

Isio DC Provider Market Snapshot

Q4 2024

Our 3 D's approach to DC investing

Don't panic...
In the growth phase

Diversify appropriately...
In the retirement phase

Dynamism...
Where it matters

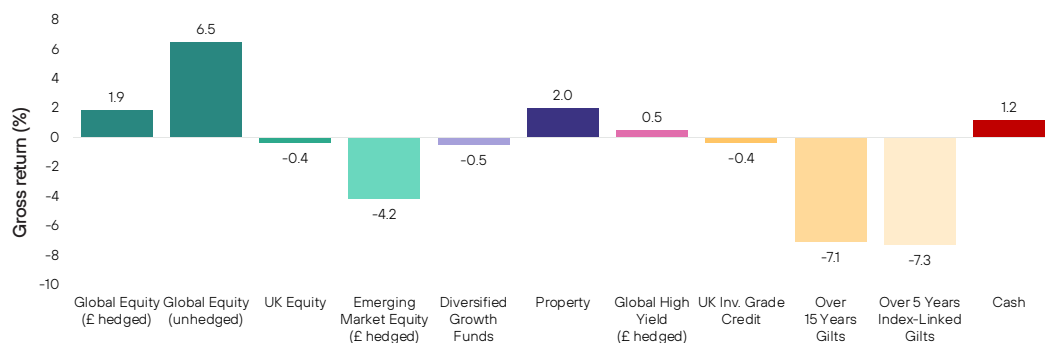
Market Background – Quarter to 31 December 2024

Q4 2024 saw mixed returns across asset classes as market volatility continued, influenced by a mix of economic data and geopolitical tensions.

Global equities delivered strong returns, with US equities reaching record highs in November following Trump's victory and expectations of lower taxes and reduced regulation. Emerging Markets were negatively impacted over the quarter by a stronger dollar and higher US Treasury yields.

High yield bonds outperformed their investment grade counterparts, meanwhile UK investment grade bonds delivered a modest negative return over Q4, hampered by expectations of a looser fiscal outlook for the UK.

UK gilt yields rose over Q4 in response to the planned increase in Government borrowing, which was announced in Labour's October budget. Additionally, concerns remain about the UK economic outlook, with the prospect of higher-for-longer inflation.

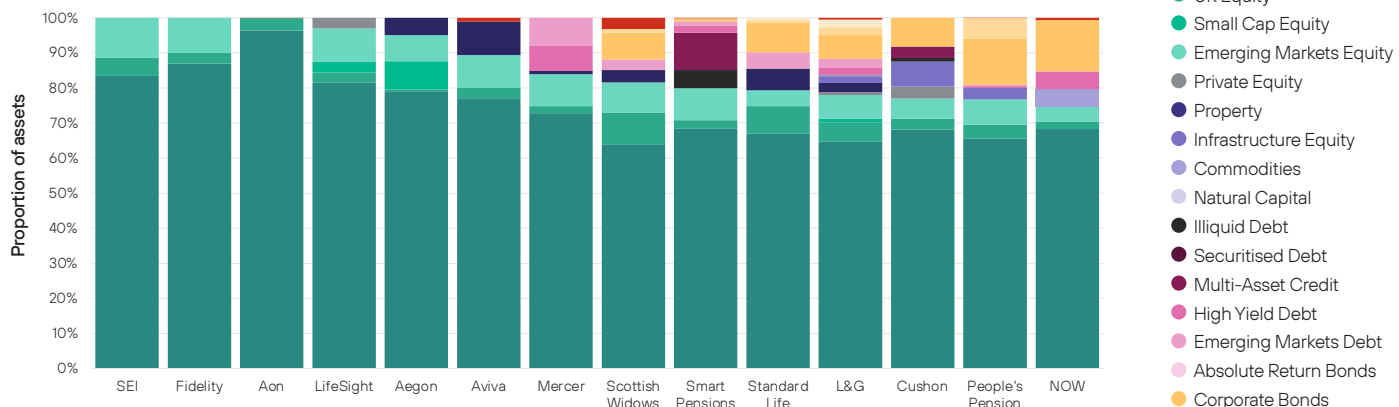


Source: Refinitiv, DGF investment managers, Isio calculations.

Growth Phase: Balancing equity returns with concentration risk

Decreasing public equity exposure

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



Source: Providers, Isio calculations. Note: longer-term performance not available for some providers due to strategy inception date / material change to underlying funds

Performance to 31 December 2024 – Growth Phase (30 years to retirement)



Source: Providers, Isio calculations. Note: longer-term performance not available for some providers due to strategy inception date / material change to underlying funds



Risk assets rally with US equities leading the charge

2024 was another strong year for risk assets as global equity markets outperformed other asset classes by a significant margin, continuing the trend of robust returns seen in 2023. In the US, equity performance was supported by strong earnings figures, interest rate cuts, and the re-election of Donald Trump in November. In contrast, UK and emerging market equities delivered more subdued performance.

This culminated in an exceptional year for all equity strategies, fuelled by the relentless rally in US stocks. Conversely, diversified strategies demonstrated a more measured advance. Although they still posted strong double-digit returns over the year – typically considered excellent – they lagged all-equity strategies by over 5%.

The concentration conundrum

With the 'Magnificent Seven' stocks now making up c.23% of global equity indices, concentration risk is a key consideration for investors. While these tech giants have delivered superior returns over recent periods, their dominance raises concerns about overexposure.

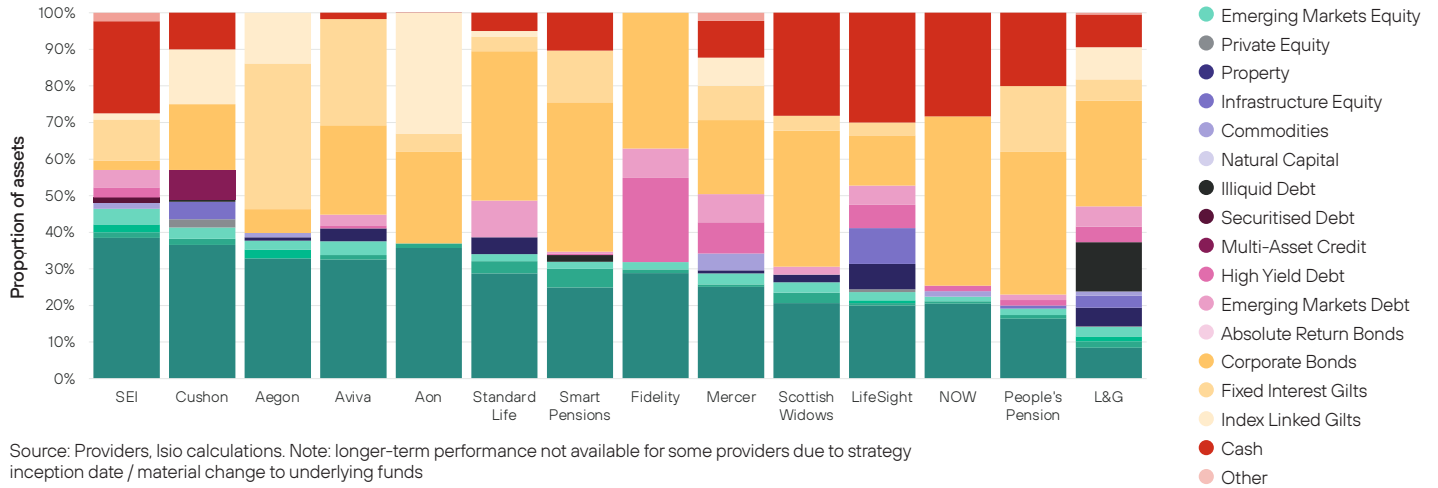
Given a limited number of companies often drive the bulk of equity market returns, missing out on the big winners can be more detrimental to a portfolio than avoiding a few losers.

Balancing the allure of high returns with the risk of concentration is the conundrum facing investors today. We are seeing DC Providers consider alternative forms of diversification within their equity portfolio – including the use of currency hedging, factor-investing and allocations to small cap stocks. We recommend DC schemes review their concentration risk in 2025, as well as considering alternative long-term diversifiers, including illiquid and private market assets.

At-Retirement Phase: Keeping-up with a dynamic investment landscape

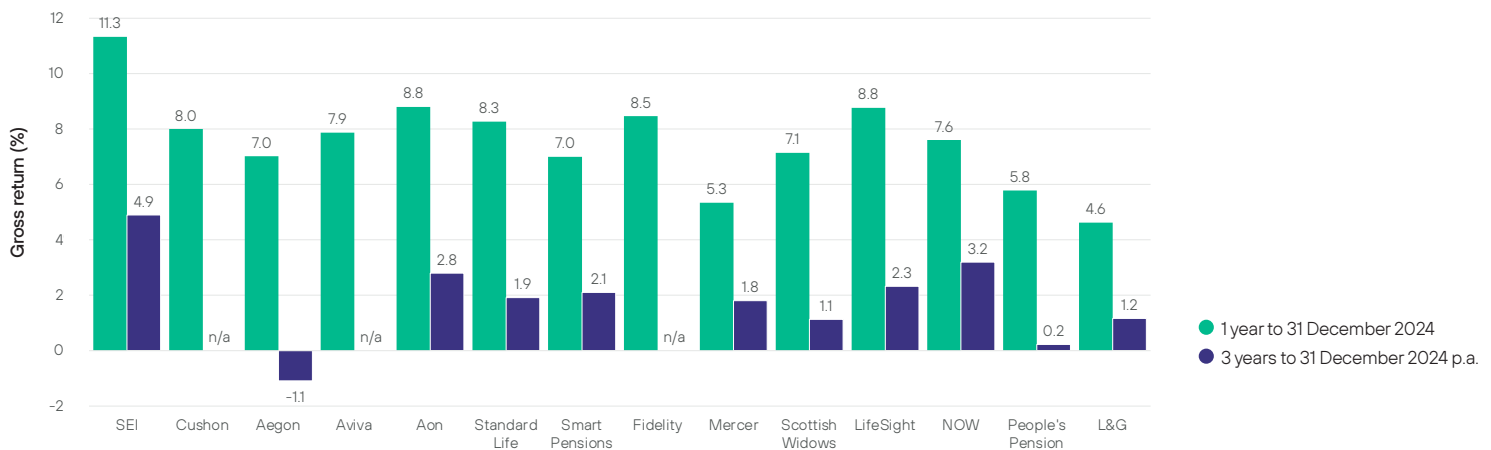
Decreasing public equity exposure →

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



Source: Providers, Isio calculations. Note: longer-term performance not available for some providers due to strategy inception date / material change to underlying funds

Performance to 31 December 2024 – At-Retirement (0 years to retirement)



Source: Providers, Isio calculations. Note: longer-term performance not available for some providers due to strategy inception date / material change to underlying funds



Divergence in retirement returns

Over the past three years, the performance across Providers in the at-retirement phase has shown significant dispersion, with returns varying by up to 6% per annum. This is especially notable given that a higher proportion of defensive assets is typically held at retirement. Providers with larger allocations to gilts and long-duration credit assets have faced challenges, as these asset classes delivered negative long-term returns due to rising gilt yields.

However, the market now anticipates multiple rate cuts in 2025. This shift suggests that duration-sensitive assets could rebound, potentially reversing the adverse trends of recent years. Consequently, Providers with higher allocations to these sectors could see a boost, offering hope for improved performance and a more stable retirement phase for their members.

The role of illiquid assets throughout the glidepath

As noted in our recent [illiquid assets paper](#), DC Providers are fast evolving their plans for including illiquid assets within their default strategies.

Whilst most Providers are currently focusing on the growth phase of their glidepath – where greater allocations to private equity are designed to maximise potential returns – most Providers have indicated that they also see illiquid assets as playing a key role in the de-risking phase.

As savers transition to the retirement phase, the focus shifts to income-generating assets. We expect infrastructure, property and private credit to look more attractive, providing steady income streams and stability to members. By strategically allocating to different illiquid asset classes during different stages of the DC glidepath, Providers can balance growth aspirations with income needs, paving the way for better outcomes for members.



Key market developments to look out for

- Outcomes of the Mansion House 'unlocking the UK pensions market for growth' consultation
- Illiquid Assets: Isio research paper – part 3
- The anticipated launch of the new Value for Money framework

Disclaimers

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
NOW: Pensions
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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