

Isio DC Provider Market Snapshot

Q1 2025

Our 3Ds approach to DC investing



Don't panic...
In the growth phase



Diversify appropriately...
In the retirement phase



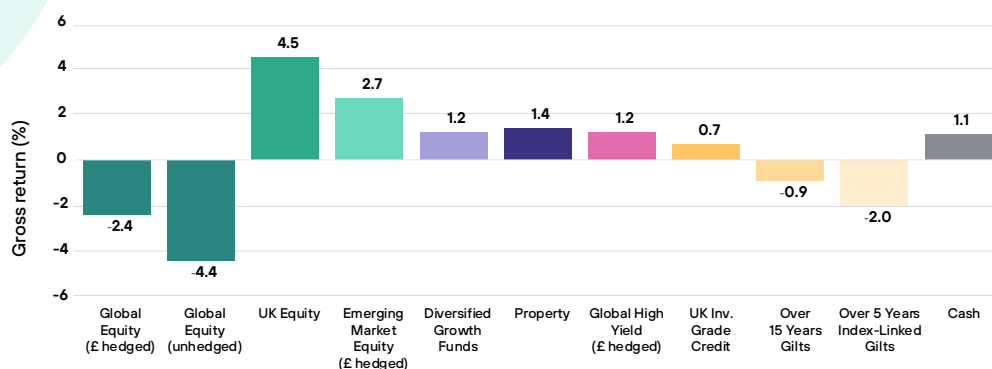
Dynamism...
Where it matters

Market Background – Quarter to 31 March 2025

Equity performance was mixed, with the UK and Emerging Markets delivering positive returns while Global Equity returns were negative, primarily in the US, driven by mounting trade policy concerns, weaker US economic data, and uncertainty around President Trump's aggressive tariff policies.

UK gilt values fell in Q1 as yields rose, mainly as a result of domestic concerns over the UK's fiscal health, persistent inflation, a weaker growth outlook and increased fiscal issuance. With a lower sensitivity to interest rates than Government bonds, Corporate and High-Yield bonds both outperformed UK gilts, while High-Yield also benefitted from its higher carry (income yield).

UK commercial property continued its recovery, despite a fall in transactional activity over Q1, with the office sector delivering its best quarterly performance in almost two years.

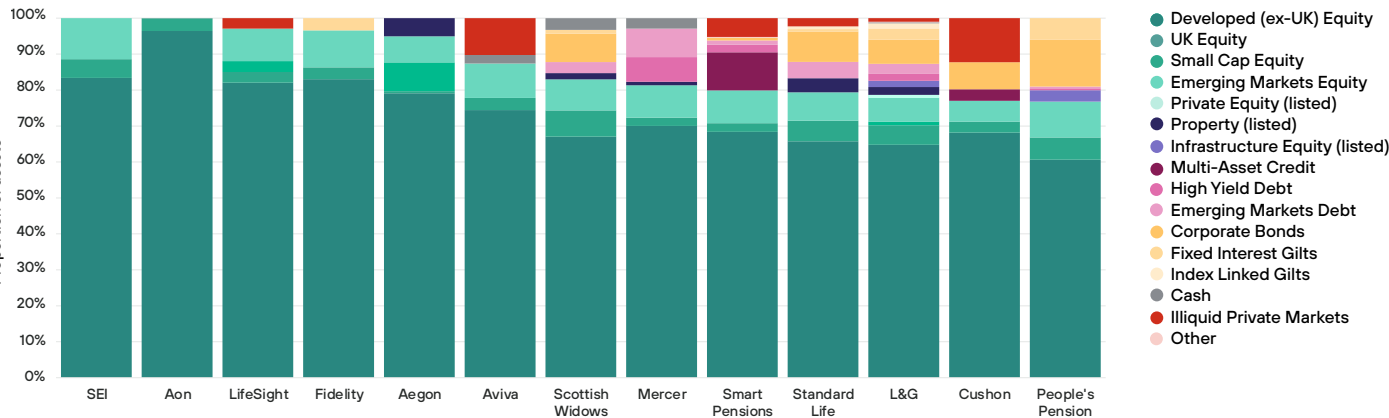


Source: Refinitiv, DGF investment managers, Isio calculations.

Growth Phase

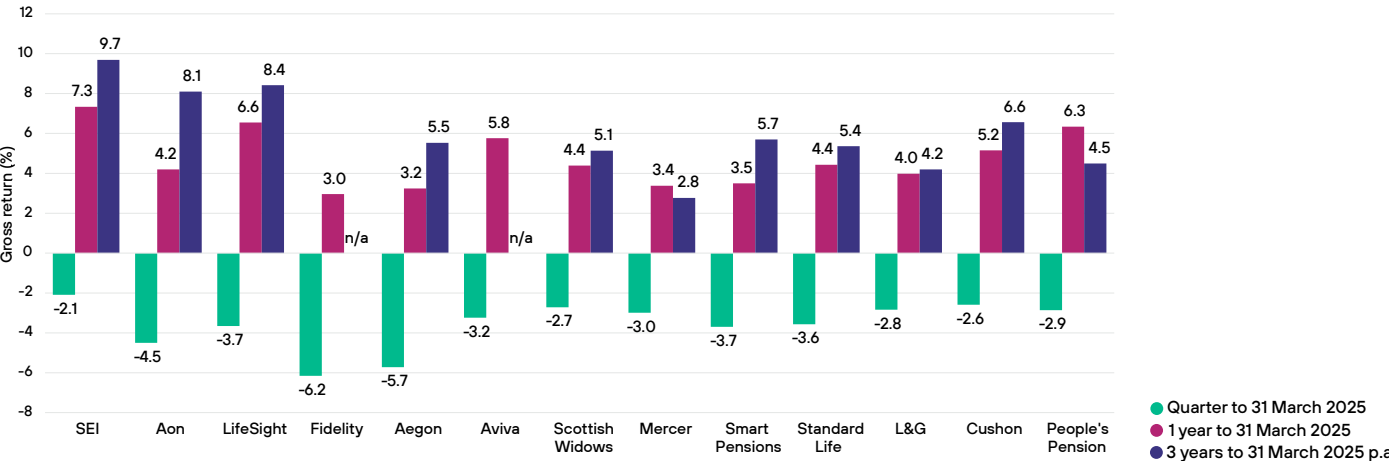
Decreasing public equity exposure

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

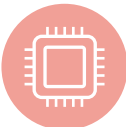


Source: Providers, Isio calculations. Note: longer-term performance not available for some providers due to strategy inception date / material change to underlying funds

Performance to 31 March 2025 – 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



AI shaking up markets

The year began on a high, buoyed by a strong finish to 2024, with optimism around continued AI breakthroughs and pro-business policies. However, this momentum proved hard to sustain with the US market priced for perfection.

Events soon took a sharp turn as China shook the AI landscape with DeepSeek, an advanced model reported to rival OpenAI at significantly lower training costs. Adding to this, rising tariff uncertainty, rather than expected pro-business policies, dampened sentiment, fuelling fears of slower US growth and higher inflation.

Investors fled to safety, triggering a sell-off in US equities, a rally in gold, and a shift away from US markets. The slide in mega-cap US tech stocks underscored the concentration risks we highlighted previously, with equal-weighted global indices outperforming their market cap-weighted counterparts. Ultimately, concentration risk largely remains as the "Magnificent 7" global market weight fell c.3% to 20.6% at the end of the quarter.

Diversification and active strategies outperform

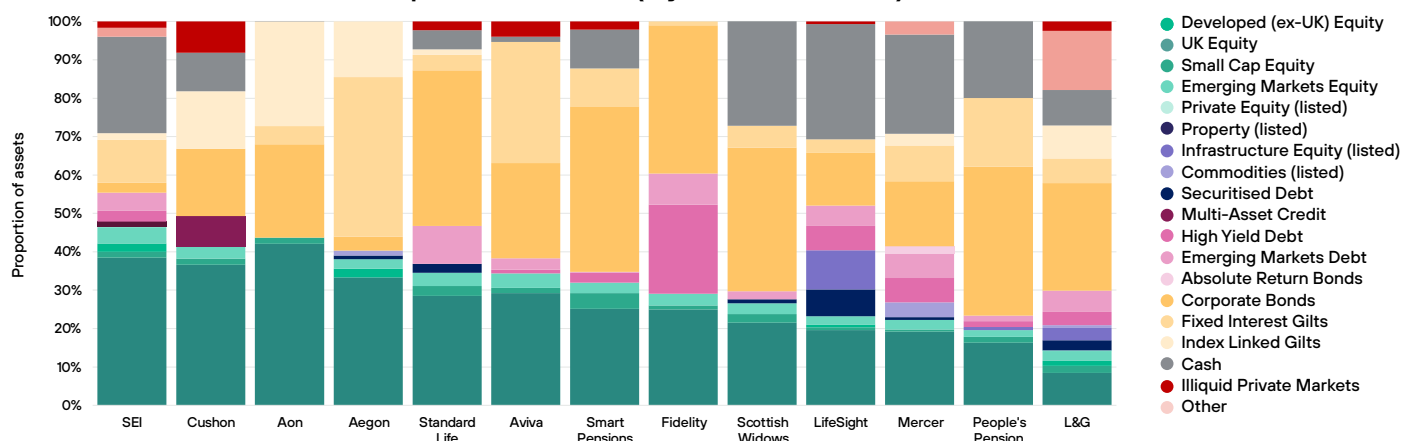
Broadly, strategies with greater allocation to equities saw weaker performance over the quarter, and more diverse strategies provided some downside protection. However, it is worth noting that a couple of the all-equity provider defaults, performed better, primarily due to their regional equity allocation and an underweight position in the US market that was beneficial.

Looking at the longer term, higher equity allocations have continued to deliver stronger returns. Interestingly, one of the early adopters of private markets, despite maintaining one of the lowest equity allocations and incorporating defensive assets, has outperformed the peer group average over all time periods.

At-Retirement Phase

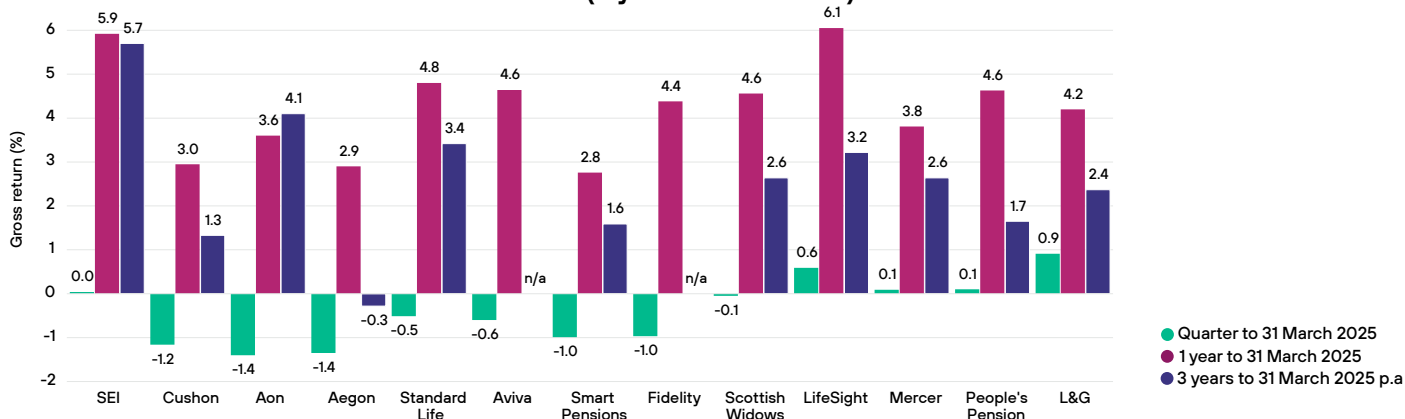
Decreasing public equity exposure

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

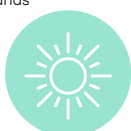


Source: Providers, Isio calculations. Note: longer-term performance not available for some providers due to strategy inception date / material change to underlying funds

Performance to 31 March 2025 – 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



De-risking provides protection for older members

Over the quarter, UK gilt yields saw little overall change, despite facing turbulence in March as government finances once again came under scrutiny. Investors experienced modest negative total returns, with shorter-duration gilts outperforming longer-dated counterparts. Similarly, UK corporate bonds and high-yield bonds delivered positive total returns, offering a degree of stability amidst market fluctuations.

These returns have played an important role in safeguarding older members' wealth as they approach retirement. Over the quarter, retirement-phase performance was largely flat, but notably outperforming the growth phase and protecting DC pot values in the de-risking stage of strategies. Those adopting a more defensive investment approach—characterised by higher allocations to cash and lower exposure to equities—generally fared better, demonstrating the value of risk-averse strategies in periods of market uncertainty.



Managing duration risk

In the at-retirement stage, duration risk plays a critical role in aligning investment outcomes with member needs. Duration risk refers to the sensitivity of asset values to changes in interest rates – a factor that can significantly impact the affordability of annuities or other retirement income solutions. In recent years, there appears to have been a shift towards shorter-duration assets, initially driven by concerns about the potential for rising interest rates and the desire to reduce volatility as members approach retirement.

However, adjusting duration levels is not always straightforward, particularly for schemes heavily invested in passive strategies. Passive funds track broader market indices, limiting the provider's ability to tailor underlying exposures to manage duration risk effectively. This inflexibility can pose challenges in matching assets with evolving member profiles or market conditions.

To address this, some providers may explore using shorter dated passive strategies, incorporating active management, hybrid approaches, or utilising overlays to achieve the desired risk profile.



Key market developments to look out for

- The Mansion House Accord
- Impact and recovery from Trump's tariffs
- Progression of decumulation solutions

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
Scottish Widows Lifetime Balanced Growth
SEI Flexi Default Option
Smart Pensions Growth Moderate
Standard Life Sustainable Multi Asset Strategy
The People's Pension – Balanced Profile

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