March 2024

DC market update: A positive end to the year

Remember our 3 Ds approach to DC investing...

Don't panic...
In the growth phase

Diversify appropriately...
In the retirement phase

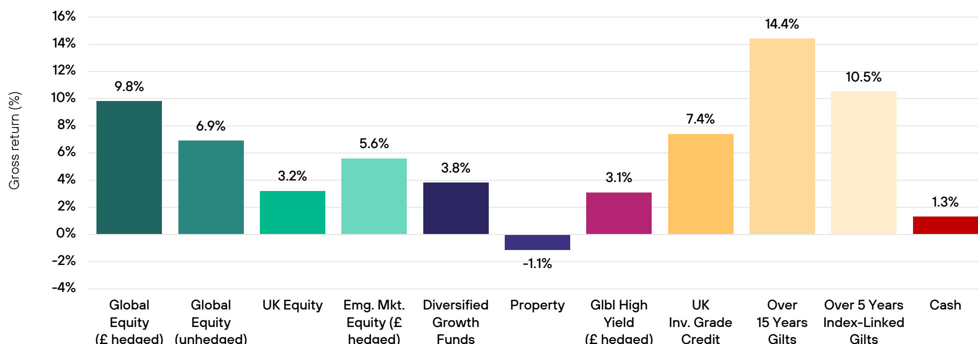
Dynamism...
Where it matters

Market Background – Quarter to 31 December 2023

Growth markets delivered strong positive returns over Q4 2023, largely due to increasing hopes that interest rate hikes had peaked and expectations that the Bank of England and the Federal Reserve could accelerate rate cuts in 2024.

However, the UK market lagged overseas equities over the quarter. This was largely driven by weakness in larger multinational companies with overseas revenue exposure, as Sterling strengthened against the US Dollar.

Over the quarter credit markets rallied, with both Global High Yield and UK Investment Grade Credit performing positively, as yields fell and credit spreads narrowed. Declines in long dated gilt yields resulted in positive Government Bond performance.



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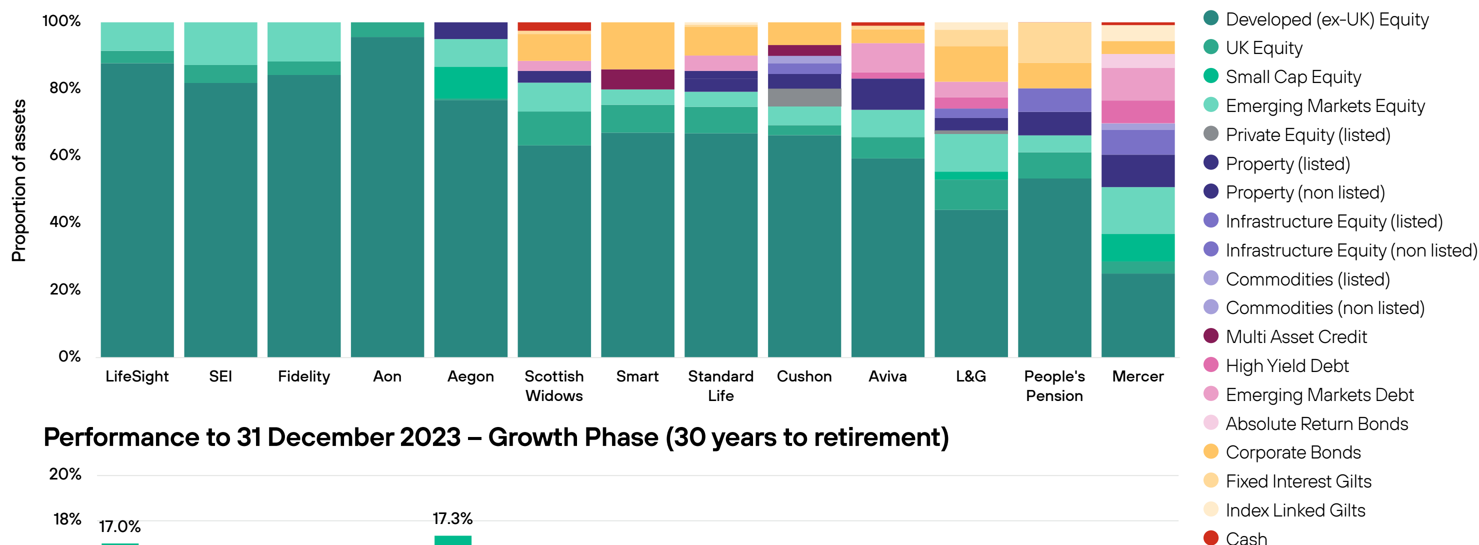
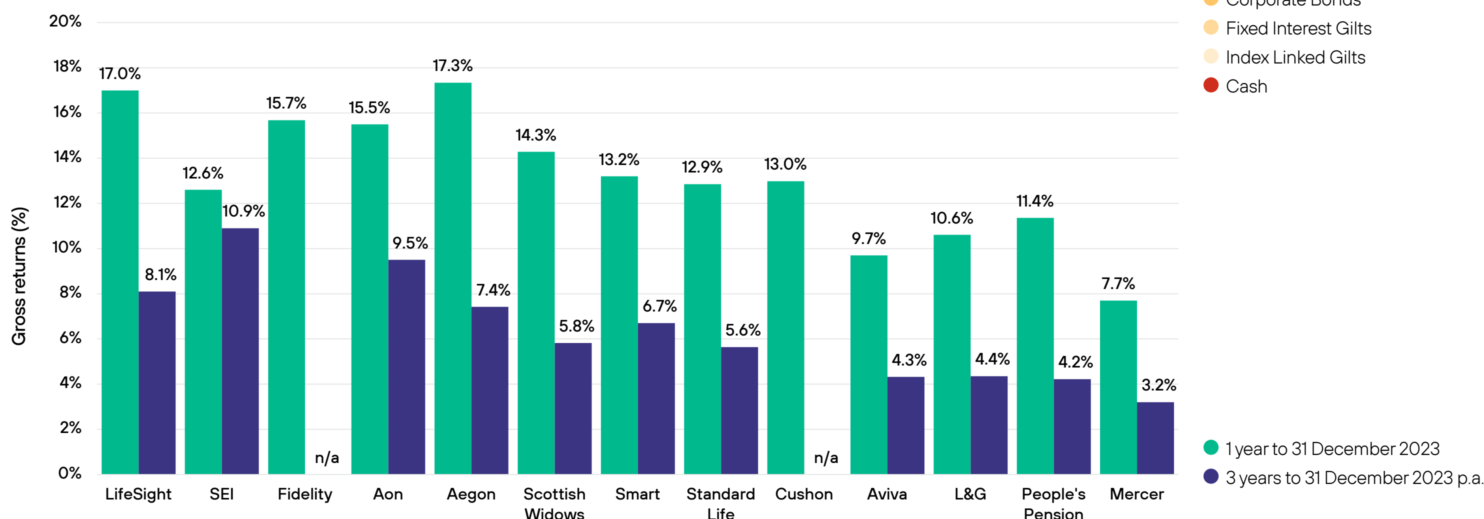
Growth Phase – equity continues to drive returns, but be wary of concentration risk

Decreasing equity exposure

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



Performance to 31 December 2023 – Growth Phase (30 years to retirement)

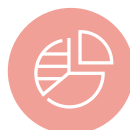


All aboard the equity train?

Equities continued their strong run up to the end of 2023 (and into early 2024) so providers with higher equity content performed better. However, there are still some subtle differences within the all-equity strategies such as:

- exposure to US stocks
- level of UK bias;
- approach to currency hedging;
- degree of ESG integration.

We have seen a number of providers increase equity exposure in 2023 (with more expected in 2024). Whilst we are supportive of taking greater risk in the growth phase, there is potential for a herding mentality to unfold in the market.



Diversification isn't dead:

Trustees and Governance Committees should consider their equity concentration risk going forward, particularly in the US Technology sector that is driving strong returns.

We still believe longer-term opportunities exist in other asset classes (such as infrastructure, property, higher-returning credit and private markets) in order to better diversify and to reduce long-term volatility in the growth phase.

Unlocking private markets:

Last year's Mansion House Compact has accelerated the market's thinking on private market investing. Some providers have already made sizeable allocations to private assets (Cushon, Smart) whilst others are expecting to dip their toe in the water soon. We expect private assets to become a real differentiator over 2024.

We expect the market will diverge between those providers who introduce smaller allocations within their current default and those who launch new defaults with more substantial allocations, albeit at a higher price point – and some who choose to do both!

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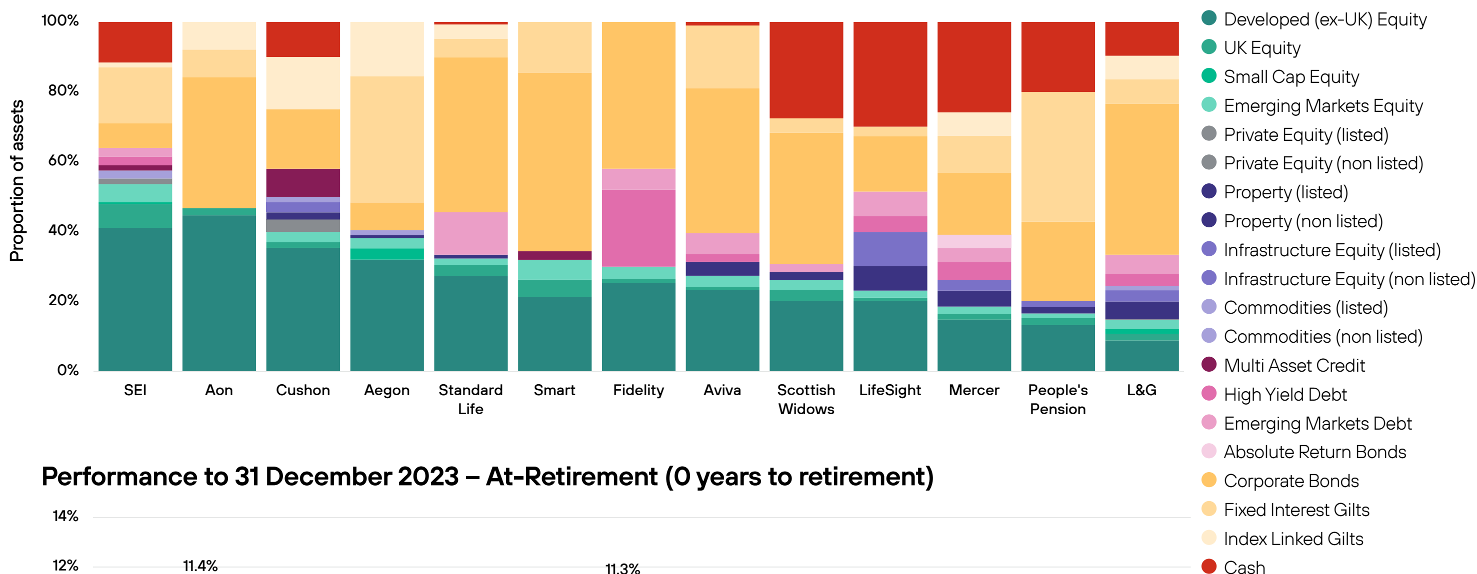
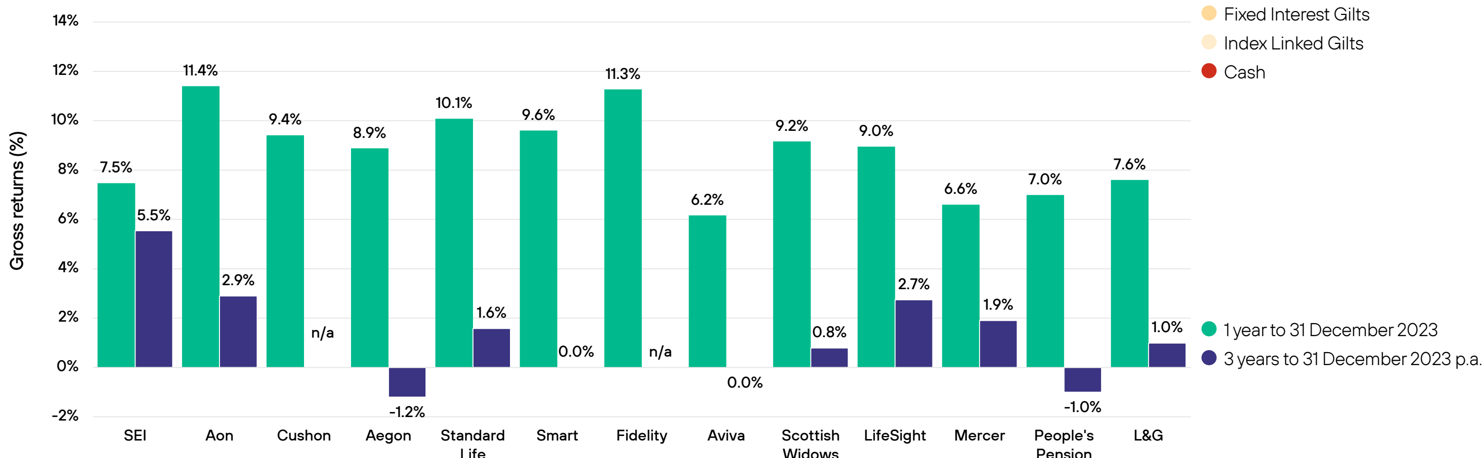
At-Retirement Phase – a strong end to the year and improving long term returns

Decreasing equity exposure

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



Performance to 31 December 2023 – At-Retirement (0 years to retirement)



Strong annual returns:

With both equities and bonds delivering positive annual returns, all providers have delivered healthy returns over 2023. Most members approaching retirement should have seen an up-tick in their pension pot, with those providers taking greater equity risk being better rewarded and those with larger cash allocations lagging.

Longer term returns slower to recover:

In contrast, three-year performance is more muted as provider returns continue to be hampered by the challenges linked to the 2022 gilt crisis, with few providers delivering above inflation returns. In the wake of 2022, we have seen a number of providers make key strategic changes – including reducing gilt exposure, shortening duration and increasing inflation linkage.

To-and-through is trending:

We see the market diverging on post-retirement solutions – from some providers offering more basic solutions which combine existing products, to those providers who are looking to deliver a more comprehensive, sophisticated solution with a focus on long-term stable and sustainable income. We see this as another key market differentiator for the year ahead.

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Key market developments to look out for

- Spring Budget fallout
- VfM and UK investment disclosure requirements
- Run up to UK and US elections

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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