



McGill International Portfolio Challenge

2026 Edition

Euro Super:

Unleashing the Power of Funded Pensions



Disclosure

The case for the 2026 edition of the McGill International Portfolio Challenge was written by the students of FINE 464/664 – Pension Funds and Retirement Systems (Winter 2026), under the direction of Professor Sebastien Betermier at McGill University's Desautels Faculty of Management. Authors of the case include: Jaime Fletcher (lead), Rutger Boelen, Frédéric Deschamps, Krishna Dewan, Amélie Gafri, Jack Garxenaj, Aleksander Idsø, Julian Knight, Adam Langelier, Cassie Liu, Margarita Ramos, Marie-Anne Ramsay, Abhi Saini, Nothando Tyolo, and Yawen Zhang.

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Case Framing

Preface

The 10th edition of the McGill International Portfolio Challenge centers on Euro Super, a fictional national defined contribution pension institution established in Luxembourg.

Europe is ageing. Not just its population, but many of its retirement systems too.

For decades, many European countries have relied on generous pay-as-you-go pension systems built on an implicit promise: each generation of workers would be large enough to finance the one before it. As populations age, workforces grow more slowly, and retirements last longer, that promise is becoming increasingly difficult to keep.

Governments across Europe are already confronting the consequences. Preserving existing pension commitments will require some combination of higher contributions, later retirement, lower benefits, greater public spending, or a fundamental rethink of how retirement is financed.¹

The challenge is not only fiscal. As the Draghi Report argues, Europe also lacks the deep pools of long-term capital needed to finance innovation, infrastructure, and economic growth.² Its pension systems are under growing strain, and comparatively little pension wealth is being accumulated and invested for the future.

Pension reform therefore presents more than a fiscal challenge. It is also an opportunity. The same reform that strengthens a nation's retirement security could help deepen Europe's capital markets.

Luxembourg believes it can do both.

Why Luxembourg, and Why Now?

For decades, Luxembourg's exceptional economic growth concealed the demographic pressures emerging elsewhere in Europe. A rapidly expanding financial sector and a large cross-border workforce generated persistent pension surpluses, allowing the country to accumulate approximately €29 billion (roughly 34% of GDP) in reserve assets through the Fonds de Compensation (FDC).³

Those same workers are now beginning to retire, earlier and for longer, and population growth is not set to keep pace. The ratio of pension contributors to pensioners is projected to fall from approximately 2.3 in 2022 to less than one by 2070—one of the largest projected declines in the European Union.⁴ If left unaddressed, these demographic pressures threaten to shift Luxembourg's pension system from broad balance to large deficit.⁵

The good news is that Luxembourg is approaching this challenge from a position of unusual strength. It has one of the lowest public debt burdens in the euro area, at 26.5% of GDP (vs 87.8% euro zone average), and remains one of only 9 countries worldwide with a AAA credit rating.^{6,7} Luxembourg is also one of the world's leading cross-border investment centres and has a highly international labour market, with cross-border workers representing 47% of employees.⁸

Introducing Euro Super:

Recognizing both the risks facing its own pension system and the broader opportunity to reshape retirement investing in Europe, Luxembourg has chosen to use their fiscal flexibility, reserve base and institutional credibility to lead.

The Government of Luxembourg has chosen to progressively transform its first-pillar pay-as-you-go pension system through the creation of Euro Super: a nationally capitalized investment institution designed to strengthen retirement security, position Luxembourg as a cross-border pension hub, and mobilize long-term capital for Europe.

Euro Super will begin operations on January 1, 2027, as an independent pooled defined contribution (DC) public pension institution responsible for managing and investing three distinct capital streams:

1. Sovereign Pension Reserves

At launch, Euro Super will assume responsibility for the €29.38 billion currently managed by the Fonds de Compensation. These assets will remain collectively owned sovereign pension reserves with the same purpose to act as a sovereign backstop.

2. Luxembourg Member Contributions

Beginning in 2027, the mandatory 8.5% employee public pension contribution will also be redirected into funded retirement accounts administered by Euro Super. These contributions will be attributable to individual members but may be invested collectively to achieve scale, reduce costs, and improve access to institutional investment opportunities.

3. European Pension Contributions

Like its contributing workforce, Euro Super's ambition extends beyond Luxembourg's borders. Seeing an opportunity to invite scale and lead as a cross-border pension vehicle, Euro Super will also establish a pathway for eligible participants from across Europe to voluntarily accumulate portable retirement savings through the institution.

Case Objective

As Luxembourg begins shifting part of its pension system from pay-as-you-go financing toward capitalization, your team has been appointed to advise Euro Super's Chief Investment Officer on how its three capital streams should be pooled and invested to capture the advantages of scale and long-term capital.

Your team must develop a portfolio strategy, or set of strategies, and a portability framework that accounts for Euro Super's uniquely diverse and mobile contributor base.

To guide your proposal, the following two fund characteristics have been established:

Mandate/Mission: Euro Super's mandate is first and foremost to protect the retirement security of Luxembourg's pensioners by preserving the reserve, compounding capital over a multi-decade investment horizon, and managing risk with discipline. Its broader European ambitions must remain subordinate to that responsibility and may be pursued only where they reinforce the fund's core purpose.

Governance: Euro Super will operate at arm's length from government under an independent, skills-based Board of Trustees responsible for overseeing the institution in the interests of its members.

Ultimately, your recommendation should answer the following question:

How should Euro Super allocate and manage capital to safeguard Luxembourg's pension promise while building a resilient and scalable pan-European investment institution?

Europe's PAYGO Pension Challenge & Opportunity

PAYGO Unsustainability

A pension system crisis is looming in the European Union. While there are inherent differences among national retirement systems, the majority of public pensions share a common foundation: they operate on a pay-as-you-go (PAYGO) basis, where current workers finance current retirees. This intergenerational transfer model makes system sustainability highly sensitive to demographic dynamics.

Those dynamics are deteriorating. Life expectancy across the European Union has reached approximately 81.5 years, increasing by more than two years per decade since the 1960s.⁹ Meanwhile, fertility has fallen to a record 1.34 births per woman, well below the replacement rate of 2.1.¹⁰ As a result, the ratio of contributors to beneficiaries is steadily declining, putting pressure on the generous pension systems and threatening their long-term solvency.

Governments have already begun responding through higher retirement ages, benefit reforms, and greater reliance on occupational and private pensions. Yet these reforms largely address the symptoms rather than the underlying structural problem: PAYGO systems remain closely tied to demographic trends that are becoming increasingly unfavourable.

Capitalized Models as a Solution

A structural reform that transitions pension systems from PAYGO regimes to partially capitalized regimes could ease this pressure. Instead of immediately transferring contributions from current workers to current retirees, these systems pool and invest contributions in capital markets to build assets over time.

For workers, this creates assets to support their future retirement and reduces exclusive reliance on future generations. For countries, it creates large pools of patient, professionally managed capital that can be allocated across a broader menu of investments. According to a recent McGill/ALFI study, countries that have adopted capitalized systems thirty years ago have since accumulated two to three times as much risk capital as their PAYGO peers.¹¹ As Figure 1 from the study shows, higher funding levels tend to go hand in hand with greater investment in risk assets.

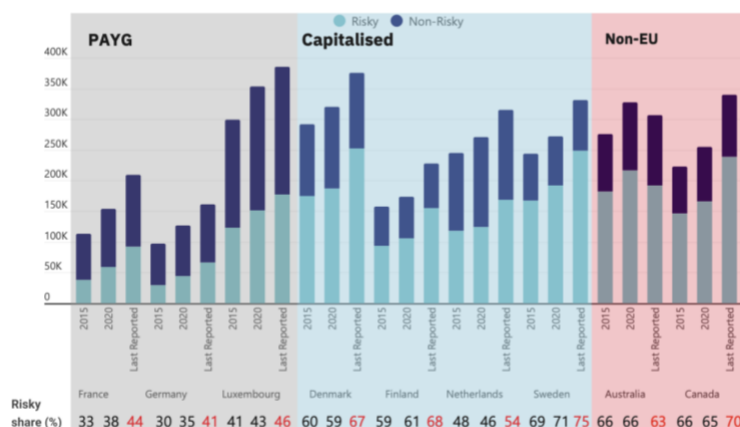


Figure 1: Evolution of Financial Assets Per Active Worker by Risk Allocation (€)

Australia, Canada, Denmark, the Netherlands, and Sweden show what funded pension systems can achieve: sustainable retirement outcomes alongside globally significant institutional investors capable of financing infrastructure, innovation, business formation, and long-term economic growth.¹¹ Estimates suggest that aligning European pension systems more closely with these leading funded models could unlock over US\$1.5 trillion in additional long-term capital for European firms.¹²

Europe's Productive Capital Gap

Europe is striving to increase its investment potential. The Draghi Report argues that Europe requires an additional €750–800 billion in annual investment to strengthen competitiveness, advance the energy and digital transitions, and build economic resilience.¹³

Thus, shifting Euro pension systems from PAYGO transfers towards invested retirement assets places a new institution like Euro Super within a wider European debate. Pension reform is no longer viewed solely as a question of retirement sustainability, but as an opportunity to channel savings to strengthen Europe's capital markets.

However, implementation remains complex. Pension systems, tax regimes, and regulatory frameworks are highly fragmented across member states, making it difficult to coordinate a pan-European solution.¹⁴ Europe has tried—the Pan-European Personal Pension Product (PEPP), for example, was intended to create a portable retirement account mobile across Europe but has so far failed to achieve meaningful adoption or scale.¹⁵ Nevertheless, European leaders continue to call for a successful pan-European long-term pension plan.¹⁶

Luxembourg as a Piece in this Puzzle

Possessing unique expertise in pan-European service, Luxembourg views itself as the blueprint for what a fully unified European capital market could look like.

Through its *Ambitions 2030* strategy, Luxembourg has committed to shaping finance as a transformative force, helping a more competitive EU achieve sustainable growth, foster innovation, and build resilience. Among its key priorities for the next four years are acting as an “Enabler of the Savings and Investments Union” and “Facilitating Long-Term Investment”.¹⁷

It is clear that Europe wants more pension capital and that Luxembourg is prepared to help mobilize it. The question is how much responsibility Euro Super should accept for supplying it.

Luxembourg Deep Dive

Luxembourg's Current Retirement System & Most Recent Reform Effort

Luxembourg operates one of the most generous public pension systems in Europe by OECD standards.¹⁸ High replacement rates combined with low effective retirement ages have helped deliver low old-age poverty and a comfortable standard of living for retirees. This generosity is a central feature of Luxembourg's social contract and an important part of its attractiveness to workers.¹⁹

Like many of its European neighbours, Luxembourg's retirement system is dominated by its public pillar. In Luxembourg, only 14% of employees currently benefit from an occupational pension scheme.²⁰ This leaves most of the workforce reliant on the statutory system and personal savings, underscoring the importance of maintaining a reliable and sustainable system capable of delivering on that pension promise.

Currently, the statutory system is financed primarily on a pay-as-you-go (PAYGO) basis, with system inflows managed by Caisse Nationale d'Assurance Pension (CNAP) and funded through a 25.5% payroll contribution rate, split evenly between employees, employers, and the state.²¹ Historically, strong labour force growth meant this PAYGO system ran an annual contribution surplus that was transferred to the long-term reserve and investment vehicle, Fonds de Compensation (FDC), for a fiscal backstop. The FDC must maintain a reserve of more than 1.5x annual benefits.²² Figure 2 shows the most recent multiple sits at 4.24x.



Figure 2: Evolution of FDC Reserve Level

While the reserve remains substantial, projections point to a reversal and risk of exhaustion in the coming decades.²³ By 2070, the number of pensioners is projected to nearly triple, driving a sharp deterioration in the dependency ratio.⁴ Maintaining a highly generous pension promise against a shrinking contributor base means reserves are increasingly expected to be drawn down.

True to Luxembourg's fiscally responsible reputation, the government already acted. Effective January 2026, a reform raised contributions from 24% to 25.5%, tightened conditions for early retirement, and introduced a gradual retirement to help extend effective working ages from ~59 towards the legal retirement age of 65.²¹

These measures improve the system's near-term outlook, but longer-term demographic pressures remain. As the widening divergence in Figure 3 illustrates, a system forced to consistently spend more than it collects is bound to become unbalanced.

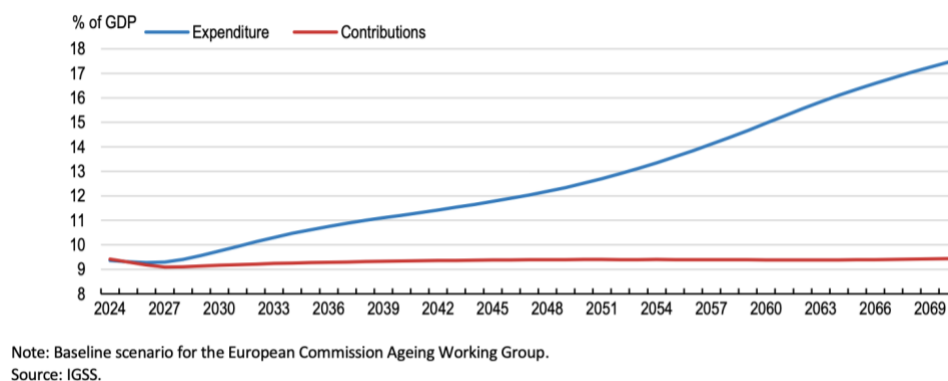


Figure 3: Luxembourg's pension system is on a track from broad balance to large deficit

Unique Cross-Border workforce

Luxembourg's workforce is unusually mobile. Nearly 90% of first-time entrants to the labour market in 2024 were born outside Luxembourg, reflecting both immigration and the presence of more than 180 nationalities.²⁴ Cross-border workers from France, Germany, and Belgium represent approximately 47% of employment, while Luxembourg nationals account for only about one quarter.⁸ Many workers contribute to the system for only part of their careers before returning home or moving elsewhere. Approximately 30% of foreign workers leave Luxembourg's labour market within one year, and roughly half within five years.²⁵

The current pension system accommodates this mobility through partial pensions.²⁶ For example, consider a French citizen who begins their career in Luxembourg, moves to Milan after three years, and then returns to France seven years later until retirement. They would be eligible to receive a Luxembourg pension reflecting their three years of contributions, an Italian pension for their seven years, and a French pension for the remainder of their career.

For Euro Super, this high mobility and weak retention pose an issue. Its success as a funded system depends on contributions remaining invested long enough to compound, meaning frequent exits or withdrawals could weaken its scale and long-term investment horizon. Portability therefore becomes not just a bells-and-whistles feature but a core requirement.

Fortunately, Euro Super's DC structure is naturally portable, allowing savings to follow workers across borders with the option to keep contributing voluntarily.

Finance as an Economic Driver of Luxembourg

Cross-border finance sits at the centre of Luxembourg's economy and international identity. 70% of the world's 50 largest asset-management firms have selected Luxembourg as a primary fund domicile, supporting its claim as home of the global fund industry.²⁷ Luxembourg is also the EU center for cross-border insurance vehicles.²⁴ Taken together, the country already has the infrastructure, expertise, and global networks needed to support an institution like Euro Super.

Home to the Luxembourg Green Exchange (LGX), the world's first platform dedicated entirely to sustainable securities, Luxembourg has also positioned itself at the forefront of sustainable finance.²⁸ In addition, Luxembourg has developed strong alternative-investment and financial-innovation ecosystems, with expertise and a menu of investment opportunities spanning private equity, venture capital, infrastructure, digital assets, and tokenization.

Transition Details

Restructuring Luxembourg's Pension Promise

For the purposes of this fictional case study, assume that, on January 1, 2027, Luxembourg's statutory pay-as-you-go (PAYGO) pension plan will transition into a hybrid model, combining the legacy public defined benefit (DB) plan with a funded defined contribution (DC) component: Euro Super.

Under this new structure, the 8.5% employee contribution will be immediately redirected into Euro Super. This shifts one-third of future accruals away from the PAYGO system, strategically shrinking Luxembourg's unfunded pension footprint over time. Meanwhile, employer and state contributions, each remaining at 8.5%, will continue to fund the legacy DB system. This ensures the public plan still supports roughly two-thirds of the country's historically generous retirement payouts—which currently replace about 75% of pre-retirement income—while Euro Super is designed to generate the remaining third.²⁹

To better illustrate, the treatment of each generation will be as follows:

- **Existing Retirees:** Will experience no change and continue to receive their full pension under the legacy PAYGO system.
- **Current Workers:** Will safely retain all PAYGO benefits accrued prior to January 1, 2027. For all subsequent service, their retirement income will blend the newly adjusted public DB pension with their funded Euro Super DC benefits.
- **New Entrants:** Will participate exclusively in the new hybrid system from their first day of employment.

Financing the Transition

In 2027, pension expenditure is projected to reach roughly €8.1 billion. Employer and state contributions remaining in the legacy system will provide approximately €5.7 billion, leaving an initial annual financing gap of around €2.4 billion.

A central challenge is determining who bears this transition cost. As outlined by the World Bank, workers during the transition face a potential "double burden": they must continue financing current retirees under the legacy PAYGO system while simultaneously contributing to their own funded Euro Super accounts.³⁰ The report contrasts two broad approaches to financing the gap: budgetary financing, through higher taxes or lower public spending, and debt financing through government bond issuance. In the context of Luxembourg's ample debt capacity and recent contribution hikes, it will take the debt financing route. This reduces the immediate double burden on current workers by spreading transition costs across generations, while smoothing tax rates over time.

Figure 4 shows the annual legacy shortfalls over the first 10 years, financed entirely through long-maturity government debt. Under this strategy, Luxembourg's debt-to-GDP ratio is projected to rise to approximately 76%. While this represents a material increase, it remains below the current EU average of approximately 82% and features a viable off-ramp for eventual reduction. Rating agencies affirmed they view this as productive, transitional debt, posing minimal threat to Luxembourg's AAA rating.

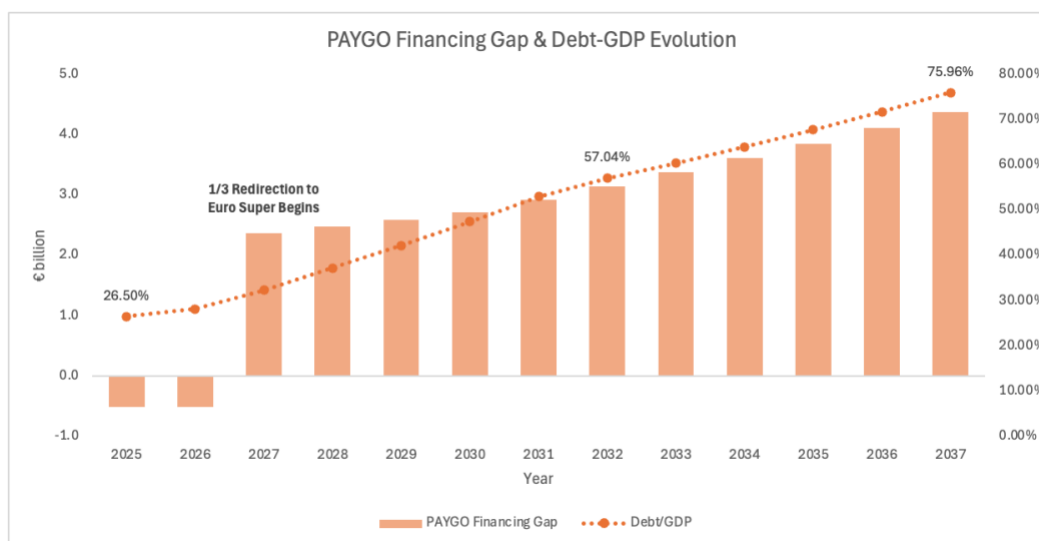


Figure 4: PAYGO gap financed by debt for initial 10 years

Ultimately, this 10-year window gives the transferred FDC reserve time to compound before it may be needed to help cover remaining PAYGO gaps. Whether the strategy improves Luxembourg's long-term fiscal position will depend on Euro Super's investment performance relative to the cost of financing the transition and the fiscal path Luxembourg would face under a fully PAYGO system.

Establishing Capital Funds

Euro Super does not begin with a blank slate. The existing Fonds de Compensation (FDC) reserve, currently worth approximately €29 billion, will be transferred under the Euro Super platform. In addition, the immediate redirection of employee contributions (8.5% of earnings) will provide approximately €2.9 billion of new investable capital in Euro Super's first year. This totals a **€31.9 billion AUM kickoff for Euro Super**.

Table 1 details the FDC's existing asset allocation, providing your team with a starting point for Euro Super. Since 2007, the FDC has generated an annualized return of 5.05%.³¹

Asset Class	Allocation
Equities	47.53%
Fixed Income	42.27%
Money Market	4.76%
Real Estate	5.23%
Infrastructure	0.21%

Table 1: FDC's strategic asset allocation (2025) ³²

With over 47% allocated to fixed income and cash equivalents, the legacy portfolio is relatively conservative for a newly funded pension component with a decades-long investment horizon and no fixed benefit promises. With the reserve shielded from immediate drawdowns during Euro Super's first 10 years, there is a clear case to reconsider this allocation and how much additional investment risk the fund should take in pursuit of long-term compounding.

Beyond the transferred FDC assets and recurring 8.5% Luxembourg contribution stream, Euro Super's largest potential source of additional scale lies in attracting voluntary savings from across Europe. If it proves to be a trusted and efficient vehicle, Euro Super could attract a share of the broader cross-border EU savings market, which the French Treasury's Noyer Report estimates could generate approximately €200 billion in annual inflows for such a product.³³

Taking Insight from Peer Pillar 1 Reforms

Sweden and Denmark show that highly funded public pension systems and robust capital markets go hand in hand. The following two cases provide possible allocation routes to get there. Both are intended solely as illustrative examples of possible approaches, not as recommendations for how Euro Super should be structured.

Sweden – AP Funds

Sweden carried out one of the earliest and most significant pension reforms among Western economies to meet the challenge of ageing. In the 1990s, Sweden radically overhauled its traditional PAYGO defined-benefit system, replacing it with a two-part model designed to remain sustainable at a fixed 18.5% contribution rate.³⁴

Of this, 16% funds a notional defined-contribution (NDC) PAYGO pension, where benefits depend on lifetime earnings, retirement age, and cohort life expectancy. It also features an automatic balancing mechanism: if liabilities exceed assets, for example following the 2010 financial crisis, indexation is automatically reduced until balance is restored.³⁵

Much like Luxembourg's current system, Sweden maintains buffer funds—namely AP2, AP3 and AP4—to sit behind this piece of the system to smooth short-term PAYGO imbalances. Unlike Luxembourg's relatively conservative FDC, these reserves are invested more aggressively, with roughly 77% in equities, private equity, and other non-fixed-income assets at the end of 2025.³⁶

The remaining 2.5% goes to a fully funded premium pension, where individuals bear investment risk and have the optionality to choose their fund based on their risk and strategy preferences. Those who do not actively choose a fund are placed in AP7 S fa, a government-managed fund that aggressively invests 125% in a global equity portfolio during accumulation through leverage, before gradually shifting towards fixed income for retirement.³⁵

Drawing parallels to the reform proposed in this case, Euro Super combines elements of both sides of Sweden's system. The redirected 8.5% contribution stream most closely resembles Sweden's funded premium pension, while the transferred FDC assets originate from a buffer reserve similar to Sweden's AP buffer funds. The Swedish example suggests that a funded component can bear substantial investment risk when the broader system provides a stable income foundation and includes mechanisms to preserve long-term financial balance.

Denmark – ATP

Denmark offers an alternative example of a public pension system combining PAYGO and funded components. Its first pillar comprises (1) the tax-funded, means-tested *folkepension* and (2) ATP *Livslang Pension*, a mandatory, fully funded supplementary lifelong pension.³⁷

ATP's primary objective is to provide every Dane a secure, lifelong income floor. Recently, ~80% of a member's contributions go toward securing a guaranteed nominal payout.³⁸ Whatever is not guaranteed is deemed the bonus capacity. This reserve dynamically dictates ATP's risk tolerance: a larger bonus potential allows for more risk-taking, while a smaller pool constrains it.

This setup directly informs ATP's choice of a two-portfolio structure. The hedging portfolio, representing ~85% of ATP's assets, primarily uses long-term bonds and interest-rate swaps to offset the interest-rate risk embedded in its pension liabilities. Its purpose is to ensure that changes in interest rates do not compromise ATP's ability to pay the pensions it has promised. By contrast, the investment portfolio takes market risk to generate returns, build reserves, manage longevity risk and help preserve the real value of pensions over time.³⁸

Unlike ATP, Euro Super's funded component is defined contribution and carries no equivalent legal guarantee, giving it greater capacity to tolerate market risk. ATP instead offers a useful reminder: investment strategy should begin with the purpose and risk capacity of the capital, rather than with asset allocation itself.

Contrasting the Models: Sweden vs. Denmark

Sweden and Denmark illustrate a successful introduction of funded investment components to state systems to strengthen retirement systems against demographic pressure. Both curbed future fiscal strain, mobilized domestic capital and made their public promises sustainable, yet, they make fundamentally different choices regarding risk and guarantees and thus asset allocation. Denmark's ATP protects a lifelong benefit and therefore has less capacity to tolerate market losses, holding only 30% in risky assets. Meanwhile, Sweden allows funded outcomes to fluctuate, creating greater room to pursue long-term growth reflected in its 81% allocation to risky assets. Luxembourg currently sits between these two examples, with approximately 51% of its assets allocated to risk-bearing investments.¹¹

Trade-Offs

As you develop your proposal, the following trade-offs highlight the core tensions Euro Super must navigate and the decisions your team will need to make.

How much investment risk should Euro Super accept in pursuit of higher long-term retirement outcomes?

Capitalizing one-third of Luxembourg's public pension only creates value if Euro Super can use its long horizon to earn returns that meaningfully improve retirement outcomes relative to continued reliance on PAYGO. Because two-thirds of Pillar I remains PAYGO and the new DC pots carry no fixed guarantees, Euro Super has room to rely less on defensive fixed income and pursue greater exposure to equities, private markets, and other growth assets.

Occupational and private savings (Pillars II and III) remain underutilized, leaving Pillar I to carry most of Luxembourg's retirement-income burden. On one hand, this strengthens the case for taking risk because Euro Super may be one of the few places where households gain meaningful exposure to long-term capital-market growth. Yet it also raises the consequences of underperformance: contributors now bear the volatility associated with those higher expected returns while having fewer retirement assets elsewhere to absorb a prolonged downturn. The same structure that creates room to take greater risk therefore also raises the cost of getting it wrong.

To what extent can Euro Super sacrifice liquidity during its 10-year compounding window through long-term and illiquid assets?

The first ten years of protection from drawdowns create a valuable opportunity for Euro Super to allocate more heavily to long-term and illiquid assets, harvest illiquidity premia, and maximize compounding before demographic pressures become more severe. Keeping too much liquidity during this period could come at a real cost if Euro Super fails to use the window to build the reserve before a deteriorating contributor-to-retiree ratio places greater demands on it.

Yet the reserve is the pension system's fiscal backstop and cannot be treated as fully locked away. A major fiscal or market shock could require support before the ten-year window ends. Euro Super must therefore decide how much liquidity to preserve against uncertain calls on the reserve without sacrificing the long-term return opportunities that the compounding window was designed to create.

Should Euro Super pool its three capital streams into one total portfolio, or maintain separate investment sleeves?

Euro Super's three capital streams create a tension between the portfolio benefits of scale and the need to construct portfolios around different underlying objectives. Fully pooling the

transferred FDC assets, mandatory contributions, and voluntary European capital could broaden diversification, lower costs, strengthen access to private markets, and allow risk and liquidity to be managed across the total fund. Yet the streams differ in their liquidity needs, investment horizons, risk tolerance, and role. If those differences are material, forcing every euro into the same portfolio could produce an allocation that is optimal for none of them. At the other extreme, completely separating the streams could sacrifice many of the scale advantages Euro Super was designed to create. It is up to your team's discretion to establish to what degree the three capital streams of Euro Super will overlap.

Going one layer deeper, the near-even split between resident and cross-border workers raises further portfolio considerations within the mandatory stream. Contributors differ materially in where they live, where they may ultimately retire, the cost-of-living dynamics they face, and the economic risks they already bear. Those differences may still be compatible with one common portfolio, but they may also warrant different approaches to risk, inflation hedging, or geographic exposure.

Whose strategic interests should Euro Super's portfolio ultimately serve?

The reform's central narrative of capital mobilization creates an expectation that Euro Super will act as an economic engine, not only to finance domestic infrastructure and innovation, but also to address Europe's wider investment gaps. Yet its unusual contributor base makes it difficult to determine whose strategic interests should carry the most weight when making geographic, thematic and sectoral allocation decisions.

Luxembourg establishes and ultimately backs Euro Super: the existing reserve sits within the system, the state finances the transition, domestic workers contribute mandatorily, and Luxembourg taxpayers remain exposed to its long-term health. That may lead some stakeholders to expect some domestic benefit from the capital accumulated. This could look like domestic investment in housing, transport, and infrastructure to help address shortages and congestion that constrain Luxembourg's labour-force growth.³⁹ It could also take the form of thematic or sectoral tilts, positioning Euro Super as a flagship institution at the forefront of areas in which Luxembourg is determined to lead, such as sustainable finance. However, these priorities may conflict with Euro Super's fiduciary mandate to protect the retirement security of Luxembourg's pensioners.

Another issue is that Luxembourg-specific priorities may resonate less with nearly half of the mandatory contributor base that lives outside Luxembourg. A broader European orientation might be more inclusive, directing capital toward the investment gaps identified in the Draghi agenda while also strengthening Euro Super's appeal to voluntary European savers. If successful, those inflows would reinforce the fund's scale and investment capacity for all participants.

Now consider the scenario in which Euro Super's voluntary pan-European arm takes off. European savings could eventually exceed the reserve and contributions attributable to

Luxembourg, weakening the case for privileging Luxembourg-specific priorities and creating pressure for wider European interests to carry more weight. Yet those savers participate voluntarily, while Luxembourg contributors cannot simply leave if this proposition no longer interests them. In a loss of confidence, Luxembourg could therefore remain captive to an institution increasingly shaped around participants with greater freedom to walk away.

Should Euro Super continue relying primarily on external managers, or use its starting scale to build greater internal investment capability?

The legacy FDC reserve relies overwhelmingly on external management. Global asset classes, which make up the vast majority of the reserve, are managed externally through a special investment vehicle *SICAV* comprising 27 sub-funds, while less than 4% of assets are managed internally and are all concentrated in Luxembourg.³² This structure is intuitive in a market like Luxembourg, where a deep asset-management ecosystem provides access to a broad menu of funds, specialist managers, strategies and alternative assets without requiring the fund to build those capabilities itself.

However, with roughly €32 billion from inception, Euro Super has a credible avenue to build greater in-house capability. This could become especially relevant if it develops greater strategic exposure to Luxembourg or Europe, where proximity may support direct investment and co-investment. Internalization could lower fees and improve control, but only if those benefits justify building capabilities that Euro Super could otherwise access efficiently through the investment ecosystem in Luxembourg's backyard.

Conclusion

These trade-offs are deeply intertwined, and designing Euro Super will require confronting them carefully rather than considering each decision in isolation. Ultimately, the case asks whether a pension institution can secure retirement outcomes while also serving as a source of patient capital for innovation, productivity, and long-term economic growth.

Report Guidelines

For their proposals, participants should submit a 1-page executive summary and a detailed report. The report should not exceed 7 pages (excluding the executive summary, references, and appendices). Participants are free to format the report as they wish (i.e. no required font, margin, spacing, etc....) The report will be evaluated based on its content, clarity, presentation, and conciseness.

The submission should not contain any indication of the participants' university to avoid any bias from the judges. Instead, participants should create an alternative team name for their investment consultancy firm working with Euro Super. The alternative name should also bear no link to the team's university name nor location to ensure fairness amongst participants of the competition.

Participants are expected to produce a comprehensive proposal for Euro Super that outlines its overall fund strategy and implementation directions in the context of its broader European ambitions. The case is designed to be open-ended. Participants should feel free to make assumptions wherever needed and use any data they see fit. All facts presented in the case merely act as guiding points, so participants are free to incorporate only the sections that they need.

Participants are free to consult external sources, including AI-based tools, when developing their recommendations. The use of such resources does not transfer responsibility for the quality, accuracy, or integrity of the analysis. Participants remain fully responsible for all submitted work and must appropriately acknowledge and cite all sources and tools used.

We strongly recommend that participants look at the 1) YouTube videos of finalist presentations, and 2) the post-mortem documents from previous MIPC editions. These documents will give participants many clues as to what judges look for in winning proposals.

Sources

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