



DC market update: A quarter in review

Q2 2023

Remember our 3 Ds approach to DC investing...



Don't panic...
In the growth phase



Diversify appropriately...
In the retirement phase



Dynamism...
Where it matters

Market Background - Quarter to 30 June 2023

Over April - May 2023 the US Banking Crisis and the potential for contamination within the EU was observed in the currency markets, with \$ weakening against the £.

However, as the quarter progressed, major central bank policies diverged. The US Federal Reserve raised base rates once in May, by 25bps, ending at 5.25%. Investor sentiment was relatively positive as a soft landing scenario in the US became market consensus boosting equity performance, particularly mega- cap tech stocks.

However sticky UK inflation data triumphed over Andrew Bailey. The Bank of England announced two base rate hikes of 25bps (May) and a further 50bps (June), bringing the UK interest rate to 5.0% at the end of Q2 2023, returning stability to Sterling.



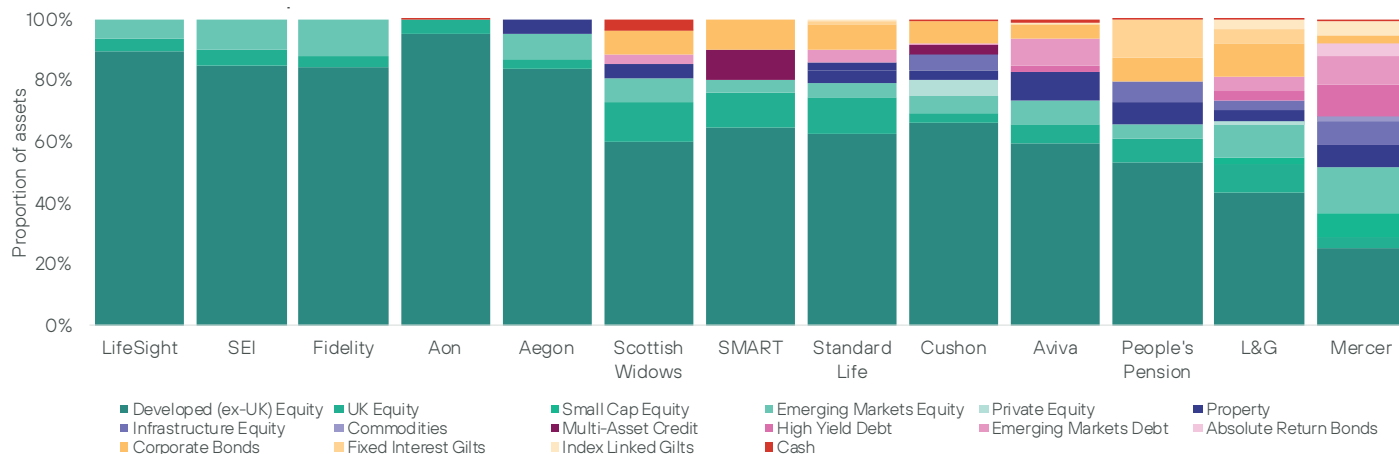
Source: Refinitiv

Growth Phase continues to be driven by equity markets

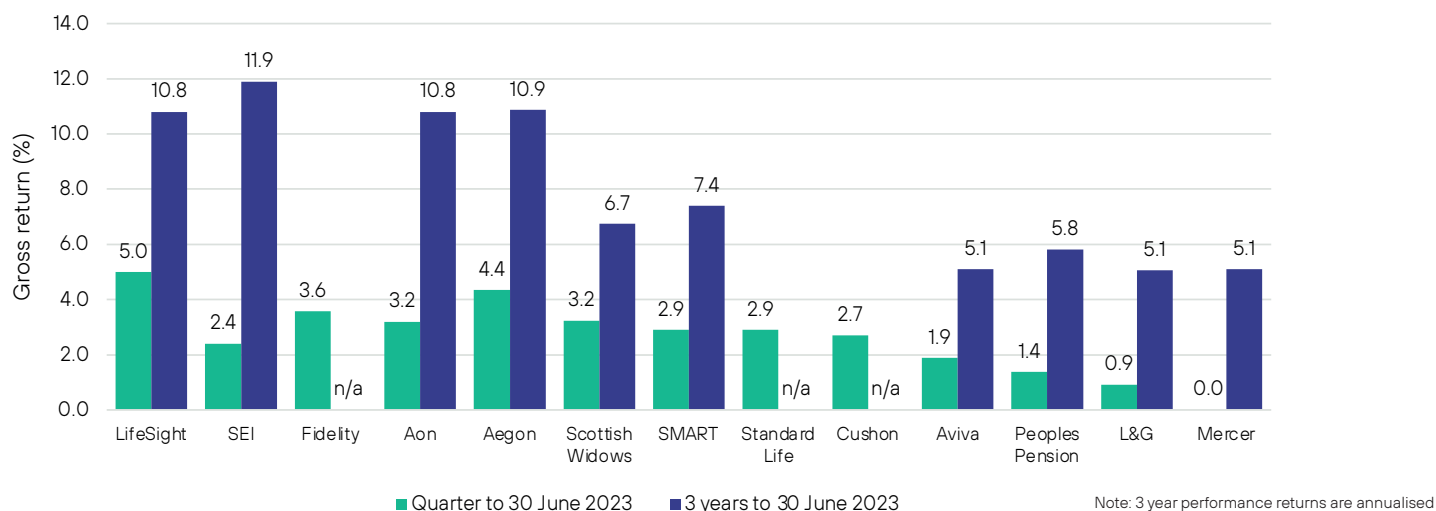
Decreasing equity exposure



Growth Phase - Peer Group Asset Allocation (30 years to retirement)



Performance to 30 June 2023 - Growth Phase (30 years to retirement)



Concentration of equities:

Equities continue to be the main driver of returns within the growth phase. Trustees and Managers should consider their concentration risks, particularly in the US and Technology Sectors, and consider the continued suitability of a market cap position. We believe the smaller differences between Providers will start to receive more attention – key focus areas should be the use of currency hedging, regional exposure and the nature of the indices chosen.



New rate environment:

There are greater opportunities than ever within fixed income, and we believe there is a place for higher returning credit within the growth phase. Trustees and Managers should consider alternate sources of return such as the credit risk and term premium.



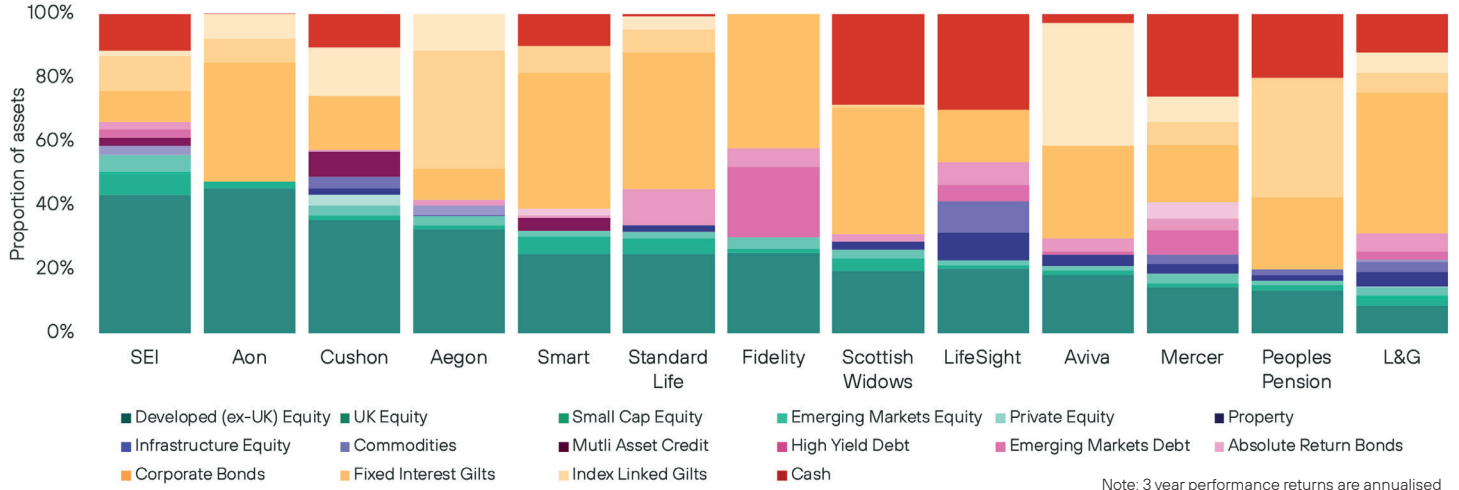
Momentum of private markets:

The Long Term Asset Fund ('LTAF') structure will give even more incentive to enable DC investors to access private markets. We see this as a hugely positive step and the Mansion House Speech demonstrated how important this is. Care is needed to agree fee structures that do not offset the additional risk premium in this asset class.

At-Retirement Phase sees mixed results

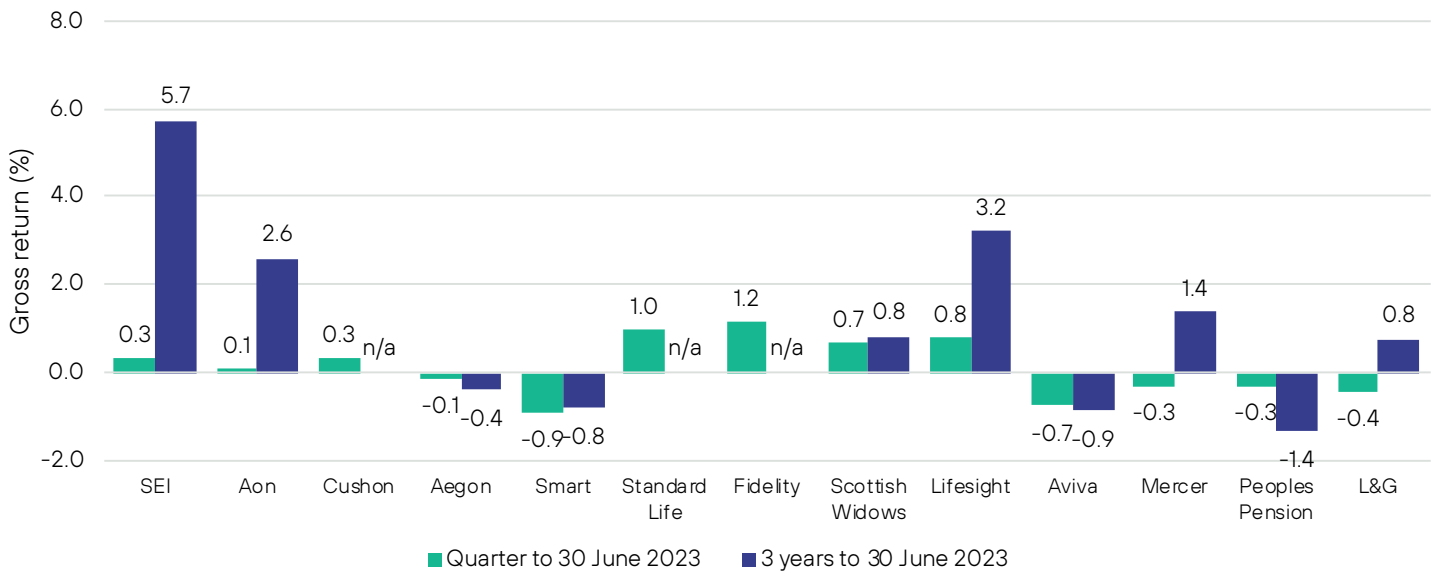
Decreasing equity exposure

At-Retirement Phase - Peer Group Asset Allocation (0 years to retirement)



Note: 3 year performance returns are annualised

Performance to 30 June 2023 - At Retirement (0 years to retirement)



Duration mis-match:

Strategies that hold long-dated gilts face a difficult decision on whether to stick with their duration position or to unwind and potentially miss a great opportunity to capture a maturity premium.



Risk levels trending up:

Allocations to equities and higher returning credit have been increasing over time but without an offsetting increase in lower risk assets. It is important not to lose focus on risk and return fundamentals and we advocate for greater diversification across asset class, maturity, credit and country.



Review outcomes:

Market innovation and the outcome of the CDC Consultation have shone a spotlight on Post-Retirement. In particular, does product innovation (or by combining multiple products) change the way that members will draw their income in retirement? How should this be reflected in product design?

Coming Soon

Look out for our future thought pieces on Currency Hedging and Duration Risk!

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Data sources: DC Providers, Refinitiv, Isio calculations.

Returns shown gross of fees and may be estimated / based on unaudited values.

Past performance is not a guide to future returns.

We have used the following strategies and providers when compiling this report:

Aegon BlackRock LifePath Flexi
Aon Managed Core Retirement Pathway
Aviva My Future Focus
Cushon Sustainable Investment Strategy
Fidelity FutureWise
L&G Target Date Funds
LifeSight Medium Risk Target Drawdown
Mercer Smartpath Target Retirement Drawdown
Scottish Widows Balanced (Targeting Flexible Access)
SEI Flexi Default Option
Smart Pensions Growth Moderate
Standard Life Sustainable Multi Asset Strategy
The People's Pension – Balanced Profile

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