are driving a broader re-evaluation of how diversification is achieved. With traditional bond-equity dynamics less reliable, many SWFs are turning to alternative strategies. These include synthetic overlays that hedge against specific macro risks, systematic macro strategies that exploit global trends across asset classes, and greater allocations to hedge funds and alternatives, which offer differentiated return streams less tied to market direction. While these approaches may not always deliver outsized returns, they are increasingly valued for their ability to provide diversification in stressed market conditions.

As one European SWF noted, "Our trend-following overlay hasn't delivered exceptional returns this year, but it's fulfilled its core function of diversification." A Latin American respondent echoed this shift in approach: "The traditional bond-equity diversification model has failed. Our 2022 experience, when both declined simultaneously, prompted us to significantly increase alternative allocations."

Infrastructure, private credit, and market-neutral strategies are frequently cited as key components of a revised diversification toolkit. As one APAC-based SWF noted, "Traditional government bonds no longer provide effective equity risk protection. We've pivoted toward private credit markets and non-directional strategies to build more robust portfolios."

Diversification is no longer being approached as a static allocation between public equities and bonds, but as a dynamic process shaped by macroeconomic regime shifts. With inflation, interest rate volatility, and geopolitical risk now more deeply embedded in market dynamics, respondents are building portfolios that can flex across cycles, incorporating a broader array of return sources and risk mitigators than in previous decades.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Rethinking the role of fixed income

As interest rates have normalised and asset correlations have shifted, SWFs are reassessing the role of fixed income within their portfolios. No longer seen solely as a defensive anchor, fixed income allocations are now being deployed in more dynamic and multifaceted ways.

The 2025 study shows that 24% of sovereign wealth funds (on a net basis) plan to increase their fixed income exposure, making it the second most favoured asset class behind infrastructure **(Figure 1.6)**. This renewed interest reflects two primary drivers: the restoration of meaningful yield and the broader redefinition of fixed income's role, not only as a liquidity tool, but also as a flexible source of return and portfolio resilience.

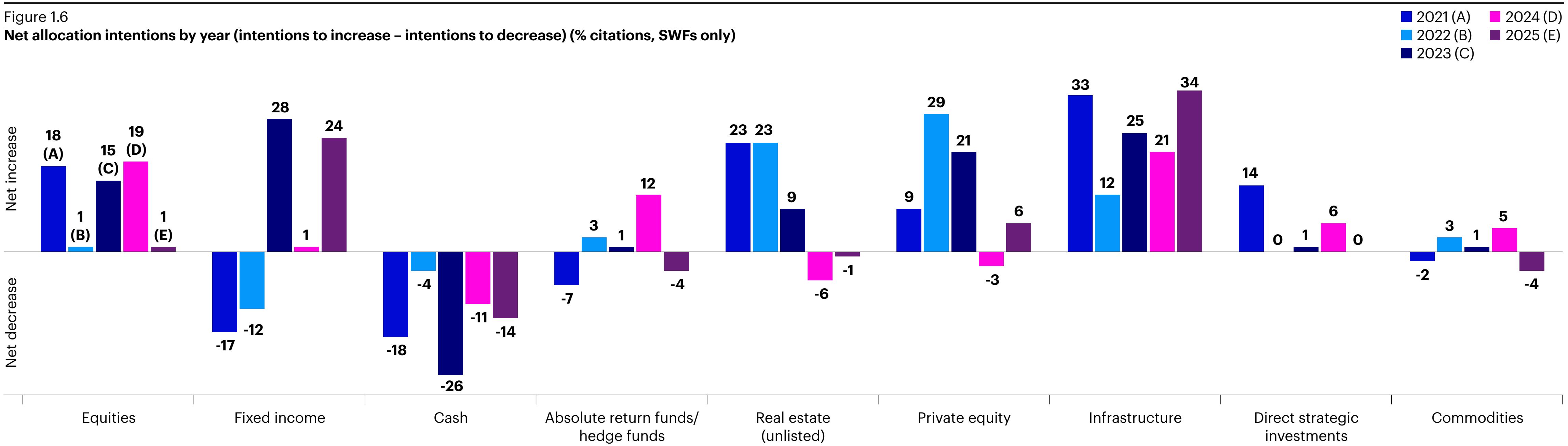
Higher base rates have restored fixed income's return potential after years of compression. "The credit spectrum currently offers more attractive risk-adjusted returns than public equity markets" suggested one Middle Eastern SWF. A North American SWF similarly observed, "We're reallocating capital from equities to fixed income. The prevailing 9% equity return forecasts appear unrealistic given valuations and economic conditions."

At the same time, the growth of private market exposures has made liquidity management a strategic priority, reinforcing the role of fixed income as a flexible and accessible source of cash flow within increasingly illiquid portfolios.

The credit spectrum currently offers more attractive risk-adjusted returns than public equity markets.

SWF
Middle East

Figure 1.6
Net allocation intentions by year (intentions to increase – intentions to decrease) (% citations, SWFs only)



For each asset class, how do you expect your allocation to change over the next 12 months? 2024 Sample size: 70.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Nearly 60% of sovereign institutions now report using formalised liquidity frameworks, positioning segments of the fixed income portfolio as buffers to balance the illiquidity of alternatives. This perspective was captured by a North American SWF: "Our substantial direct investment exposure has elevated liquidity management to a strategic priority." Another institution noted a more systemic shift: "We've completely redesigned our liquidity monitoring systems, with explicit caps on illiquid allocation percentages."

While 30% of respondents consider liquidity "critical" in fixed income investment decisions, a larger share (45%) view it as "important but negotiable" when higher yields are on offer **(Figure 1.7)**. This suggests that SWFs are not treating liquidity as an absolute constraint but are instead calibrating fixed income allocations to balance yield generation with liquidity access, using bonds strategically to support both return and portfolio flexibility. Some respondents noted that they are actively reducing duration exposure while increasing allocations to shorter-term, more liquid instruments as part of this strategic repositioning.

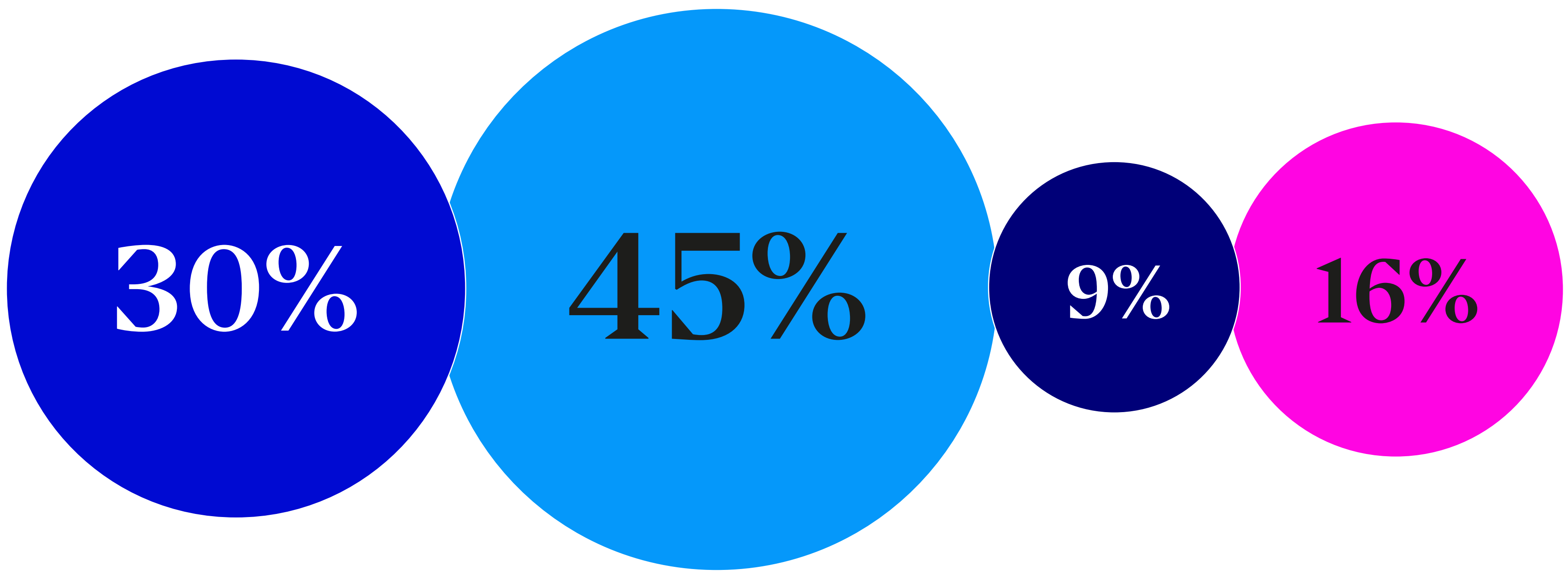
These findings point to a redefined role for fixed income which is less about traditional risk-off positioning, and more about strategic adaptability. Sovereign institutions are not simply returning to fixed income; they are redesigning its function in response to changing market structures, portfolio liquidity needs, and recalibrated risk-return assumptions.

Our substantial direct investment exposure has elevated liquidity management to a strategic priority.

SWF
North America

Figure 1.7
Importance of trading liquidity in fixed income (% citations, SWFs)

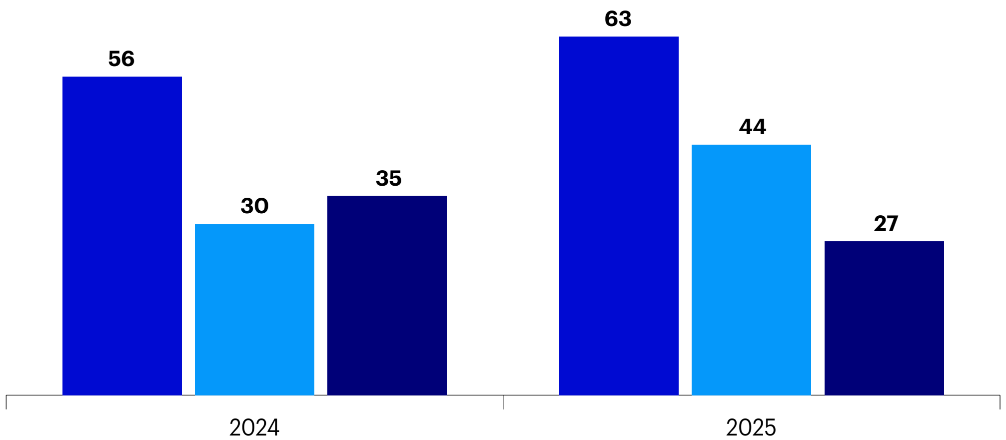
Critical – only invest in highly liquid instruments	**30**
Important – but will accept some illiquidity for yield	**45**
Less important – balanced with other factors	**9**
Not a major consideration	**16**



How important is trading liquidity in your fixed income investment decisions? Sample size: 56.

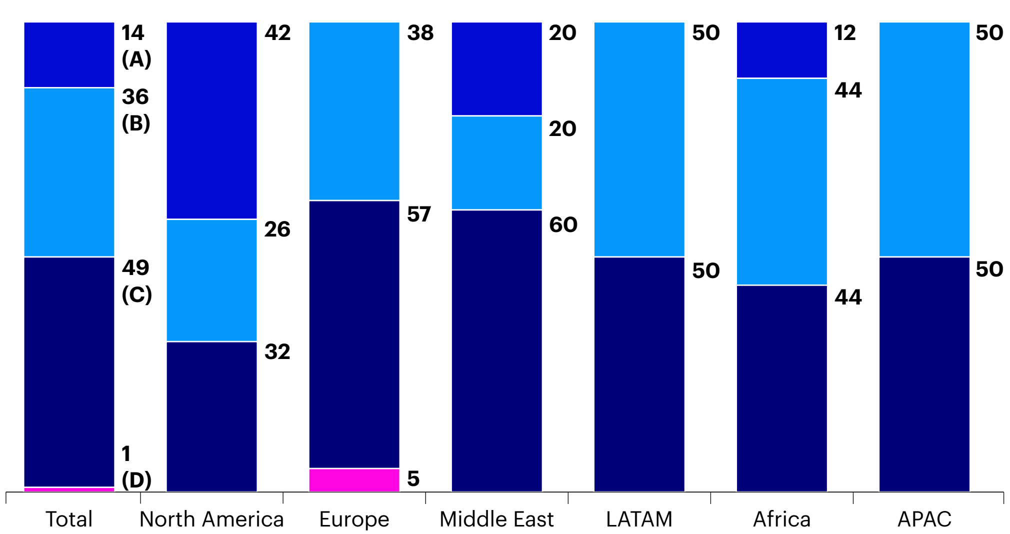
Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Figure 1.8
Investments in private credit (% citations, SWFs only)



How are you utilising private credit in your portfolio? Sample size: 63.

Figure 1.9
Expected change in private credit allocations (% citations, SWFs only



How do you expect your allocation to private credit to change over the next year? Sample size: 55.

Private credit: from niche to strategic pillar

Alongside the repositioning of fixed income, private credit has emerged as a key focus for SWFs seeking alternative sources of income and resilience. Now adopted by 73% of SWFs (up from 65% last year), with 50% actively increasing allocations and only 1% decreasing, this represents one of the most decisive trends in sovereign asset allocation **(Figures 1.8 and 1.9)**. Once a niche allocation, it is increasingly viewed as a strategic pillar offering higher yields, bespoke structuring, and with lower volatility and correlation to public markets.

This evolution is driven by both macro conditions and structural opportunity. Higher base rates, persistent inflation, and less reliable bond-equity diversification have all increased the appeal. Its floating-rate nature offers protection in a rising-rate environment, while customised deal structures provide better alignment with investor objectives and risk tolerance.

Crucially, this shift is not seen as cyclical or tactical. Many sovereign institutions describe a broader strategic repositioning – one that leverages their long investment horizons and capital stability. "Private credit plays to our strategic advantages of patient capital," noted a Middle Eastern SWF. "This allows us to access opportunities that require longer holding periods, bespoke structuring, or greater flexibility – advantages that are increasingly valuable in today's dislocated market environment."

Others emphasised the organisational transformation underpinning this shift. "The primary challenge isn't identifying opportunities, it's building origination and structuring capabilities," said a North American institution. "Our evolution from passive capital provider to active lender represents a significant institutional shift."

The data reinforces this narrative. The proportion of sovereign wealth funds accessing private credit through direct investments or co-investments has risen sharply – from 30% in 2024 to 44% in 2025 – while fund-based access has also expanded (from 56% to 63%) **(Figure 1.8)**. This dual-track approach reflects a growing desire to capture a greater share of returns, while also developing internal capabilities. Looking forward, 50% of SWFs plan to increase private credit allocations, including 68% of those based in North America **(Figure 1.9)**.

As SWFs continue to adapt to a more complex and fragmented investment landscape, private credit is increasingly becoming embedded within long-term strategic asset allocation frameworks. It is no longer viewed as a supplementary or opportunistic asset class, but as a core building block – helping to deliver stability, less correlated returns, and greater portfolio control.

Private credit plays to our strategic advantages.

SWF
Middle East

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Synthesising for 2025: a fundamental reorientation

The 2025 study reveals a growing consensus among SWFs and central banks that the current landscape is not a temporary disruption, but a structural break from the post-crisis era. Geopolitical fragmentation, normalised interest rates, shifting asset correlations, and evolving inflation dynamics are seen not as cyclical challenges but as enduring features of the investment environment.

This reassessment is prompting meaningful changes in how institutions think about risk, return, and resilience. While portfolio construction methodologies may remain anchored in long-term objectives, the assumptions that underpin them are being recalibrated.

Across geographies, respondents report adapting to this new reality through a combination of strategic and operational shifts. These include updated capital market assumptions, increased reliance on scenario analysis, and a reconsideration of diversification principles – particularly as traditional stock-bond dynamics become less reliable.

Fixed income, once viewed as a static defensive allocation, is being reshaped to serve evolving roles in return generation, liquidity management, and structural flexibility. At the same time, the ascent of private credit signals a broader pivot toward asset classes that can offer resilience and differentiated returns in an environment defined by volatility and policy uncertainty.

THEME 2

China re-emerges as a strategic priority in a fragmented emerging market landscape

SWFs are adopting a targeted approach to emerging markets, with Asia (ex-China) a top priority and renewed interest in China focused on specific sector opportunities.

Confidence in China's innovation leadership is driving investment into critical technology, even as concerns persist around broader macroeconomic transition risks.

Specialist external managers remain vital for accessing complex and high-risk emerging markets, with active expertise seen as essential for navigating regional dispersion and volatility.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

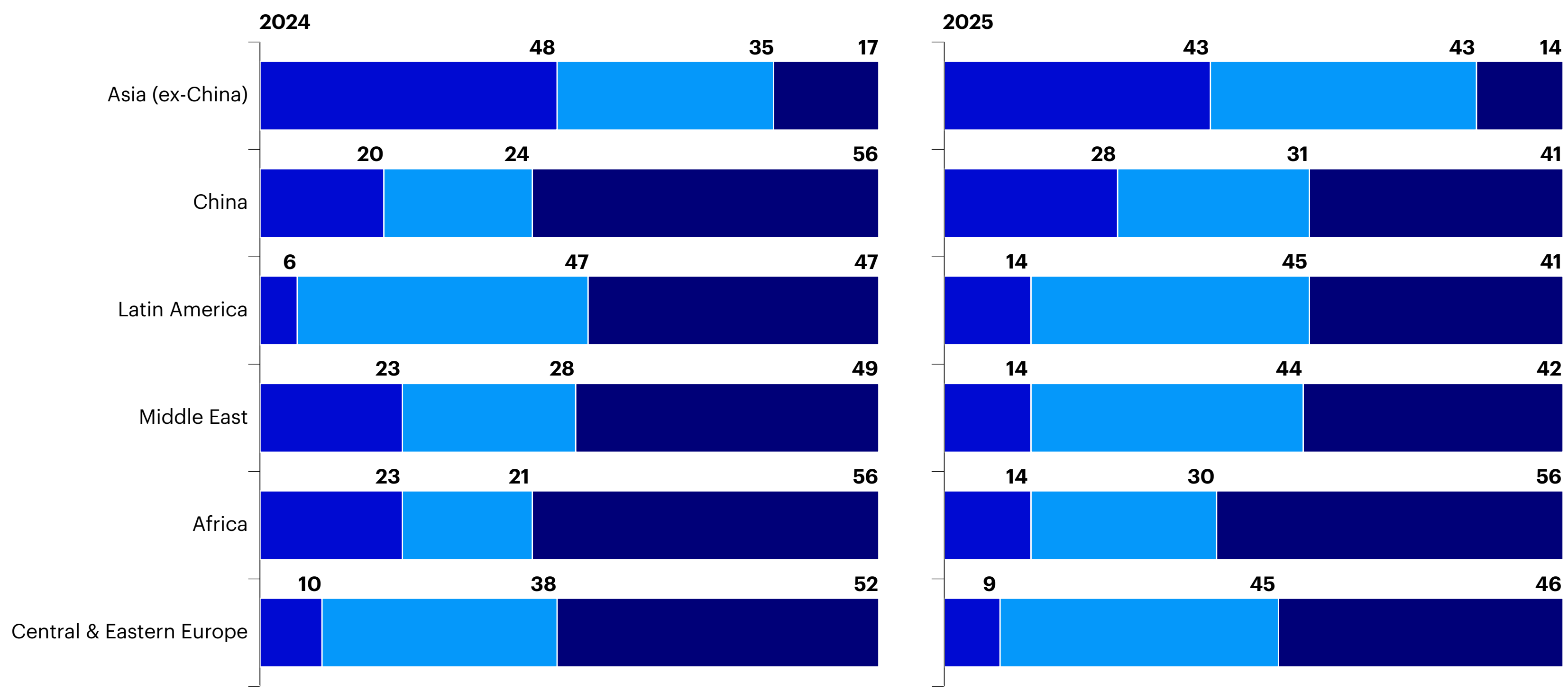
Emerging markets remain a strategic focus for sovereign wealth funds (SWFs), but priorities within the opportunity set are shifting. As supply chains fragment, regional blocs gain strength, and political risk becomes a more persistent feature of the investment environment, SWFs are adapting. Rather than seeking broad emerging market exposure, they are building portfolios that reflect structural growth trends and strategic diversification objectives.

This year's study shows a clear resurgence of interest in China, with a growing number of institutions positioning the country as a core allocation **(Figure 2.1)**. Despite ongoing geopolitical tensions, SWFs cite attractive local returns, diversification benefits, and China's accelerating leadership in critical technologies as compelling reasons to engage. "Our focus is shifting toward China's innovation-driven sectors. We see this as an opportunity to build exposure where future global leadership will emerge," noted a Middle Eastern investor.

At the same time, broader emerging market strategies are becoming more targeted. Asia (excluding China) continues to rank highly, supported by strong domestic fundamentals, favourable demographics, and an expanding role in global supply chain realignment. ASEAN economies are attracting particular attention. Rising middle-class consumption, investment in infrastructure, and ongoing policy reforms are reinforcing confidence in Southeast Asia's longer-term growth trajectory. India also remains a major focus, driven by its scale, expanding digital economy, and relative insulation from global trade tensions.

For SWFs, these markets offer differentiated growth profiles and opportunities for political diversification – particularly as traditional developed market exposures become more correlated and concentrated.

Figure 2.1
Priority EM regions (% citations, SWFs only)



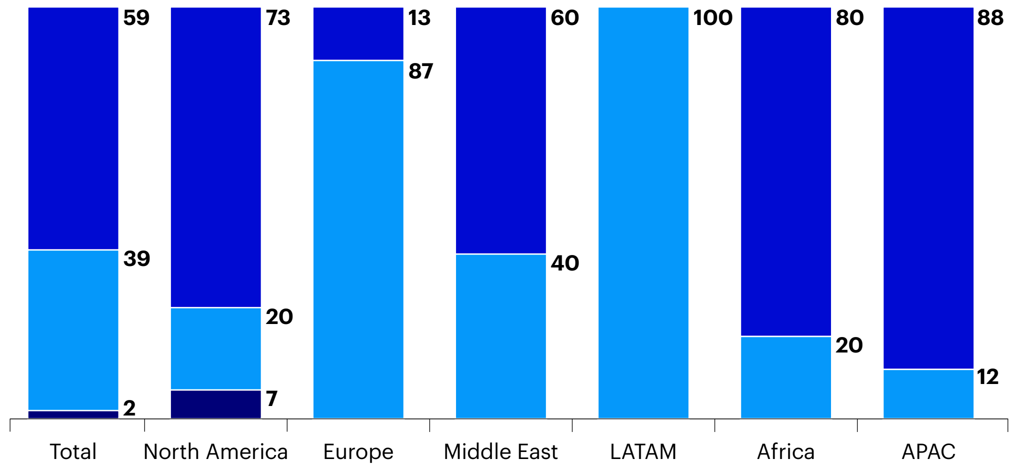
What are your top EM investment priorities? Sample size: 65.

Chinese technological leadership in the spotlight

SWFs are calibrating their China exposures with greater precision, focusing on areas that align with long-term structural themes. This year's study shows that a significant majority of SWFs expect to increase their China allocations over the next five years, led by those based in APAC and Africa **(Figure 2.2)**. Even SWFs based in North America show high willingness to engage, demonstrating a readiness to look beyond current political tensions and focus on long-term structural opportunities.

Attractive local returns are cited as the top driver **(Figure 2.3)**, reflecting confidence that valuations and earnings potential offer compelling opportunities relative to other markets. Diversification benefits are the second most cited factor, with investors seeing China as a source of differentiated growth, a view captured by a Middle East-based SWF: "Their growth story has only a limited amount to do with what happens in the west. So, it is phenomenal for political and capital diversification".

Figure 2.2
Expected change in China allocation over 5 years (% citations, SWFs only)



How do you expect the size of your China allocation to change over the next five years on an absolute basis? Sample size: 49.

Figure 2.3
Drivers of China allocations (% citations, SWFs only)

Which of the following encourage you to make allocations to China? Sample size: 38.

> **It is phenomenal for political and capital diversification.**
>
> **SWF**
> Middle East

There is no real competitor to China in clean energy and green technology.

SWF
Middle East

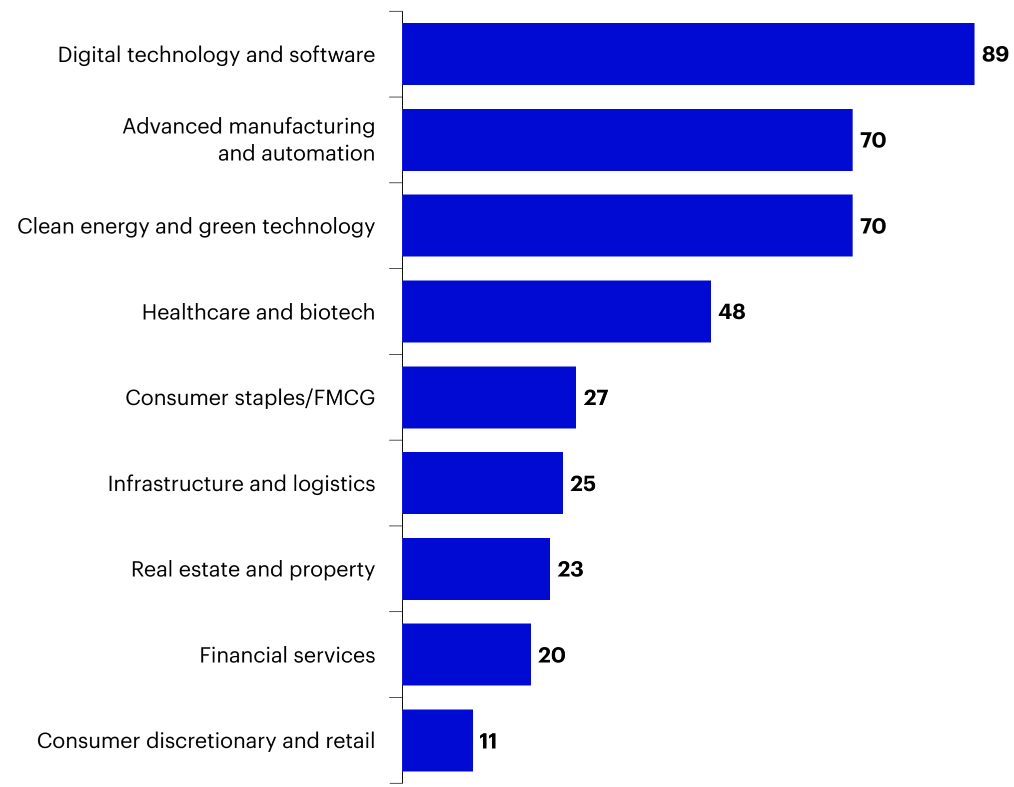
However, this renewed interest is not a return to the broad-based 'rush to China' of the past. It reflects a more deliberate, sector-focused approach, targeting areas where China is positioned to achieve global leadership, underpinned by both market momentum and strategic policy support.

SWFs are therefore increasingly orienting their China strategies around specific technology ecosystems, rather than broad macroeconomic exposure **(Figure 2.4)**. This reflects both a structural belief in China's innovation momentum and a strategic desire not to be left behind as new global technological leadership emerges.

China is no longer seen as merely catching up with the West. In areas such as semiconductors, cloud computing, artificial intelligence, electric vehicles, and renewable energy infrastructure, SWFs increasingly view China as a global leader. This perception is underpinned by substantial state support, focused industrial policy, and China's ability to rapidly scale innovation.

As a Middle Eastern SWF noted, "There is no real competitor to China in clean energy and green technology. China will dominate solar, wind, EV, and battery markets for decades." An APAC-based SWF reinforced the point: "On semiconductors, cloud, and AI, it's only a matter of time until China closes the gap with the US given the resources and policy support available."

Figure 2.4
Most attractive sectors in China (% citations, SWFs only)



Which sectors in China do you see as most attractive for investment over the next 3-5 years? Sample size: 44.

For SWFs, engaging with China's innovation ecosystems serves several strategic portfolio goals:

- **Diversification away from developed market tech concentration,** particularly in relation to US mega-cap exposures.
- **Alignment with secular growth trends,** including the energy transition, automation, and digital infrastructure.
- **Strengthening portfolio resilience** if global technology ecosystems increasingly diverge between China and the West.

Many institutions are therefore approaching China's innovation-driven sectors with the strategic urgency they once directed toward Silicon Valley. There is a growing recognition that missing exposure today could mean missing out on the next wave of global industrial and technological leadership.

Divergent views on China's economic transition

While optimism around China's innovation capabilities is widespread, views on the broader economic transition are more mixed **(Figure 2.5)**. This year's study highlights a split among SWFs:

- 78% believe China's technology and innovation sectors will become globally competitive.
- 48% believe China will successfully pivot from an export-led to a consumption-led economy.

Concerns around the property sector, demographic headwinds, and local government debt continue to weigh on sentiment, though the primary focus for many investors centres on China's economic transition model and policy effectiveness in this area. As one North American SWF put it, "We don't see the aging population as the major concern here. However, we do view stimulus-led growth as insufficient and think eventually China will have to open up its markets." An APAC-based SWF echoed this view: "We have ongoing concerns about China's structural economic model and its ability to pivot effectively from exports to domestic-driven growth."

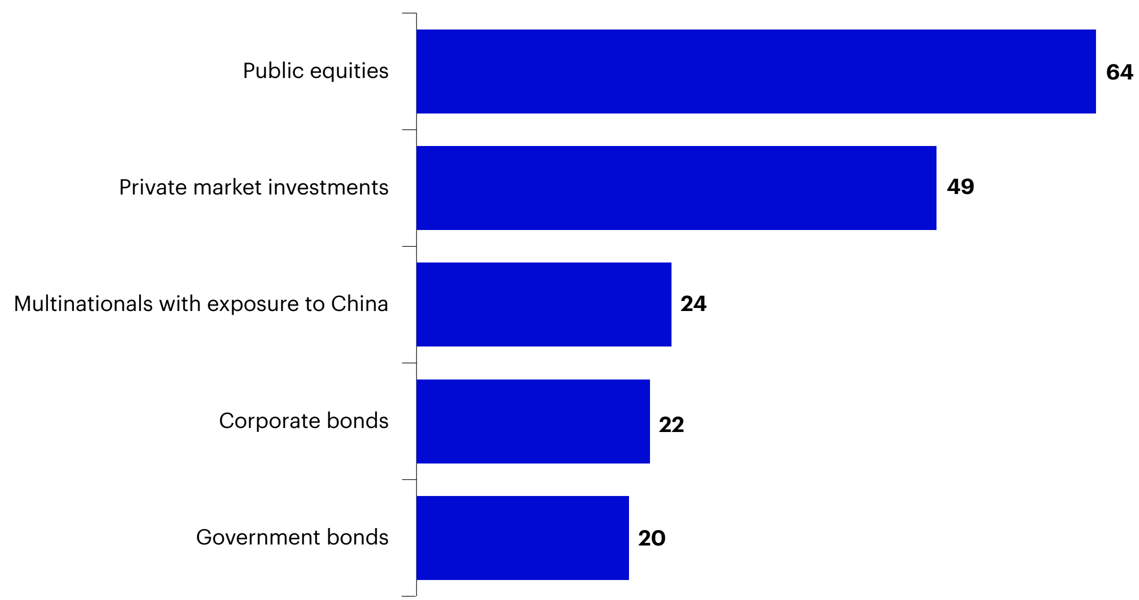
This divergence is reinforcing the case for selective engagement. SWFs are doubling down on sectors where China's global competitiveness is most visible, while remaining cautious about macro-dependent areas like property, consumer discretionary, and local government finance **(Figure 2.4, previous page)**.

This is also influencing choice of investments, with public equities and private market investments the preferred channels for accessing China, offering investors the ability to target innovation-led sectors with more selectivity **(Figure 2.6)**. Exposure through corporate and government bonds remains relatively limited, reflecting some concerns about credit quality and broader macroeconomic environment.

Figure 2.5
Views on China (% citations, SWFs only)

To what extent do you agree with the following statements? Sample size: 58.

Figure 2.6
Preferred approach for accessing Chinese markets (% citations, SWFs only)



What is your preferred approach for accessing Chinese markets? Sample size: 45.

> **It's about navigating complexity with people who know the terrain.**
>
> **SWF**
> APAC

External managers critical for emerging market success

SWFs continue to rely heavily on active management and specialist expertise to navigate China and broader emerging markets. Direct investment is concentrated in familiar, well-understood markets, while external managers are used extensively for more complex or frontier opportunities.

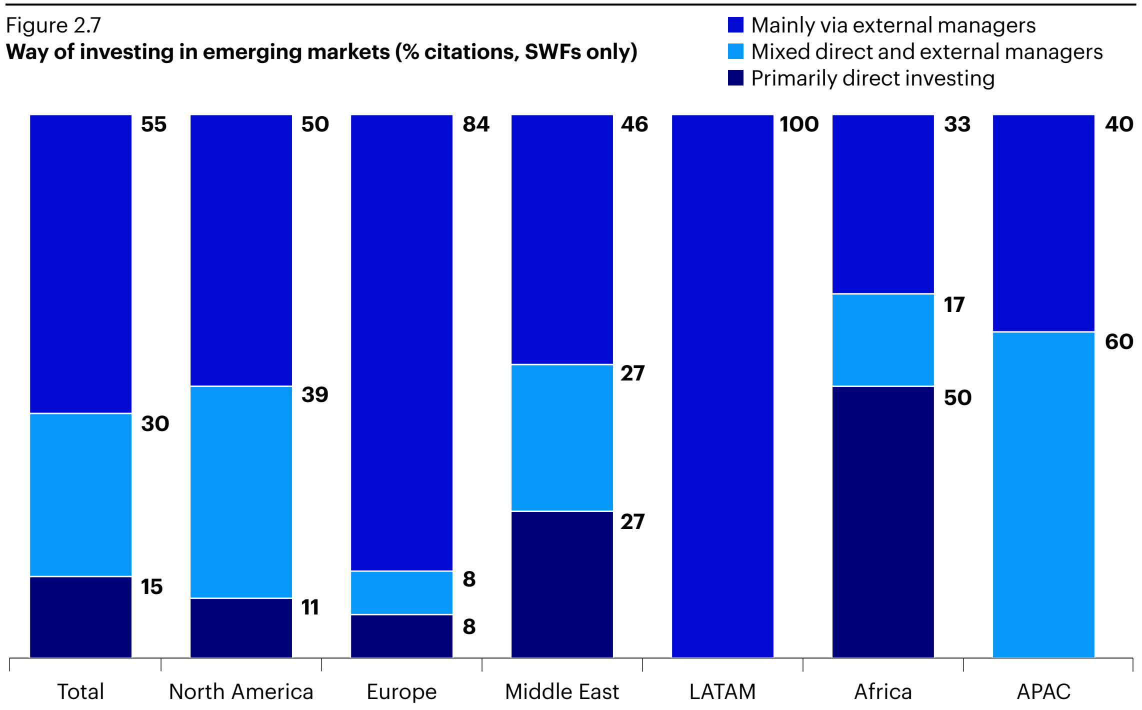
Only 15% of SWFs report investing exclusively through direct channels **(Figure 2.7)**. Meanwhile, passive exposure to emerging markets remains rare – just 9% report significant use of passive strategies – reflecting widespread belief in the value of active management across EMs **(Figure 2.8)**.

As one Middle Eastern SWF explained, "With more high-risk EM markets, we will find an asset manager to hire." An APAC-based institution added, "Most of our EM exposure still comes through EM managers. It's about navigating complexity with people who know the terrain."

The emphasis on external expertise highlights a broader strategic point: successful EM investing today demands local knowledge, regulatory insight, and tactical agility – attributes that external managers with deep market specialisation are generally seen as best positioned to provide.

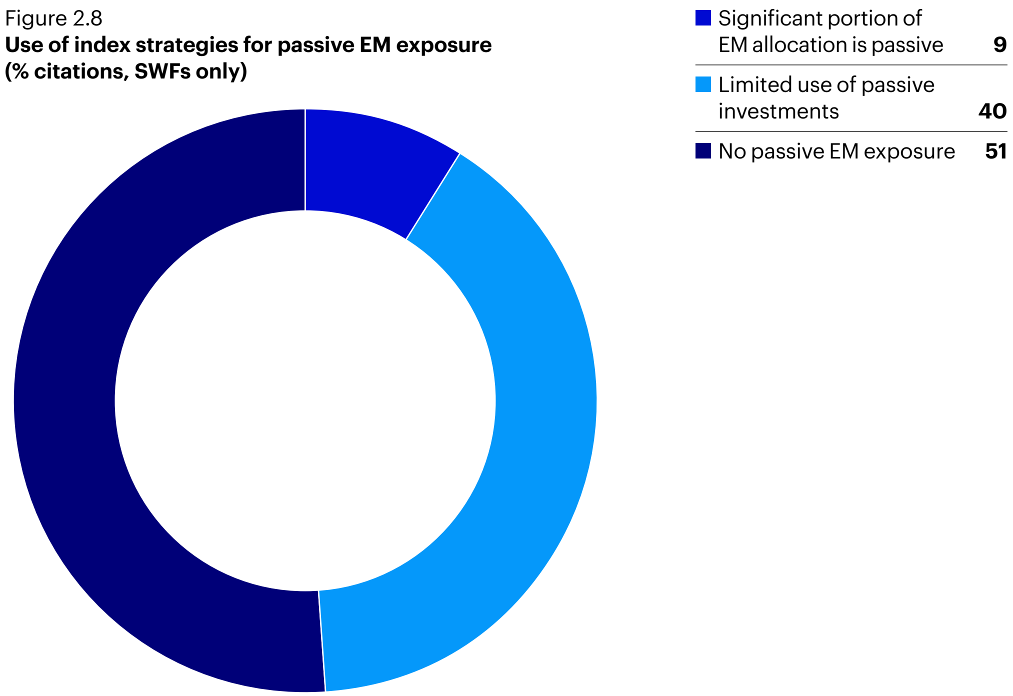
Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Figure 2.7
Way of investing in emerging markets (% citations, SWFs only)



Do you invest directly or through partnerships/funds with external EM-focused managers? Sample size: 60.

Figure 2.8
Use of index strategies for passive EM exposure (% citations, SWFs only)



Do you utilise index strategies or ETFs for passive EM exposure? Sample size: 47.

Conclusion: the new emerging market investment playbook

SWFs are reshaping their approach to emerging markets with greater selectivity and an emphasis on long-term structural opportunity. Broad-based EM beta strategies are giving way to targeted allocations built around differentiated ecosystems, technological leadership, and political diversification.

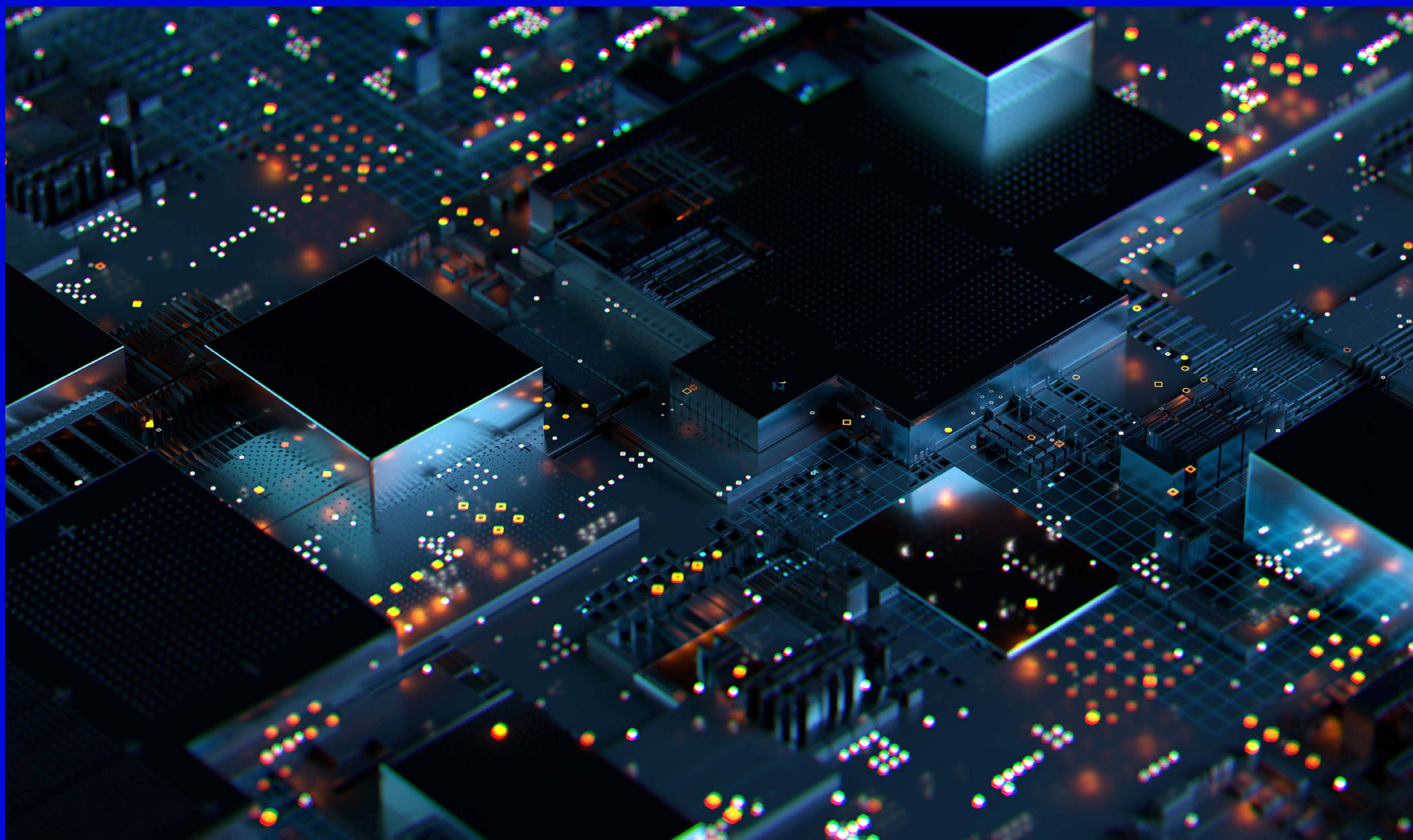
China is reasserting itself at the centre of this recalibration. Investors are engaging carefully but decisively – backing sectors where China's innovation capabilities, manufacturing scale, and policy priorities align to create competitive advantages.

This reframing is a case study for how broader emerging market strategies are adapting, reflecting regional fragmentation and the need for more specialised, opportunity-led exposure. Rather than treating emerging markets as a single homogeneous opportunity set, SWFs are constructing portfolios that recognise the complexity and divergence of these markets.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

THEME 3

Digital assets: continued exploration amid structural potential



Direct allocations by SWFs remain limited but are beginning to increase, with a notable shift since 2022 as some institutions take early steps toward strategic exposure.

Digital assets are increasingly viewed by SWFs as a source of long-term optionality, with growing focus on innovation-linked exposures and infrastructure investments.

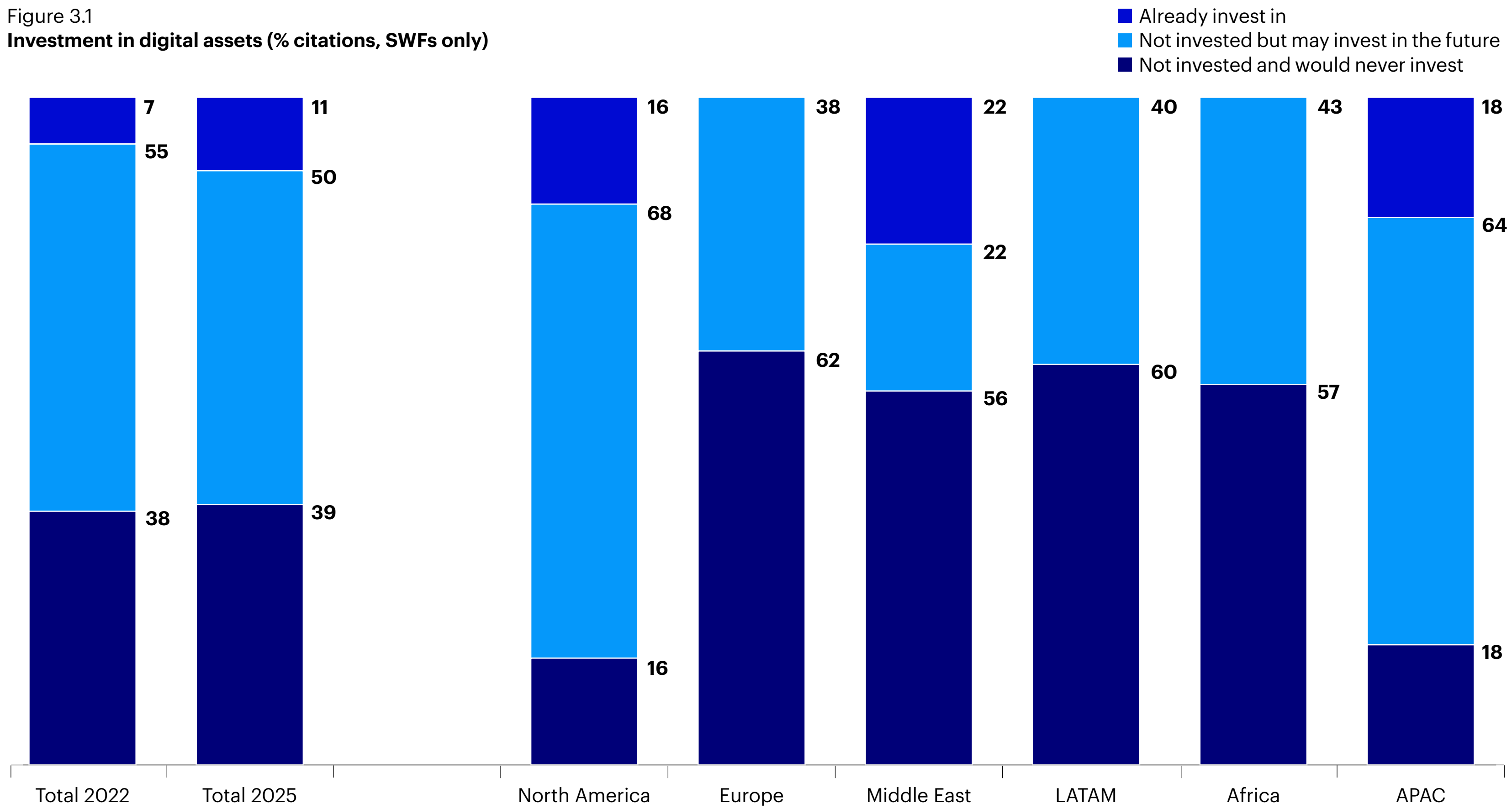
Central banks are advancing digital currency initiatives slowly, balancing innovation ambitions against risks to financial stability.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Digital assets are no longer an outsider topic among institutional investors. While scepticism remains, the conversation has shifted meaningfully over the past few years. Our study explores how cryptocurrencies, central bank digital currencies, and related applications of blockchain technology – collectively referred to as "digital assets" – are being evaluated by official institutions.

This year's study shows a small but notable increase in the number of SWFs that have made direct investments in digital assets compared to 2022, with allocations most common in the Middle East, APAC and North America **(Figure 3.1)**. While overall allocations remain modest, this signals a transition from abstract interest toward cautious, real-world participation.

Figure 3.1
Investment in digital assets (% citations, SWFs only)

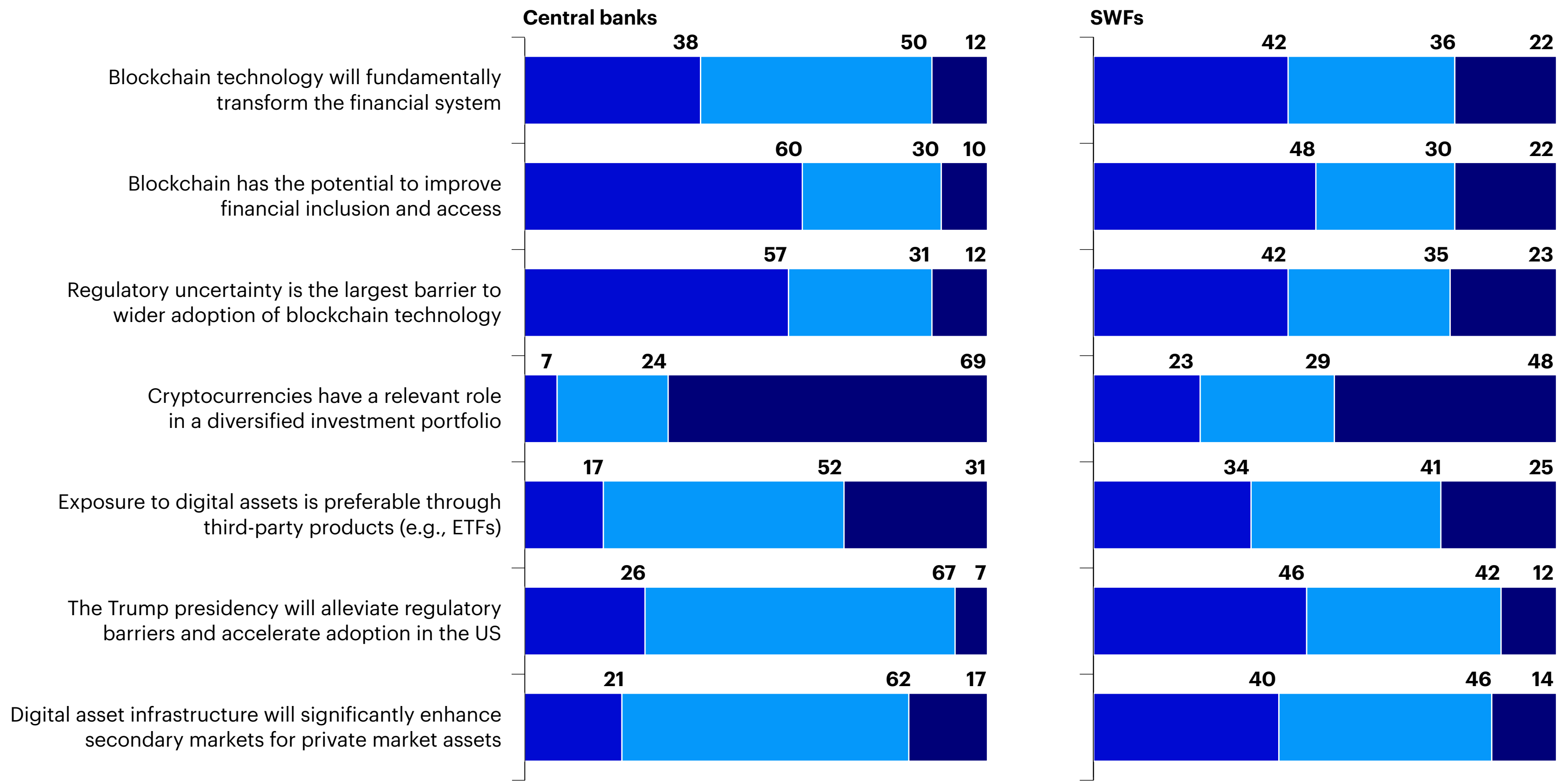


Are you currently invested in digital assets? Sample size: 64.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

At the same time, both SWFs and central banks are making clearer distinctions between the technologies that power digital assets and the assets themselves. Two-fifths of SWFs agree that blockchain will fundamentally reshape the financial system, even as confidence in cryptocurrencies remains low **(Figure 3.2)**. Meanwhile, many central banks are actively exploring blockchain for its application in central bank digital currencies (CBDCs). This tension, between infrastructure optimism and asset-level scepticism, now sits at the heart of how digital assets are being evaluated by SWFs and central banks alike.

Figure 3.2
Agreement with statements on digital assets (% citations, CBs and SWFs)

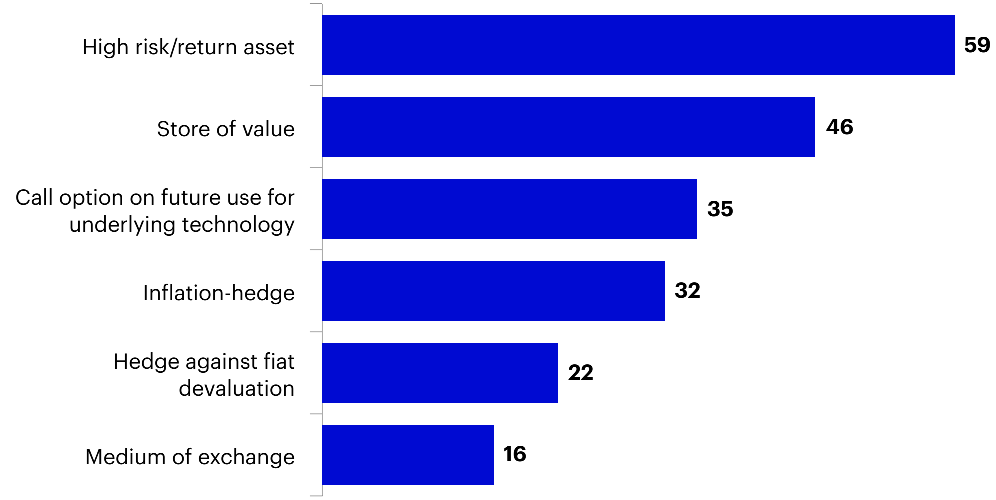


Do you agree or disagree with the following statements? Sample size: 106.

We are not currently invested in digital assets but recognise their potential benefits.

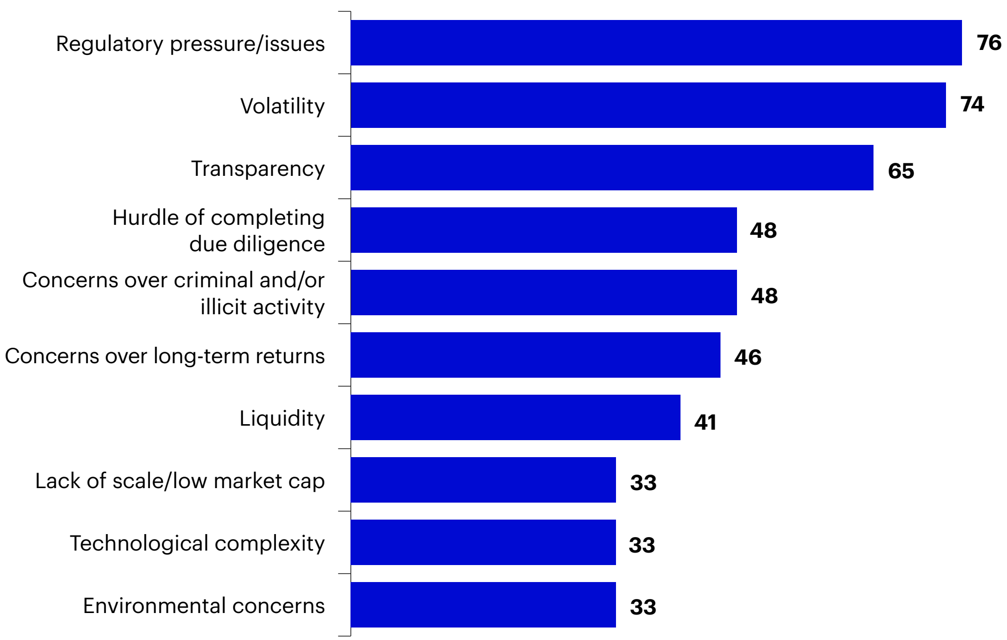
SWF
North America

Figure 3.3
Role that digital assets can play (% citations, SWFs that are invested or may invest)



What role do you believe digital assets can play in your portfolio? Sample size: 37.

Figure 3.4
Barriers to investing in digital assets (% citations, SWFs only)



What are the barriers to investing in digital assets? Sample size: 54.

A strategic view of digital assets in SWF portfolios

For most SWFs, digital assets are not framed as core allocations, but as strategic optionality – small, highly asymmetric bets on future technological disruption **(Figure 3.3)**. While direct allocations remain rare today, this year's study shows a measured but growing openness among SWFs to participating over time, particularly as regulatory frameworks mature, and market structures improve. Regulation remains the biggest barrier to investing **(Figure 3.4)**, but there is cautious optimism that a renewed focus on building a clearer and more stable regulatory environment under a Trump presidency could help alleviate some of these concerns **(Figure 3.2, previous page)**.

Allocations, when they occur, are usually extremely limited, typically only a few basis points of total portfolio value, designed to capture potential outsized upside if blockchain-driven financial ecosystems achieve broad adoption. In portfolio terms, respondents commonly indicated that digital assets are generally considered within alternatives, innovation-focused sleeves, or opportunistic allocations. They are therefore generally not positioned as substitutes for traditional safe havens like gold, nor are they yet treated as standard diversifiers like equities or bonds.

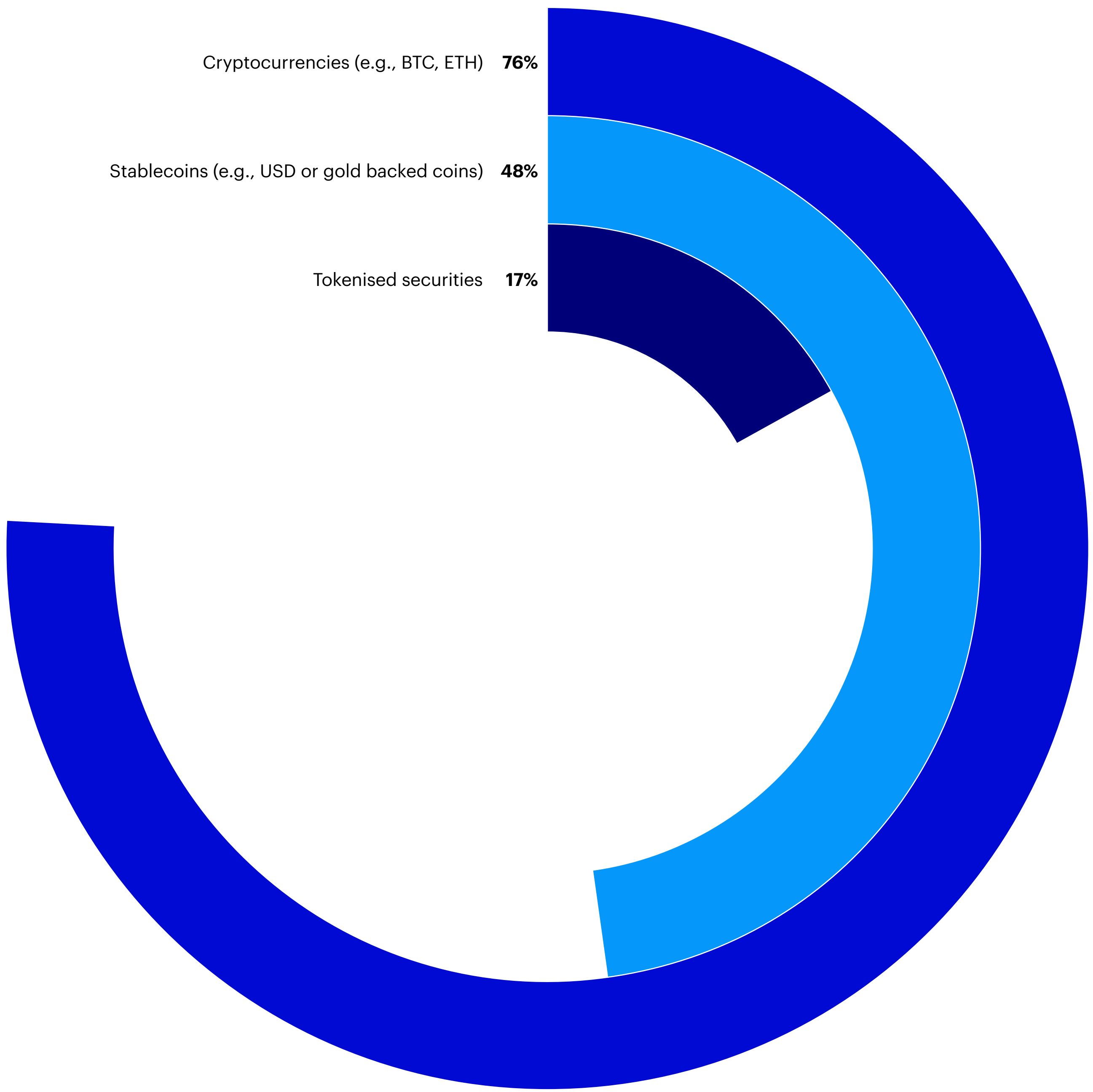
This cautious approach is reinforced by the fiduciary standards SWFs must generally uphold. Even small experimental exposures usually require rigorous due diligence, robust governance oversight, and explicit board-level sign-off, particularly given the reputational risks associated with volatile and lightly regulated markets. As one North American SWF explained, "We are not currently invested in digital assets but recognise their potential benefits and are monitoring developments to inform future decisions."

Different types of SWFs bring different strategic lenses:

- **Investment sovereigns,** focused on intergenerational wealth creation, are proving the most willing to allocate small exposures, viewing these as strategic optionality positions within their long-term investment frameworks.
- **Development sovereigns,** tasked with supporting national growth agendas, are increasingly seeing opportunities in blockchain infrastructure or digital finance platforms aligned with broader economic development goals.
- **Liability sovereigns,** which manage assets against future obligations such as pensions, are cautious due to their need for predictable returns. However, some are selectively investing, recognising the potential relevance of digital assets over long investment horizons.
- **Liquidity funds,** designed to provide short-term macroeconomic support during downturns, are typically more cautious, given their need for liquidity and capital certainty.

Many SWFs prefer indirect exposure: investing through venture capital vehicles, innovation platforms, or infrastructure-related funds that target the broader blockchain ecosystem, rather than holding digital assets directly. Overall, digital assets are increasingly viewed as a small but deliberate part of future-proofing portfolios, capturing optionality around financial innovation, without jeopardising core mandates or fiduciary obligations.

Figure 3.5
Digital assets most likely to consider (% citations, SWFs that are invested or may invest)



Are there specific digital asset classes you are more inclined to consider? Sample size: 29.

Stablecoins, diversification, and emerging market use cases

One important trend in this year's study is the growing interest in stablecoins, particularly among SWFs in emerging markets **(Figure 3.5)**. Stablecoins are viewed as easier to integrate than traditional cryptocurrencies: their price stability and potential for real-world application make them more suitable for future cross-border payment systems or liquidity management tools.

For some institutions, particularly in markets facing currency volatility, digital assets, and stablecoins in particular, may eventually serve as a tool for diversification or capital efficiency, even if they are not yet considered reserve assets.

This shift reflects an evolving mindset: digital assets are not monolithic. SWFs are increasingly distinguishing between different instruments and assessing how various components of the digital asset ecosystem might serve specific strategic functions.

I like the new US administration's outlook on crypto but there are still more guard rails to put in.

SWF
North America

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

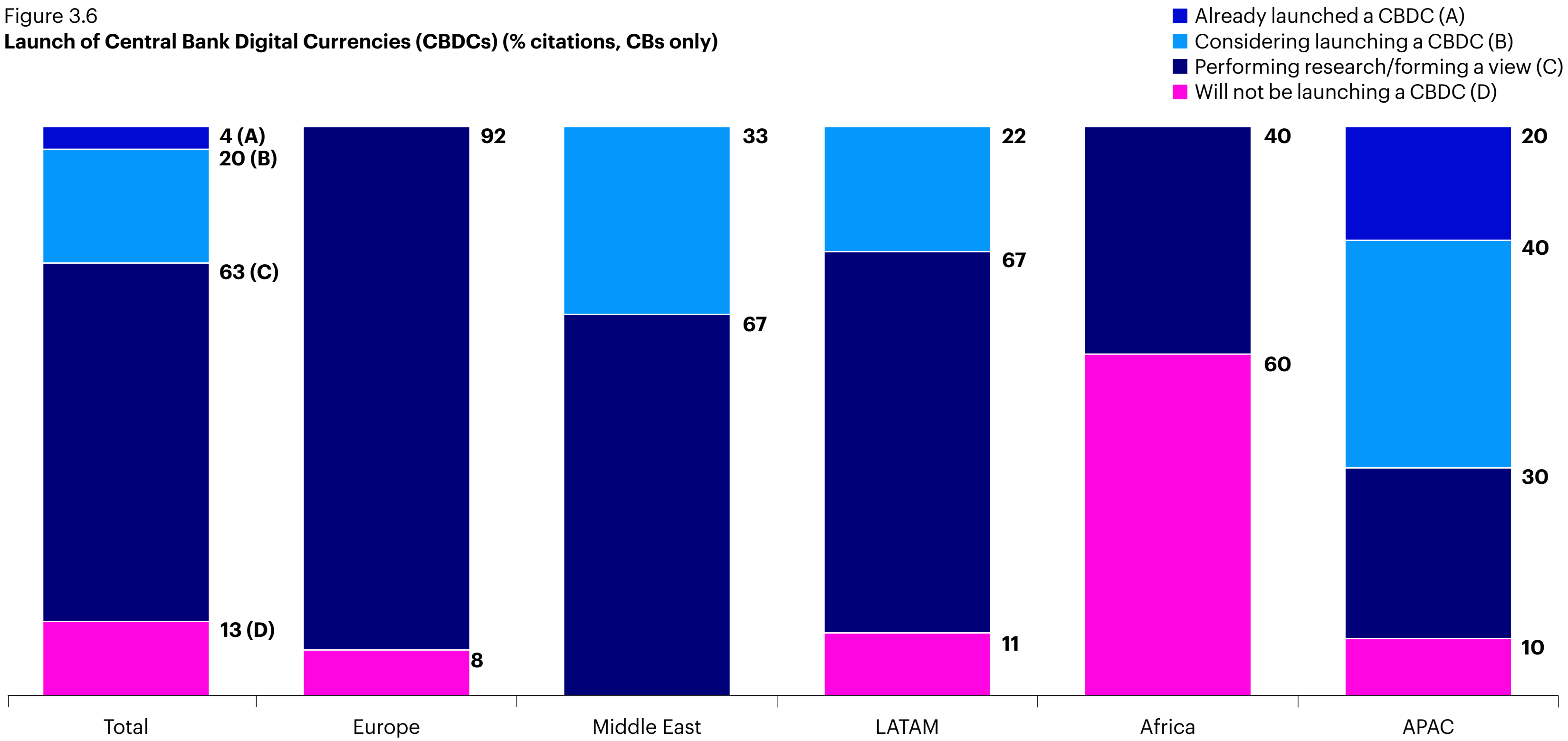
CBDCs: innovation ambition meets cautious execution

Alongside SWF exploration of digital assets, central banks continue to explore central bank digital currencies (CBDCs) as part of broader digital finance strategies. These technologies look to harness changes in digital technology to permit wider and future-ready methods of accessing central bank reserves, many of which make use of blockchain technologies. Interest in CBDCs is high, but actual deployment remains limited **(Figure 3.6)**. While recognising a wide range of potential benefits **(Figure 3.7)**, most central banks are still in research, design, or pilot phases, reflecting both the scale of the opportunity and the complexity of the risks involved.

The motivations behind CBDC exploration vary by region:

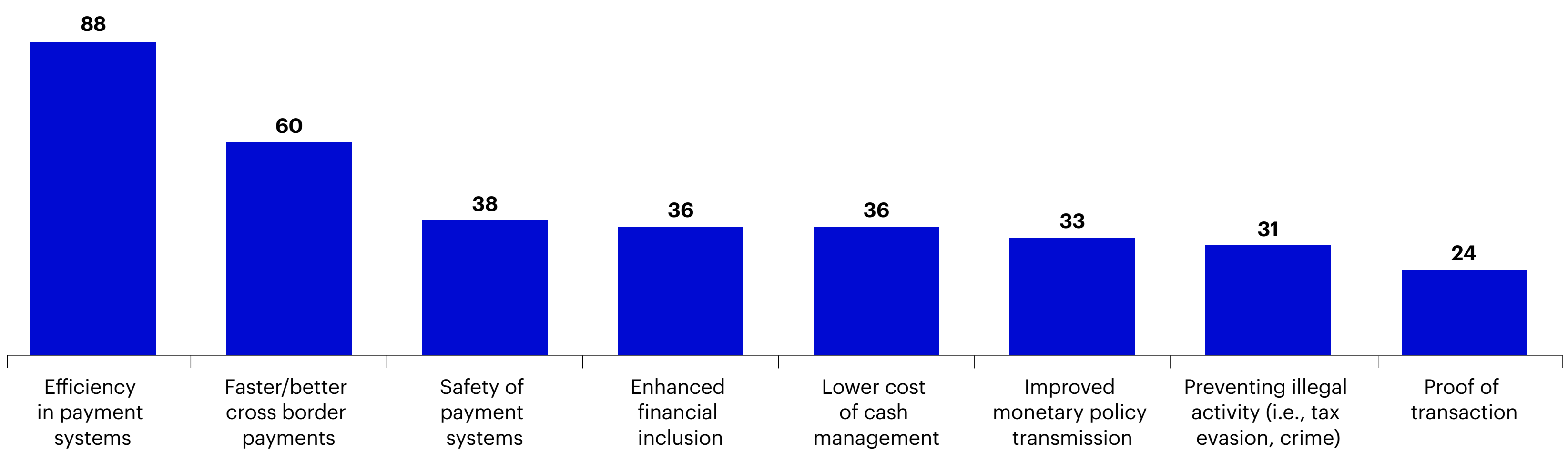
- In emerging markets, CBDCs are often seen as a tool to expand financial inclusion, modernise domestic payments, and reduce reliance on volatile local currencies.
- In developed markets, the focus is more on improving payment efficiency, safeguarding monetary sovereignty, and reinforcing the stability of financial systems amid growing competition from private sector digital currencies.

Figure 3.6
Launch of Central Bank Digital Currencies (CBDCs) (% citations, CBs only)



What is your current interaction with central bank digital currencies (CBDCs)? Sample size: 46.

Figure 3.7
Potential benefits of a CBDC (% citations, CBs only)



What do you see as the main benefits of launching a CBDC? Sample size: 42.

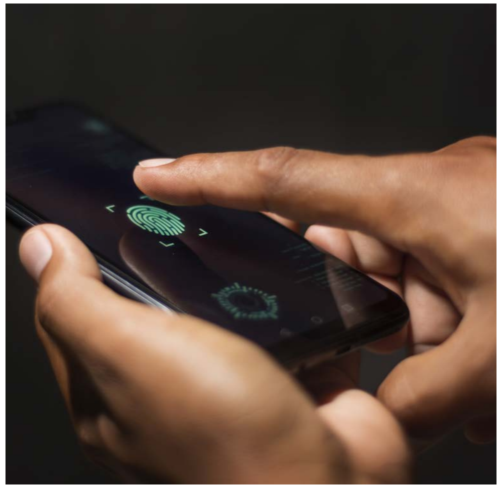
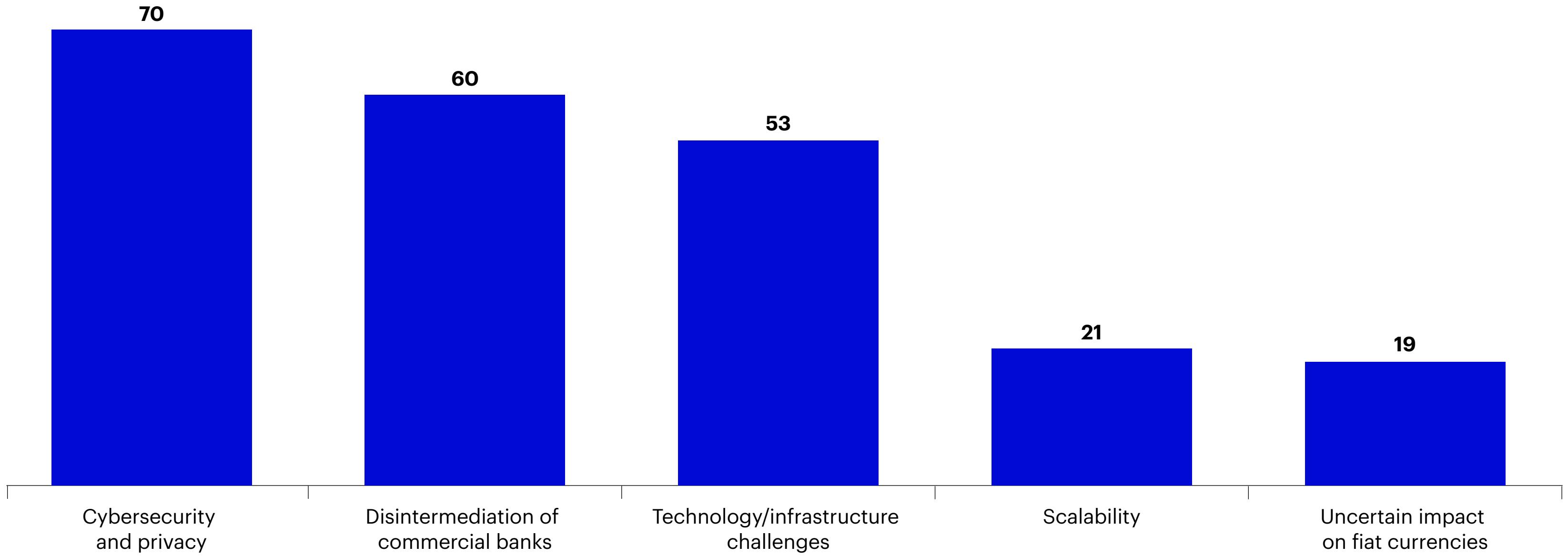


Figure 3.8
Risks of launching a CBDC (% citations, CBs only)



What do you see as the main risks of launching a CBDC? Sample size: 43.

Despite strong strategic interest, significant barriers continue to temper progress **(Figure 3.8)**. Cybersecurity risks remain a major concern, particularly around safeguarding CBDC platforms from attacks that could undermine public confidence. There are also fears about disintermediation: if consumers shift large portions of deposits from commercial banks to CBDCs during times of stress, traditional banking stability could be compromised. As one European central banker observed, "There is the risk of rapid fund transfers to CBDCs perceived as safer, raising concerns about banking sector stability."

Technological challenges further complicate development. Designing CBDCs that are scalable, interoperable across borders, privacy-protective, and resilient against systemic failures is a non-trivial task. Many central banks are also grappling with governance issues, including how to manage access, distribution models, and the balance between transparency and individual privacy.

Given these risks, most CBDC projects are advancing cautiously. Central banks are focused on incremental innovation, launching sandbox experiments, partnering with private sector firms, and coordinating internationally to test models and standards. The prevailing mindset is one of strategic patience: recognising that CBDCs could eventually reshape domestic and global finance, but that early missteps could have disproportionate consequences. For now, CBDCs are a key part of the digital assets agenda, but one approached with care rather than aggressive rollout.

There is the risk of rapid fund transfers to CBDCs.

Central Bank
Europe

Conclusion: optionality with limited exposure

SWFs and central banks are approaching digital assets with a balance of strategic curiosity and operational caution with attention to both investable assets and financial infrastructure evolution. Direct allocations by SWFs in cryptocurrencies remain limited, but they are no longer hypothetical. A growing number are taking first steps, recognising that digital assets could eventually play a modest but meaningful role in diversified portfolios.

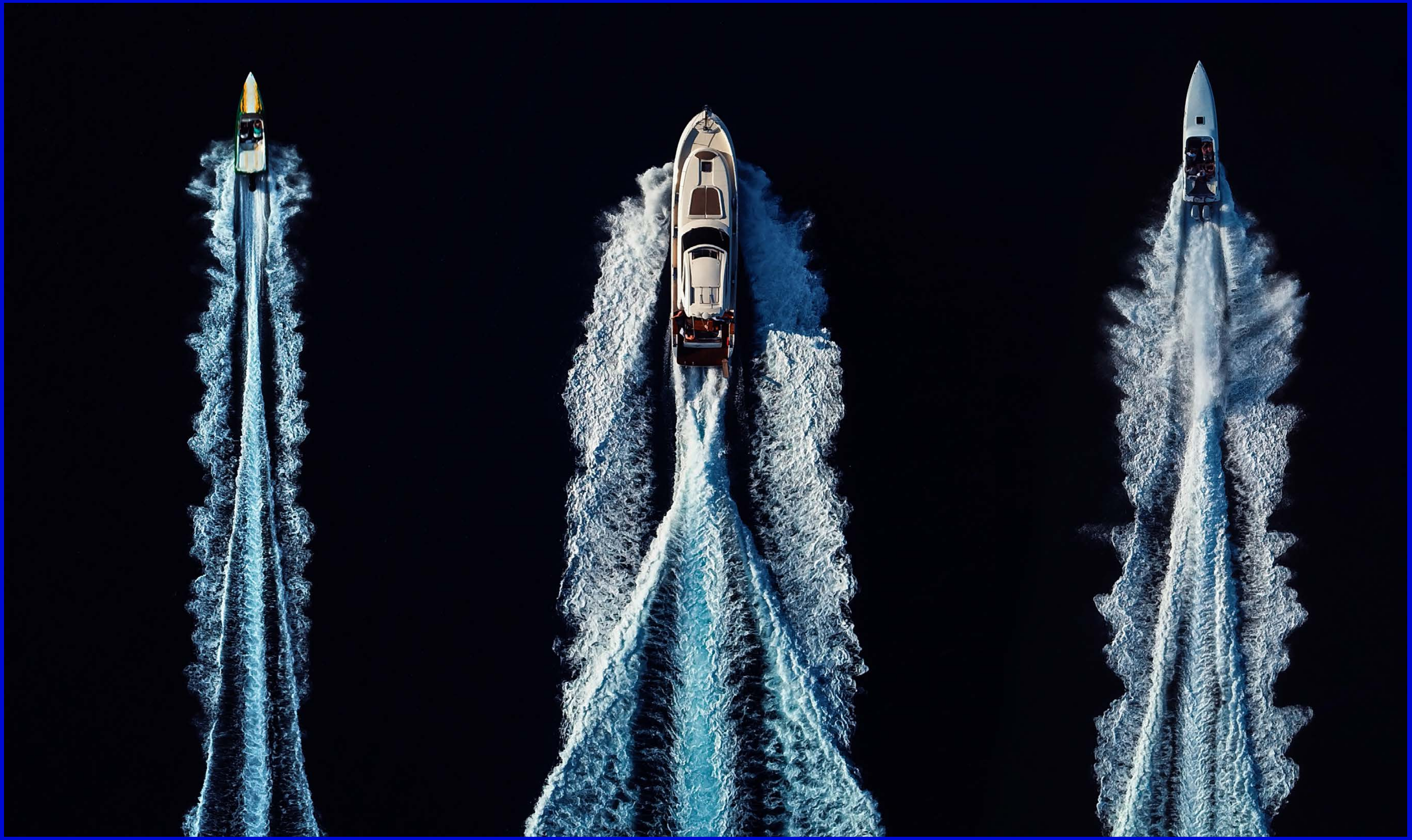
These institutions are not betting on short-term cryptocurrency gains. They are positioning digital assets as portfolio optionality: a way to gain asymmetric exposure to future shifts in global financial infrastructure, without compromising core mandates. Many central banks are also exploring central bank digital currencies, which may shift financial infrastructure and how individuals and institutions alike access central bank reserves.

CBDCs, blockchain platforms, stablecoins, and targeted innovation investments all reflect a broader trend: cautious exploration and selective positioning. In a digitising and fragmented financial system, SWFs and central banks are responding with caution but also with intention.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

THEME 4

Beyond the benchmark, embracing active management amidst uncertainty



Sovereign wealth funds and central banks are deepening their commitment to active management as a strategic response to heightened geopolitical volatility, market fragmentation, and growing concerns about index concentration risk.

Portfolio construction decisions, including geographic allocation, asset class exposure, and sector positioning, are increasingly viewed as forms of active management that may have greater impact than traditional security selection.

Market-weighted passive strategies remain important for efficiency and scale, but are complemented by selective active exposure, particularly as institutions seek greater precision and control in portfolio construction.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

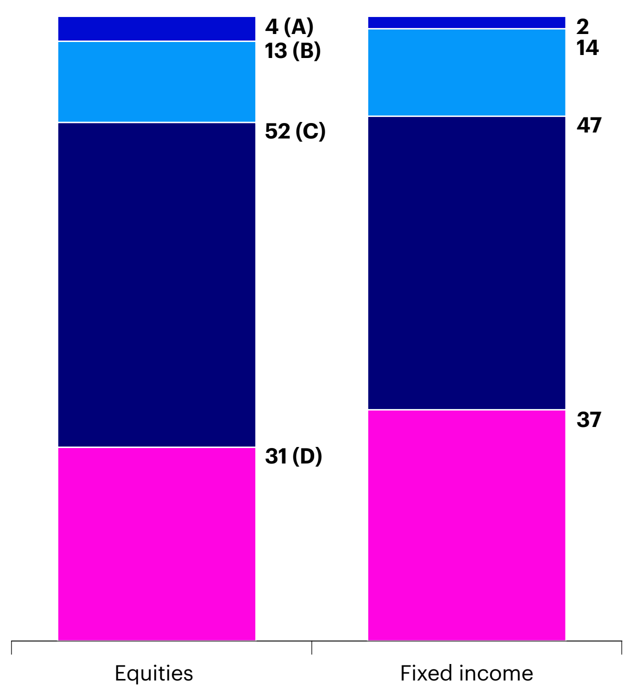
"Today's fragmented investment landscape demands a level of tactical flexibility that market-weighted passive strategies simply cannot provide," noted one APAC-based SWF. This sentiment echoes across the sovereign investor community, as the 2025 study reveals a significant shift towards active management strategies across both equities and fixed income.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

The data shows a clear direction: 52% of SWFs anticipate increasing their active equity exposures over the next two years **(Figure 4.1)**. This pivot is especially pronounced among larger institutions, with 75% of SWFs managing over US$100 billion reporting a move towards more active strategies within equities over the past two years, compared to 43% of mid-sized funds and 36% of smaller institutions **(Figure 4.2)**.

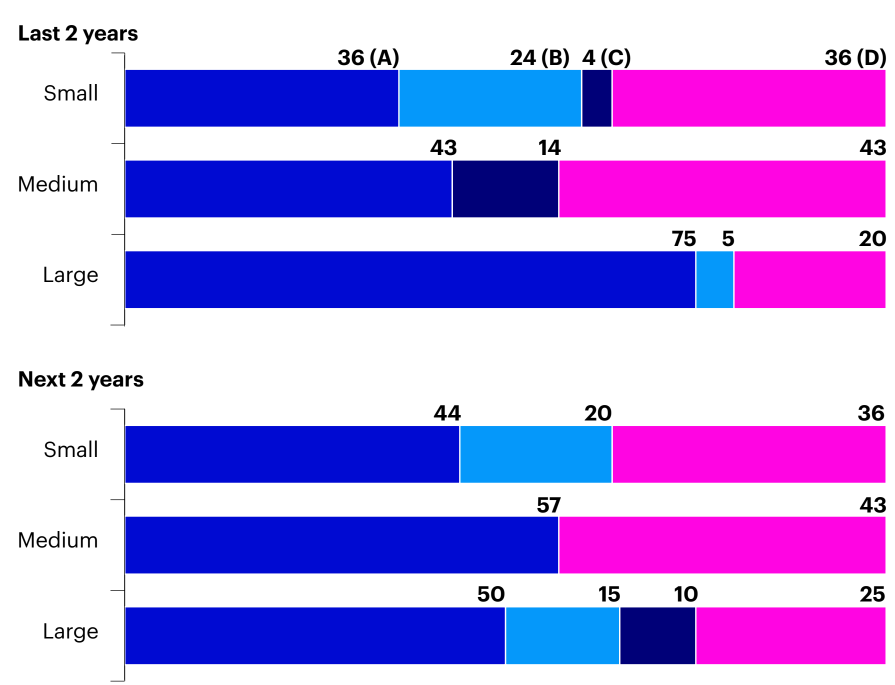
The disparity partly reflects implementation realities: larger SWFs can more easily pivot by building internal active management capabilities, while smaller institutions often face the added complexity of sourcing and onboarding specialised external managers to execute these strategies.

Figure 4.1
Expectations for management style in 2 years' time (% citations, SWFs only)



How do you expect it to change over the next 2 years? Sample size: 52.

Figure 4.2
Change in management style for equities (% citations, SWFs only)



How has this changed in past 2 years? How do you expect it to change over the next 2 years? Sample size: 52.
Large $100bn +, Medium $25-100bn, Small <$25bn

Strategic drivers beyond outperformance

This renewed emphasis on active management is not simply about alpha generation in the traditional sense. SWFs are increasingly viewing active strategies as tools for navigating complexity and building portfolio resilience in an environment where traditional market assumptions are being challenged.

Key catalysts for this shift include:

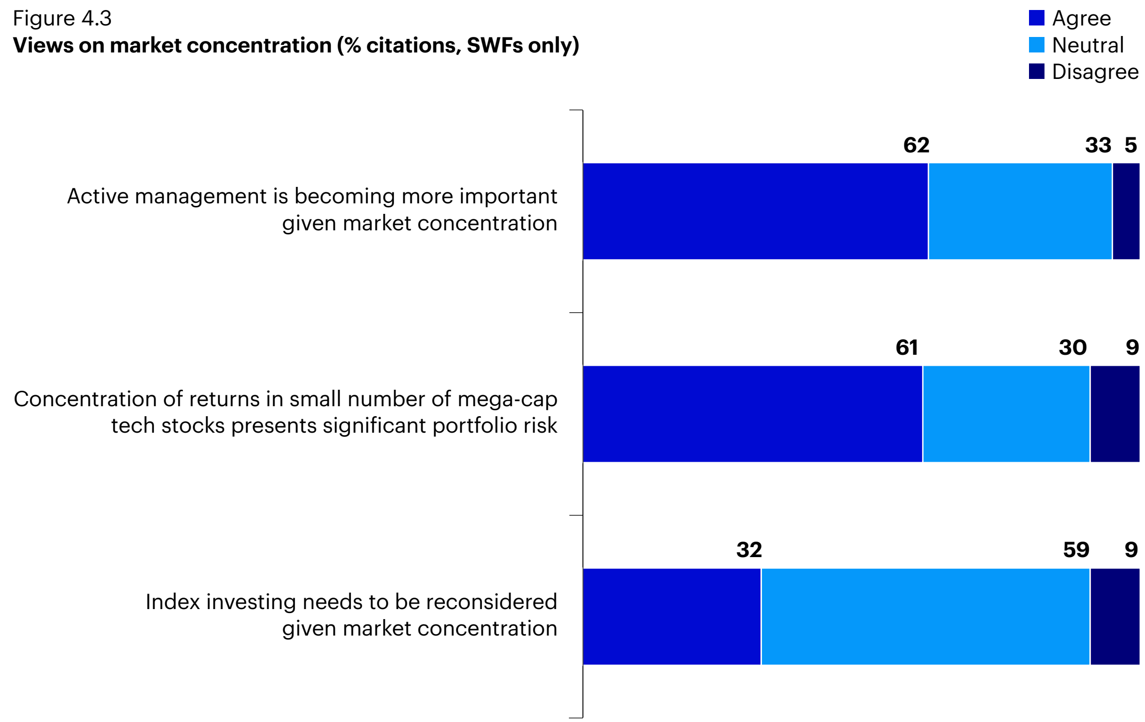
- **Index concentration risk:** 62% of SWFs identified concentration risk in major indices as a significant driver for prioritising active management **(Figure 4.3)**. With a handful of large-cap technology companies now dominating index performance, institutions are questioning the diversification that passive exposure is assumed to provide. As one Middle Eastern SWF explained: "We are mindful of concentration risks in indices. We still believe tech will lead markets in 2025, but are comfortable maintaining some passive exposure with selective active overlays."
- **Geopolitical fragmentation:** The rise of regional economic blocs and shifting trade patterns is creating greater dispersion in market returns, a condition that many SWFs see as fertile ground for active strategies. "The end of the geographical diversification free lunch means we must be more deliberate in our country exposures," noted an APAC-based SWF, highlighting how geopolitical uncertainty is prompting more selective allocation approaches.
- **Macro and political volatility:** Broader uncertainty is diminishing confidence in one-size-fits-all beta exposure. As one Asia-based SWF commented, "The next two years will require more selectivity. Passive works when markets are predictable. That's no longer the case."
- **Scenario resilience:** The growing use of scenario testing is reshaping how investors think about portfolio construction, with active management seen as providing greater flexibility to adjust to different potential outcomes. As one European SWF observed: "Our scenario analysis now explicitly considers extreme political and policy shifts, which has led us to question the robustness of purely passive allocations."
- **Alpha opportunities from market dispersion:** Greater dispersion across markets, sectors, and regions is creating conditions where selective active management can add material value.

For many SWFs, the decision is not framed as an either/or choice between active and passive, but rather as a strategic calibration based on market conditions, internal capabilities, and investment objectives. Most maintain significant allocations to both approaches, with the balance shifting in response to evolving market dynamics and institutional priorities.

Passive works when markets are predictable. That's no longer the case.

SWF
Asia

Figure 4.3
Views on market concentration (% citations, SWFs only)



Do you agree or disagree with the following statements? Sample size: 74.

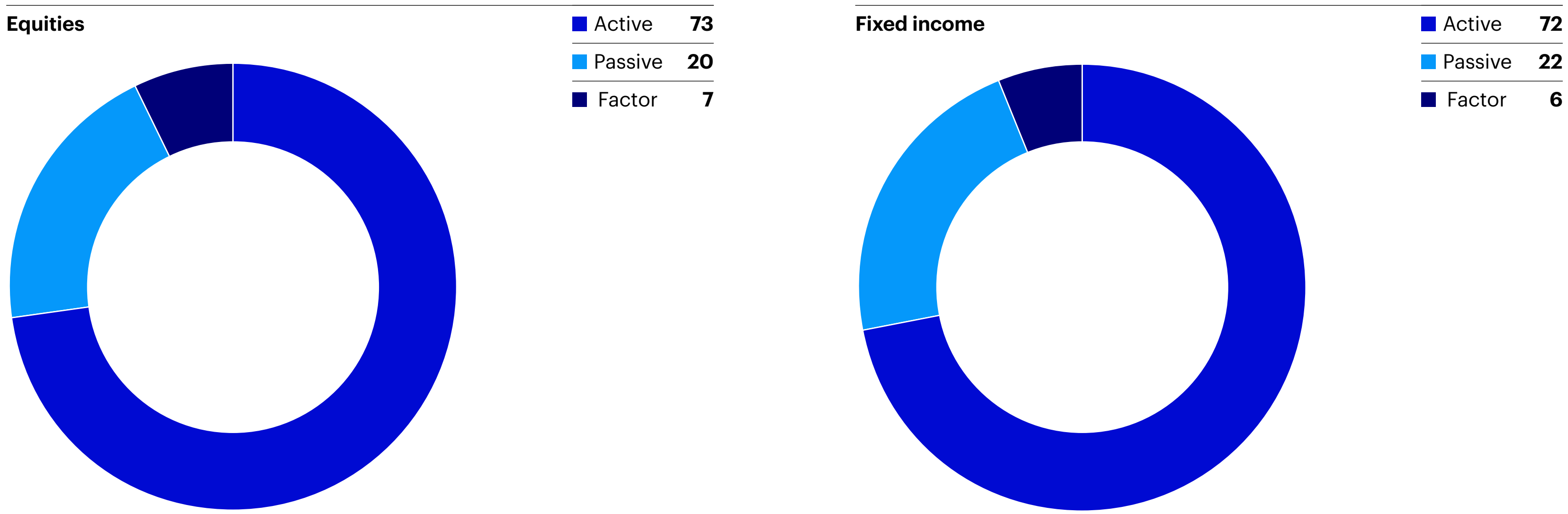
Current allocation patterns

Across the SWF community, the shift towards greater active exposure is visible both in sentiment and in portfolio composition. On average, SWFs maintain over 70% of their portfolios in active strategies across both fixed income and equities **(Figure 4.4)**. While passive exposure remains important, particularly in more efficient public markets, the emphasis on strategic adaptability has recently come to the fore.

For many SWFs, this shift is not about abandoning passive investing altogether. Instead, it involves supplementing broad index exposure with active strategies that can target underrepresented sectors, geographies, or factors and underweight dominant but potentially overvalued exposures.

This recalibration reflects a recognition that true diversification today may require more deliberate construction than traditional passive benchmarks allow. As one APAC-based SWF summarised, "In a more concentrated market, passive exposure carries more hidden risks."

Figure 4.4
Proportion of portfolio in active, passive and factor (% portfolio, SWFs only)



What proportion of your equities / fixed income portfolio is active / passive / factor? Sample size: 51.

Expanding active strategies in fixed income

The trend towards active management extends beyond equities into fixed income markets. While fixed income has traditionally featured higher levels of active management than equities, the current interest rate environment is reinforcing this approach.

47% of SWFs plan to increase their active fixed income allocations over the next two years **(Figure 4.1, page 31)**, driven by several concurrent forces: divergent central bank policies, persistent inflation pressures, fiscal sustainability concerns, and uneven liquidity conditions. These factors are creating an environment where active duration management, credit selection, and tactical positioning can potentially add significant value.

Several macroeconomic forces are helping drive this evolution. Central banks are no longer moving in sync, leading to divergent regional interest rate paths. Inflation remains persistently above target in many markets, while fiscal pressures are mounting in both developed and emerging economies. At the same time, liquidity conditions have become more uneven, amplifying volatility in sovereign and corporate bond markets.

In this environment, passive duration exposure is increasingly seen as inadequate. Institutions are therefore turning to active strategies to fine-tune duration profiles, dynamically adjust credit exposure, and selectively capture opportunities in sectors or regions where market dislocations create pricing inefficiencies.

This selective approach to fixed income is particularly evident in how institutions are navigating emerging market exposures, where idiosyncratic risks are high and broad passive exposure may introduce unwanted vulnerabilities.

As one APAC-based SWF explained: "Our emerging market debt strategy has become much more active over the past two years. Volatility has required us to be far more selective – not just in country allocation, but within sectors and even individual issuers."

Our emerging market debt strategy has become much more active over the past two years.

SWF
APAC

Active management as a portfolio construction decision

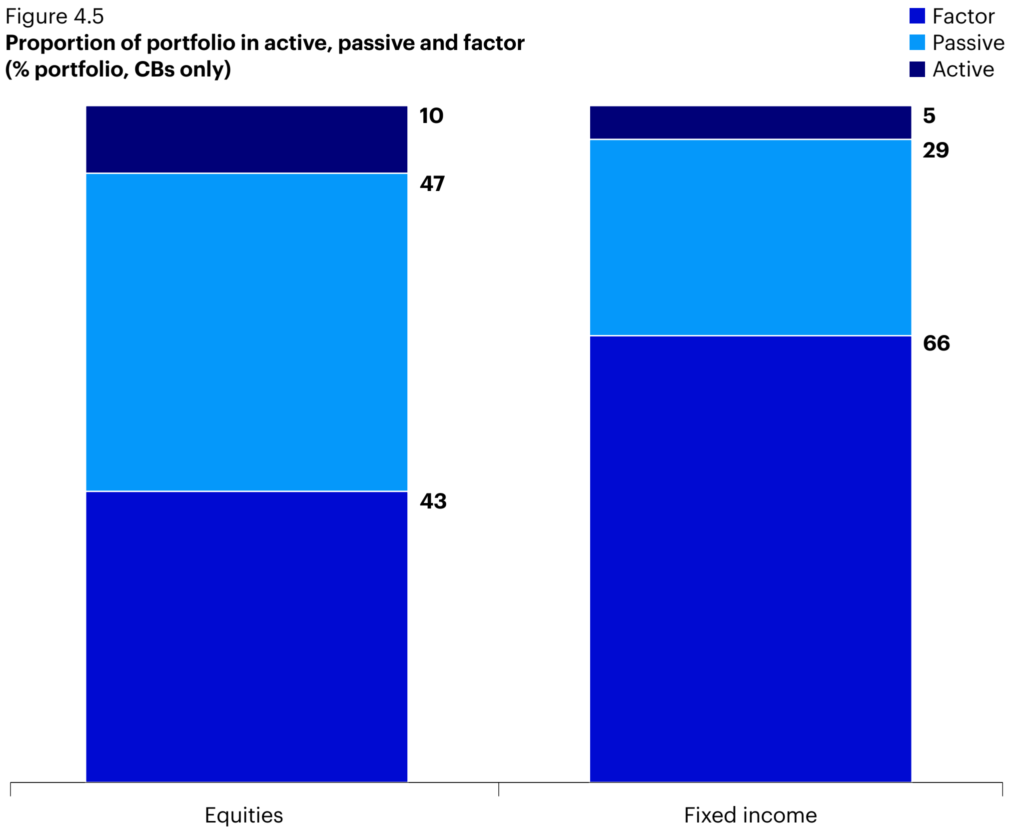
A noteworthy finding in this year's study is the expanding scope of what constitutes "active management." For SWFs, active decision-making now encompasses not just security selection within asset classes, but also strategic decisions around asset allocation, geographic exposure, and factor positioning.

This broader definition reflects the recognition that portfolio construction itself is a form of active management and one that may have even greater impact on returns than security selection within individual asset classes. As one Middle Eastern SWF put it: "The most consequential active decisions today involve how we position across geographies and sectors, not just which securities we select within them."

The heightened political and policy uncertainty is prompting many institutions to reconsider their approach to geographic diversification. Some investors are now explicitly accounting for country risk in their valuation models, adjusting discount rates to reflect political and regulatory uncertainties that might not be fully captured in market prices.

This more deliberate approach to country allocation represents a significant shift from the past, when geographic diversification was often treated as an automatic benefit rather than a strategic decision that required ongoing calibration.

Figure 4.5
Proportion of portfolio in active, passive and factor (% portfolio, CBs only)



What proportion of your equities / fixed income portfolio is active / passive / factor? Sample size: 30.

Central banks: A foundation of active fixed income

Central banks have long maintained a strong active orientation in their fixed income portfolios, with the 2025 study showing an average of 66% of central bank fixed income allocations managed actively **(Figure 4.5)**. This reflects both historical practice and the specific objectives that shape central bank reserve management.

Fixed income has traditionally been where central banks have built deep internal expertise, with capabilities honed over decades of reserve management, often underpinned by strong risk control frameworks and an emphasis on liquidity and credit quality. As one European central bank observed: "Fixed income is the core of our reserves. We've grown our capability organically over decades, and active management is embedded."

Active management allows central banks to better navigate interest rate risk, mitigate credit downgrades, and respond to shifts in liquidity conditions. It also provides tools to enhance returns at the margin, such as through targeted exposure to supranational, agency, or higher-quality emerging market issuers, within risk tolerance boundaries.

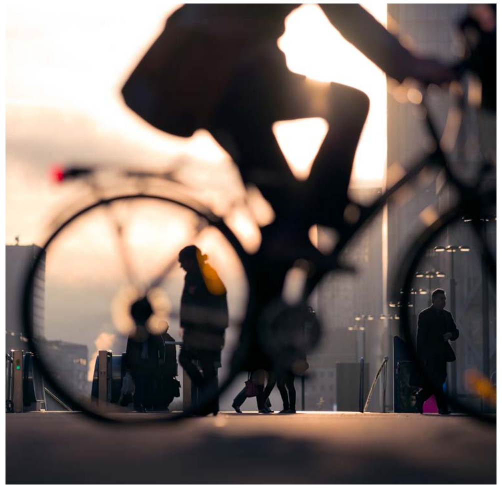
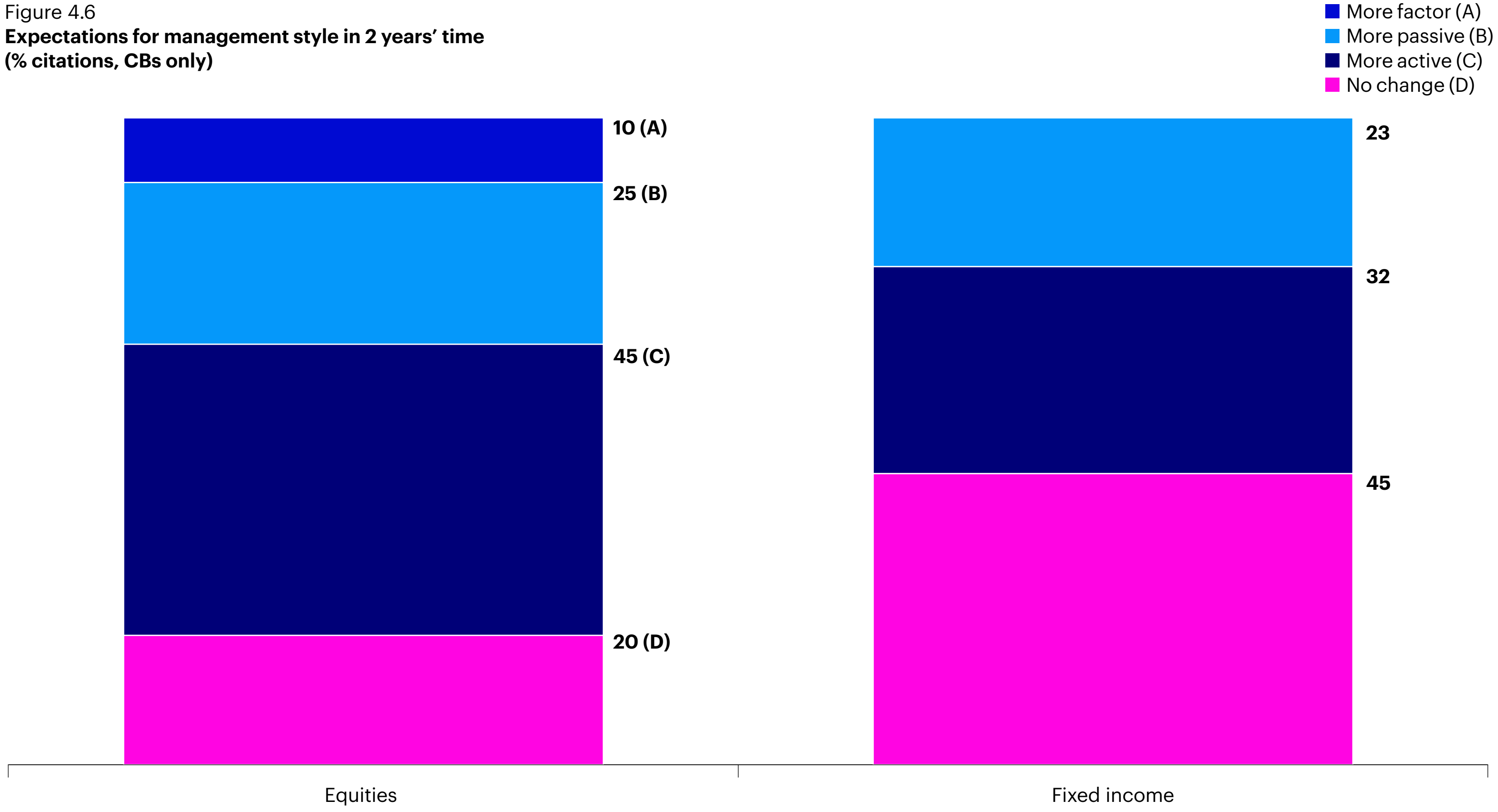


Figure 4.6
Expectations for management style in 2 years' time (% citations, CBs only)



How do you expect it to change over the next 2 years? Sample size: 31.

For equity allocations, central banks show a more balanced approach: 43% of central bank equity portfolios are actively managed, while 47% remain in passive strategies and 10% in factor-based approaches. This distribution reflects a pragmatic orientation, where passive strategies provide an efficient way to gain broad market exposure while active strategies are deployed more selectively.

As one institution noted: "We pursue active management where we see return potential. We don't see that opportunity in developed market equities currently, but we are exploring more targeted active approaches elsewhere."

This balanced perspective is reflected in central banks' forward-looking intentions as well. While 45% expect to increase active equity management over the next two years, a significant proportion (45%) anticipate maintaining current levels or more passive exposure **(Figure 4.6)**. This highlights how central banks are evaluating the active-passive balance through the lens of their specific mandates, risk tolerances, and organisational capabilities.

Factor strategies are also gaining traction as a middle ground: offering targeted exposures (such as value, quality, or low volatility factors) while maintaining cost and complexity advantages relative to full discretionary active management.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Conclusion: active management as a strategic capability

The evolution of active management among SWFs and central banks reflects a broader strategic imperative: to build portfolios that can navigate a more complex, fragmented, and volatile investment landscape.

Rather than viewing active management primarily as a vehicle for outperformance, institutions are increasingly positioning it as a strategic capability – one that provides the flexibility, precision, and risk control needed to manage through structural uncertainty.

As market concentration increases, correlations shift, and geopolitical tensions reshape global capital flows, SWFs and central banks are recognising that traditional market-weighted passive exposures may introduce hidden vulnerabilities. Active management offers a potential path to more resilient portfolios.

In this environment, the conversation is moving beyond the traditional active-versus-passive framing to focus on how different investment approaches can be strategically combined to achieve specific portfolio objectives. The result is a more nuanced perspective – one that leverages both the efficiency and scalability of passive strategies while embracing the adaptability and precision of active management.

Reserve resilience, adapting central bank strategies for uncertain times

Central banks are reinforcing reserve management frameworks, focused on building larger, more diversified, and more liquid reserves to withstand growing economic and geopolitical volatility.

Concerns around US fiscal dynamics are intensifying, but structural realities mean the dollar retains dominance for now, with no credible near-term rival.

Gold's role as a strategic defensive asset has strengthened, with central banks both expanding allocations and adopting more dynamic approaches to gold management.

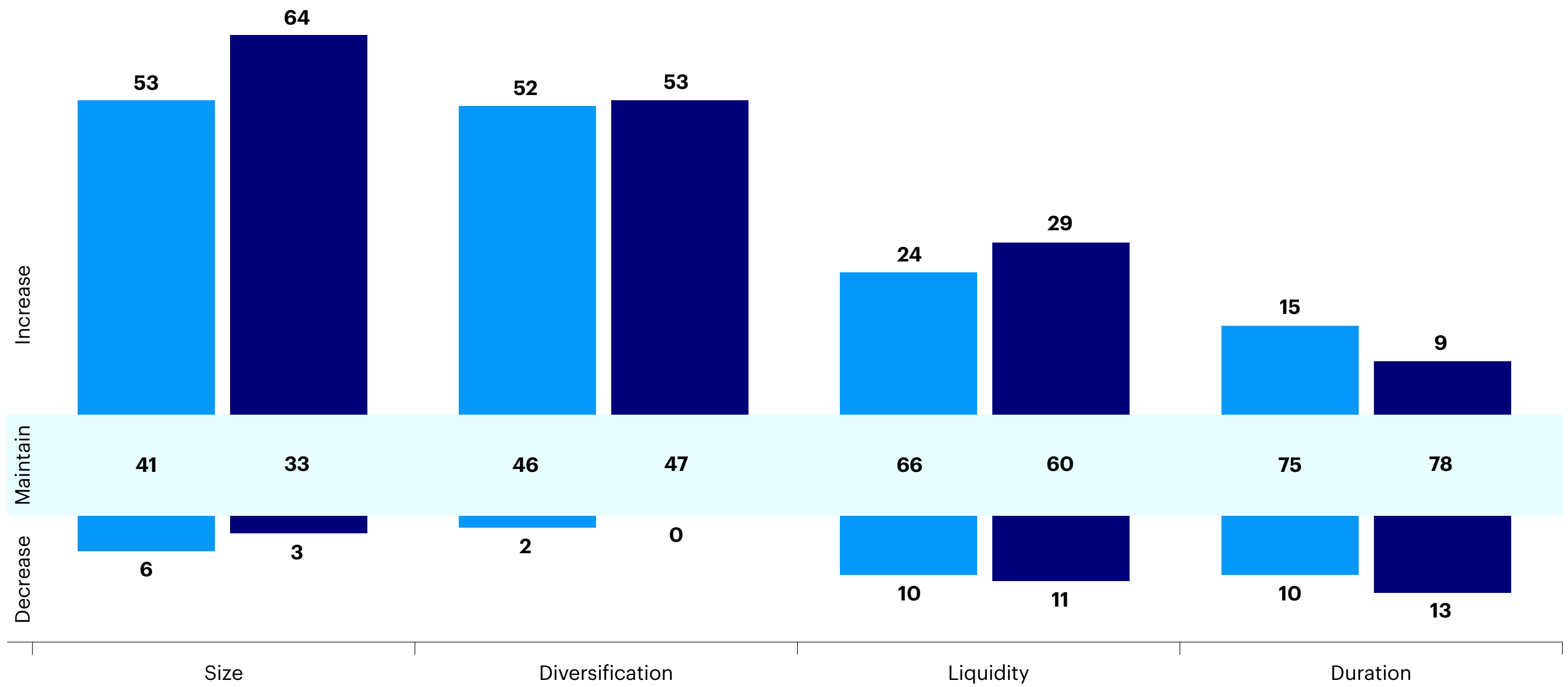
Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Growing global uncertainty is reshaping how central banks manage reserves. Institutions are not only expanding reserve volumes but also upgrading risk frameworks, liquidity structures, and operational flexibility, preparing themselves for a more fragmented and unpredictable environment.

This year's study shows that 64% of central banks intend to increase reserve levels, while 53% plan to further diversify holdings **(Figure 5.1)** – an acceleration of the trend seen in 2024 and a shift from previous years when reserve accumulation had started to stabilise. Over the past three years, 72% of central banks have enhanced their risk management processes **(Figure 5.2, next page)**, and 62% have reassessed reserve adequacy standards **(Figure 5.3, next page)**.

As one Middle Eastern central bank noted, "The challenging past three years pushed us to reevaluate our reserve levels. We realised how crucial it is to maintain strong buffers to protect against external shocks."

Figure 5.1
Expectations for reserves over the next two years (% citations, CBs only)

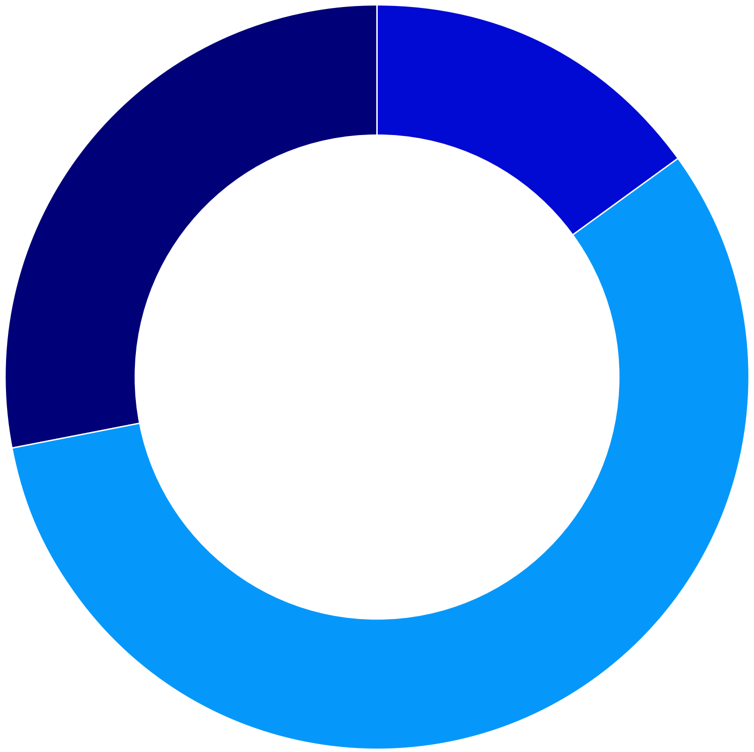


How do you expect your reserves to evolve over the next 2 years? Sample size: 57.

The operational impact of recent volatility is already visible. Some central banks have been forced to intervene in foreign exchange markets to stabilise their currencies, drawing on reserves to smooth disorderly market conditions. Others have restructured liquidity frameworks, increasing short-term reserve assets, adjusting collateral requirements, or strengthening foreign currency swap lines, to ensure faster access to liquid funds when needed. These responses have reinforced the emphasis on readiness and flexibility, driving central banks to not only hold larger reserves, but to manage them with greater tactical agility.

Figure 5.2
Risk management framework evolution in response to recent volatility and geopolitical events (% citations, CBs only)

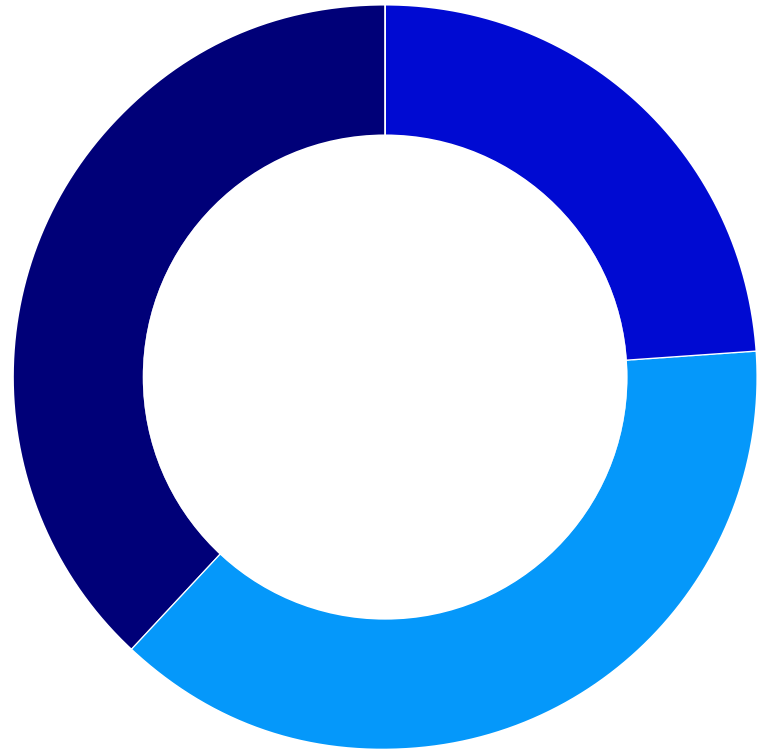
Significantly enhanced	15
Moderately enhanced	57
No material changes	28



How has your risk management framework evolved in response to recent market volatility and geopolitical events? Sample size: 54.

Figure 5.3
Changes to reserve adequacy approach over the past three years due to global events (% citations, CBs only)

Significant reassessment	24
Moderate reassessment	38
No material changes	38



Have global events over the past three years caused you to reassess your approach to reserve adequacy? Sample size: 55.

> **We realised how crucial it is to maintain strong buffers to protect against external shocks.**
>
> **Central Bank**
> Middle East

Rising dollar concerns but no easy alternatives

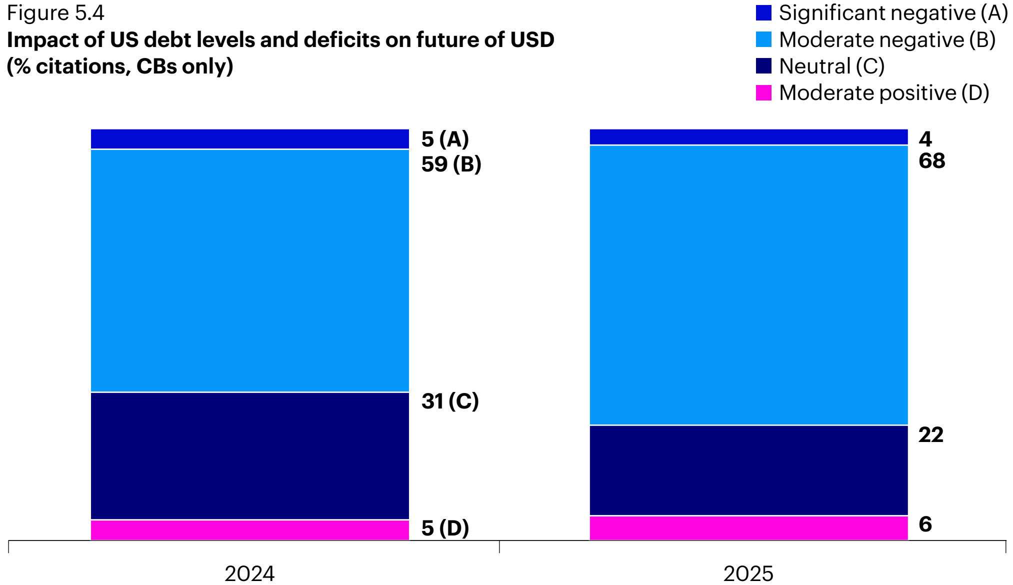
Concerns about the long-term stability of the US dollar are intensifying among central banks. Rising US debt levels, persistent fiscal deficits, and political volatility have sharpened questions around the dollar's future role in the global system.

This year's study shows that 72% of central banks believe US fiscal dynamics are negatively impacting the dollar's long-term outlook **(Figure 5.4)**, a notable increase from last year. Central banks regularly flagged worries that persistent fiscal deficits, combined with political gridlock, could eventually undermine confidence in the dollar's value and erode its safe-haven status. Yet despite these concerns, alternatives remain limited.

While the dollar's share of global reserves has declined slightly, from about 60% in 2022 to 58% in 2024 **(Figure 5.5)**, no single challenger has emerged capable of absorbing a substantial reallocation. Incremental gains are being spread across smaller currencies, rather than concentrated in a major alternative.

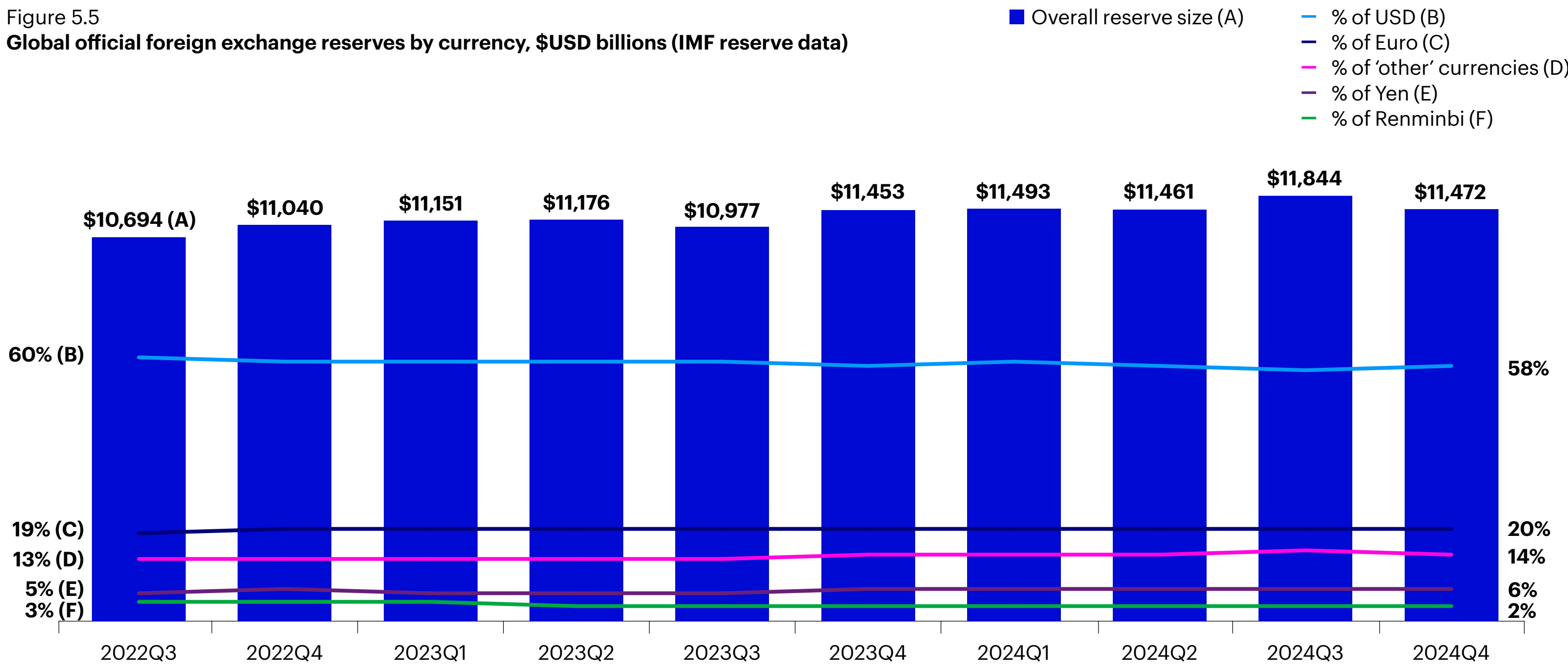
Liquidity, credit quality, and depth continue to anchor the dollar's dominance. As a European central bank observed, "Even when you want to diversify, most other sovereign markets are simply too small. If you manage a large portfolio, liquidity constraints leave you few real alternatives." In practice, the dollar remains deeply embedded in reserve portfolios, even as concerns about its longer-term trajectory grow louder.

Figure 5.4
Impact of US debt levels and deficits on future of USD (% citations, CBs only)

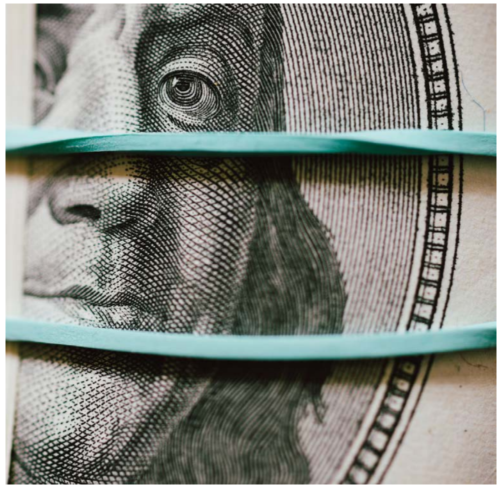


What is the likely impact of rising US debt levels and deficits on the future global role of the US dollar? Sample size: 53.

Figure 5.5
Global official foreign exchange reserves by currency, $USD billions (IMF reserve data)



Source: IMF. 'Other' means not USD, Euro, Renminbi, Yen or unallocated.



Diversification: a slow and tactical process

The search for diversification is intensifying, but progress remains incremental. While central banks are gradually expanding non-dollar exposures, the scale is limited, and the timeline for meaningful change remains long.

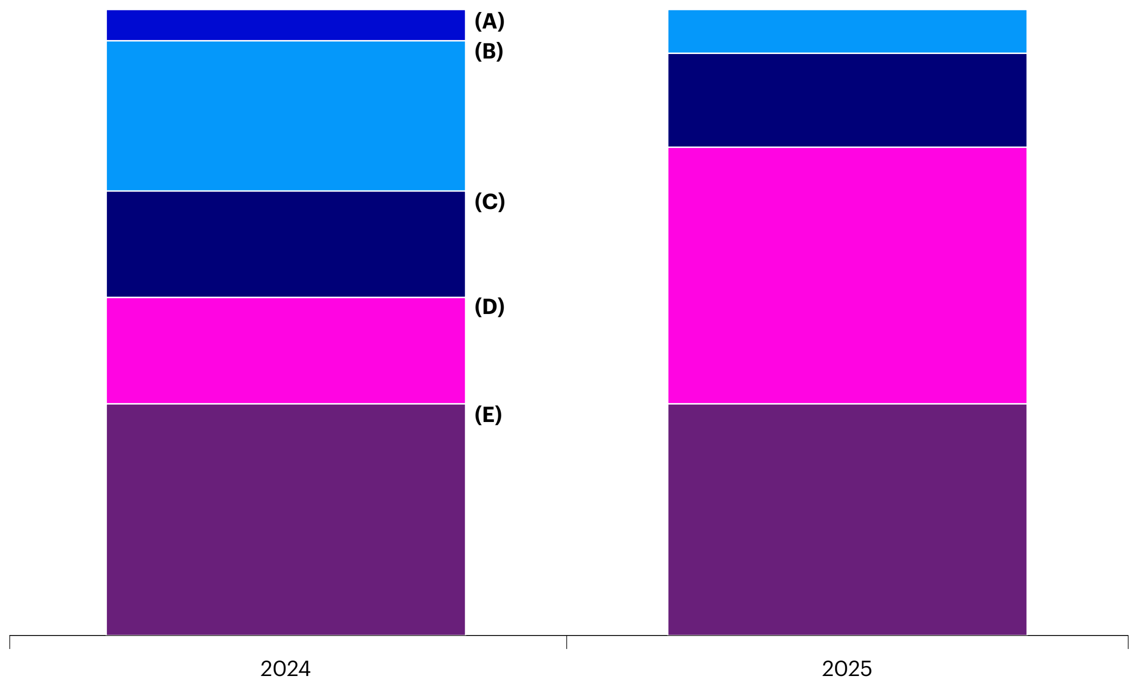
78% of central banks believe it would take more than two decades, or may not happen at all, for a credible alternative to the dollar to emerge **(Figure 5.6)**. This is up from 55% last year, representing a weakening in the outlook for an alternative to emerge.

The Euro is the leading secondary reserve currency, but its capacity to challenge the dollar structurally is undermined by internal political and economic fragmentation. Last year's study reflected greater optimism around the euro's potential, but this year that has sharply receded: only 11% of central banks now view the euro as gaining ground, down from 20% last year **(Figure 5.7, next page)**.

Other major currencies like the Japanese yen, British pound, and Swiss franc serve tactical diversification roles but are unlikely to shift the broader system. The architecture of global reserves remains fundamentally dollar-centric, a dynamic unlikely to change meaningfully in the near term.

Emerging market currencies, while sometimes attractive in yield terms, remain constrained by liquidity, credit quality, and governance concerns. As a Latin American central bank noted, "We base our reserve decisions on credit ratings and liquidity and emerging currencies generally don't meet those standards yet."

Figure 5.6
Time horizon for a rival currency to emerge as a competitor (% citations, CBs only)



	2024	2025
Next 5 years (A)	**5**	**0**
6-10 years (B)	**24**	**7**
11-20 years (C)	**17**	**15**
21-50 years (D)	**17**	**41**
Unlikely in foreseeable (E)	**37**	**37**

What is the most likely time horizon for a rival currency to emerge as a legitimate competitor to the US Dollar as the dominant global reserve currency? Sample size: 54.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

The renminbi's long road to reserve prominence

The Chinese renminbi features prominently in discussions about the future of reserve currencies.

82% of central banks believe the renminbi's role will expand over the next decade, nearly double the percentage from last year and reflecting a renewed belief in China's economic resilience and long-term strategic importance **(Figure 5.7)**.

Momentum has clearly moved in favour of the renminbi and away from the euro as a challenger. However, while confidence in China's growing influence has strengthened, the challenges of renminbi adoption mean that the expected timescales for a significant challenger to emerge have consequently shifted further out.

Significant barriers limit the pace and scale of adoption. Capital account controls, restricted market access, and limited trading hours undermine the renminbi's appeal as a reserve asset. As a Latin American central bank noted, "China would need to seriously restructure its financial infrastructure to be accessible for global reserve managers."

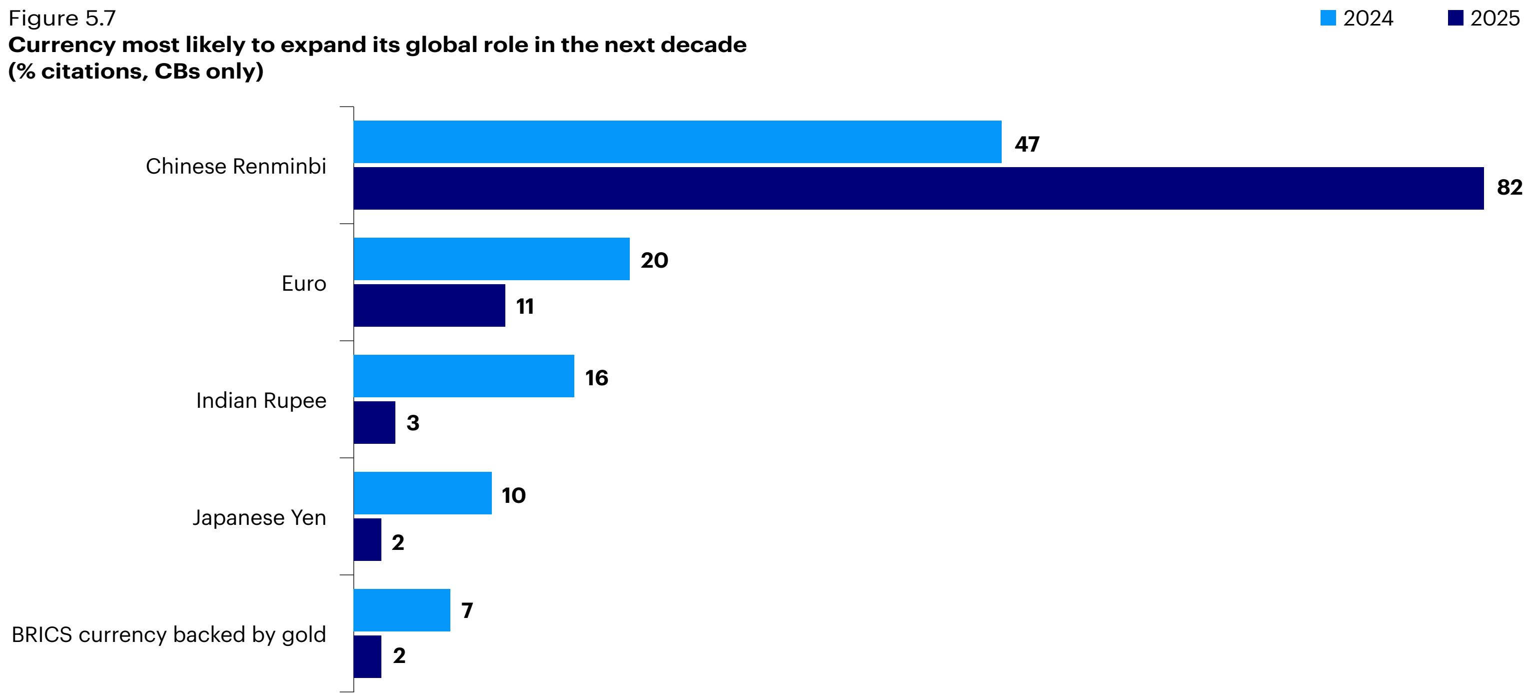
Political risk is another major constraint. A European central bank commented, "Even if China's economy grows, we cannot freely allocate to the renminbi. Geopolitical tensions mean access to those reserves could be compromised in extreme scenarios."

While gradual progress is likely, particularly through initiatives like bilateral settlement agreements, the renminbi's trajectory toward major reserve status remains a long-term proposition, rather than an imminent shift.

China would need to seriously restructure its financial infrastructure to be accessible for global reserve managers.

Central Bank
Latin America

Figure 5.7
Currency most likely to expand its global role in the next decade (% citations, CBs only)



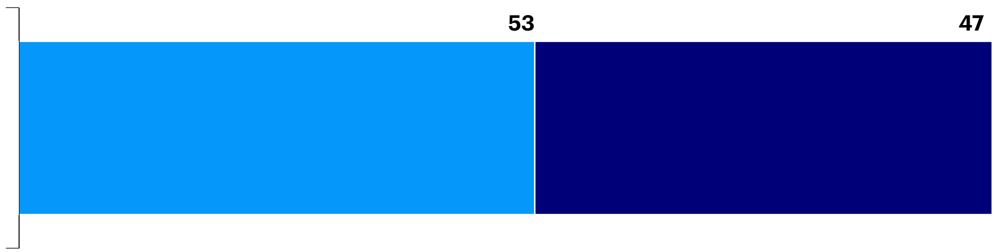
Which currency's global role is most likely to expand over the coming decade? Sample size: 44.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Figure 5.8
Gold as part of reserves (% citations, CBs only)

Do you hold gold in your portfolio? Sample size: 56.

Figure 5.9
Expectations for gold reserves in the next three years (% citations, CBs only)



How do you expect your gold allocation to change in the next 3 years? Sample size: 45.

Gold is a diversifier, but it's also a form of protection and a backstop if all else fails.

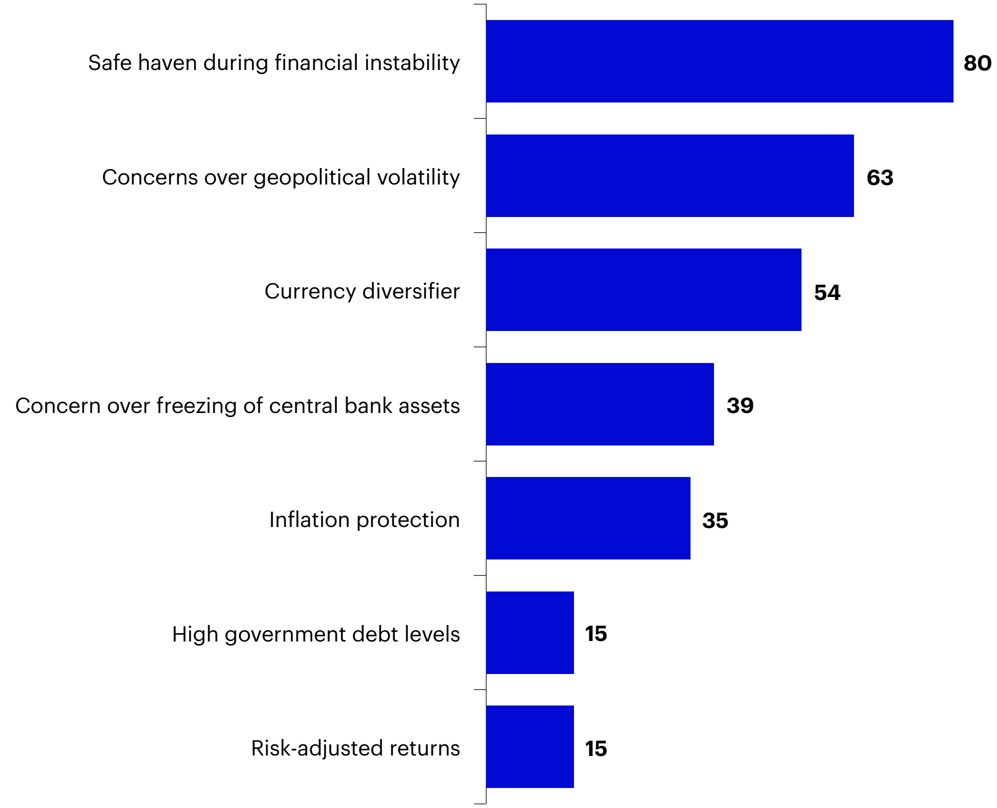
Central Bank
Latin America

Gold reasserts its role as the ultimate reserve hedge

Amid rising uncertainty and constrained currency diversification, gold has re-emerged as a core pillar of reserve resilience. Central banks continue to expand their gold holdings despite high price levels, highlighting gold's strategic value as a store of wealth during systemic shocks. 86% of central banks currently hold gold **(Figure 5.8)**, and 47% plan to increase their allocations over the next three years **(Figure 5.9)**.

Gold is valued not only for its historical role as a safe haven but also for its political neutrality, a critical factor as geopolitical risks rise **(Figure 5.10)**. As a Latin American central bank observed, "Gold is a diversifier, but it's also a form of protection and a backstop if all else fails." In an increasingly complex financial system, gold offers stability that few other assets can replicate, insulating reserves from both monetary and political risks.

Figure 5.10
Factors important to ongoing gold acquisition (% citations, CBs only)



What factors are important contributors to ongoing central bank gold acquisition? Sample size: 46.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Evolving approaches to gold management

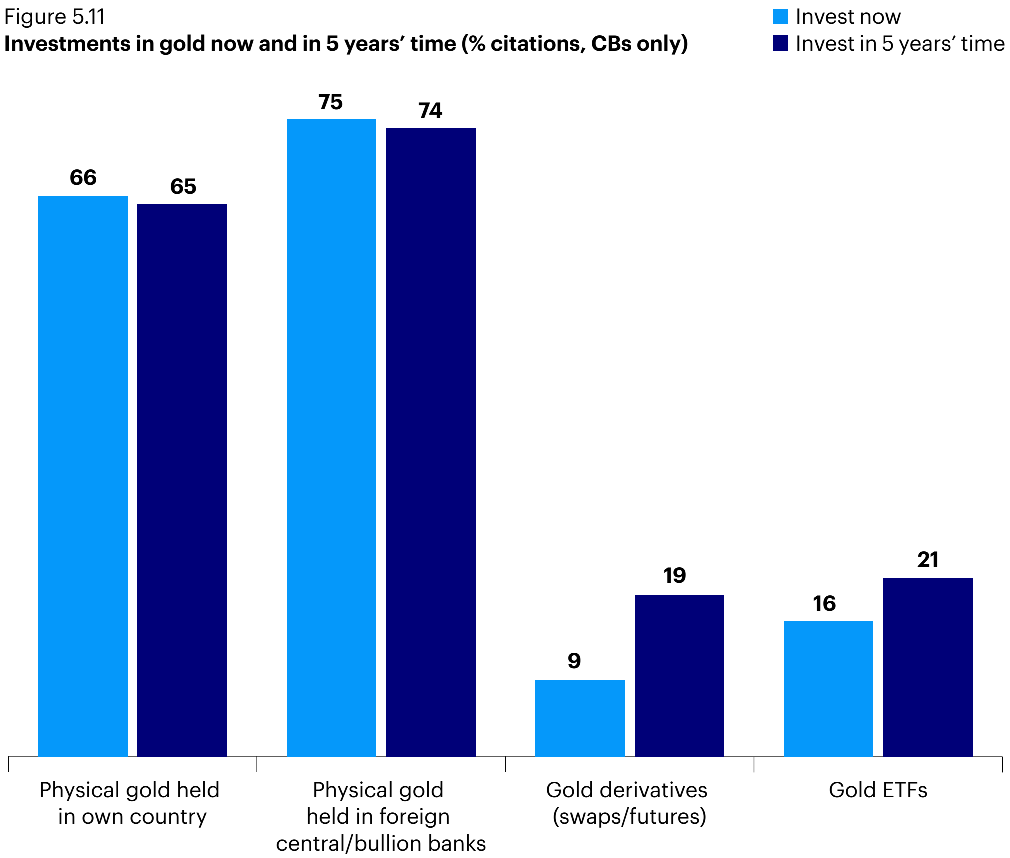
While physical bullion remains the cornerstone of most reserve portfolios, central banks are increasingly adopting more dynamic strategies to manage gold exposures. About 20% of institutions plan to make greater use of derivatives, swaps, or ETFs over the next five years **(Figure 5.11)**, a shift driven by the need for greater flexibility, liquidity management, and operational efficiency.

Rather than relying solely on static holdings, central banks are using financial instruments to fine-tune exposures, enhance returns, and adjust collateral positions without needing to sell physical gold, an action often constrained by political sensitivities.

This evolution reflects a broader trend: integrating gold more actively into modern reserve management frameworks. As a European central bank explained, "We aren't selling physical gold, but we use swaps and futures to fine-tune exposure and generate modest returns."

Dynamic gold management allows central banks to balance the traditional defensive role of bullion with the practical demands of managing reserves in an increasingly volatile and complex financial environment.

Figure 5.11
Investments in gold now and in 5 years' time (% citations, CBs only)



How do you invest in gold now? How do you think you will invest in gold in 5 years' time? Sample size: 44.

We use swaps and futures to fine-tune exposure and generate modest returns.

Central Bank
Europe

Conclusion: building reserves for a more fractured future

Central banks are reinforcing reserves not just in size but in sophistication, preparing for a future where volatility, political fragmentation, and monetary instability may become structural features of the global economy.

While concern over the dollar's future role is rising, deep liquidity and systemic inertia mean that meaningful diversification will be slow and partial. Gold has reasserted its place as the ultimate defensive asset, supported by a gradual shift toward more dynamic management strategies.

In a world of heightened uncertainty, central banks are positioning reserves for resilience: cautious, adaptive, and strategically prepared for a more complex era.

Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Appendix

Sample and methodology

The fieldwork for this study was conducted by NMG between January and March 2025. Invesco chose to engage a specialist independent firm to ensure high quality objective results. Key components of the methodology include:

- A focus on the key decision makers within SWFs and central banks, conducting interviews using experienced consultants and offering market insights rather than financial incentives.
- In-depth (typically 1 hour) face-to-face interviews using a structured questionnaire to ensure quantitative as well as qualitative analytics were collected.
- Results interpreted by NMG's team with relevant consulting experience in the global asset management sector.

In 2025, we conducted interviews with 141 organisations: 83 SWFs and 58 central banks. The 2025 sample is split into two core segmentation parameters: sovereign investor profile and region.

Figure 6.1
Overall sample, by segment

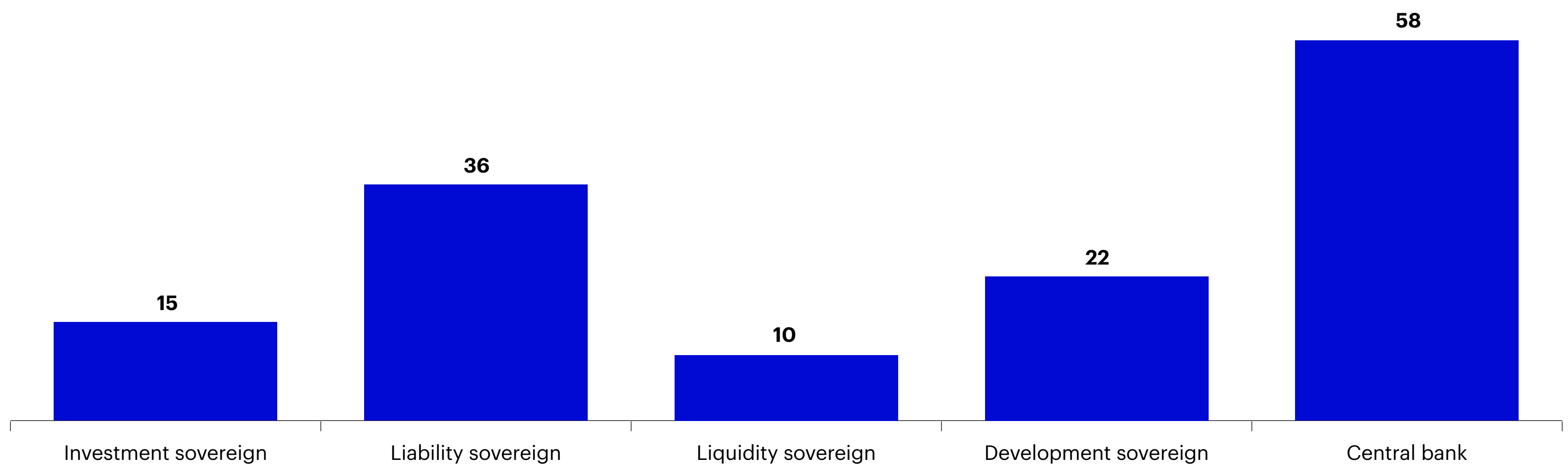
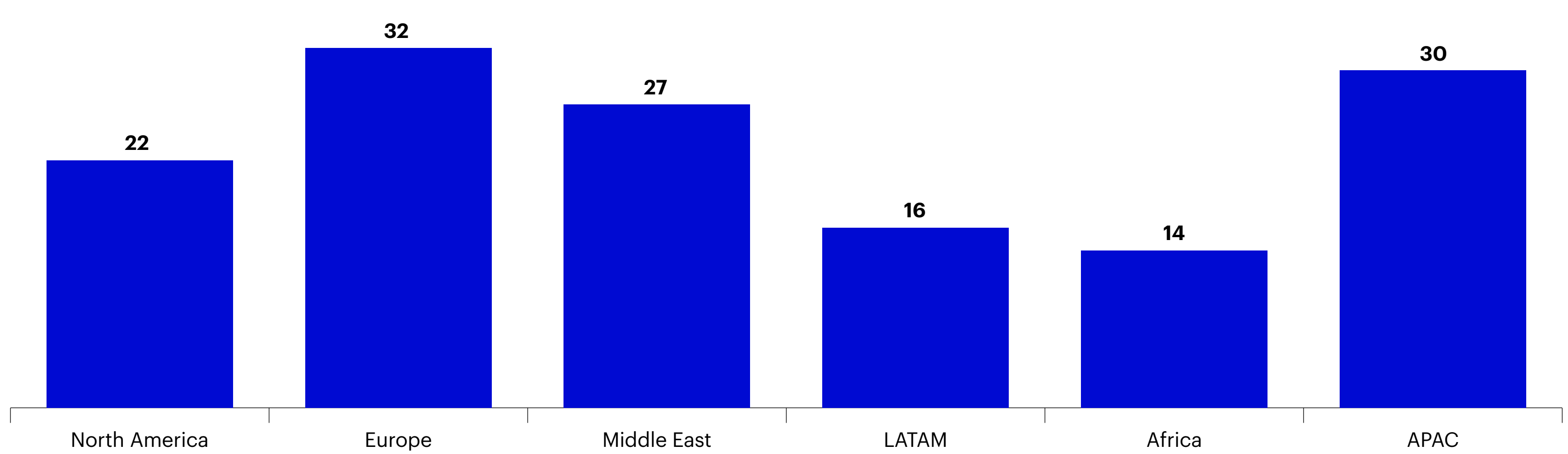


Figure 6.2
Overall sample, by region



Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix

Defining sovereign investors

There are distinct segments of sovereign investors, determined in the first instance by their objectives. This framework is outlined below.

Investment sovereigns
Investment sovereigns have no specific liabilities that they are intended to fund. This typically means this segment invests with a particularly long-time horizon and high tolerance for illiquid and alternative asset classes. Long investment return objectives tend to be high, reflecting an ability to capture additional return premia.

Liability sovereigns
Liability sovereigns in contrast are intended to fund specific liabilities, liability sovereigns are sub-segmented into those which are already funding liabilities (current liability sovereigns) vs those where the liability funding requirement is still in the future (partial liability sovereigns). Liability sovereigns generally seek to match their portfolio with the duration of the liabilities they are funding. Those where funding requirements are still well into the future resemble investment sovereigns in their approach; those with significant current funding requirements tend to still have a diverse long-term portfolio but will be more liquid and higher yielding.

Liquidity sovereigns
Liquidity sovereigns operate so they can act as a buffer in the event of economic shocks. They are most commonly located in emerging markets which are prone to exchange rate volatility and/or in resource-based economies which are highly exposed to fluctuations in commodity prices. Because of the priority placed on being able to deploy capital predictably and at short notice. Liquidity sovereigns invest with a much shorter time horizon and with a focus on liquidity ahead of returns.

Development sovereigns
Development sovereigns are only partial portfolio investors. Their principle objective is to promote domestic economic growth rather than achieve an optimal risk/return portfolio trade-off. This is pursued by investing in strategic stakes in companies which make a significant contribution to the local economy to promote expansion and growth in employment. They pursue portfolio strategies with their other assets which are usually influenced by the size and characteristics of their strategic stakes.

Central banks
Central banks have a range of domestic roles in their economy – banking to government, issuance of currency, setting of short-term interest rates, managing money supply, and oversight of the banking system. Central banks also have a range of external facing roles, including managing foreign exchange rate policy and operations, including payments for imports/receipts for exports and government overseas borrowings. Central banks hold substantial reserves to support those functions and ensure they are seen as credible. Those reserves have traditionally been invested with a priority on capital preservation and liquidity.

Figure 6.3
Sovereign profile segmentation

Primary objective	Capital preservation & liquidity	Investment & liquidity	Investment & liability funding	Investment & development	Investment only
Global sovereign segment	Central banks	Liquidity sovereigns	Liability sovereigns	Development sovereigns	Investment sovereigns

Time horizon & illiquidity tolerance →

Invesco

Investment risk

The value of investments and any income will fluctuate (this may partly be the result of exchange rate fluctuations) and investors may not get back the full amount invested.

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Welcome
Key metrics
Theme 1
Theme 2
Theme 3
Theme 4
Theme 5
Appendix