

DC Defaults and Illiquid assets

The Journey continues...

May 2026

isio.

We are one year on from our previous paper in this series, 'Illiquid Assets – further insights on the DC Master Trust market', which set out UK master trust providers' early plans for incorporating illiquid assets into DC default strategies.

Since then, the debate has shifted quickly from 'should we?' to 'how do we do this well?'. For trustees, IGCs and governance committees, the critical question is no longer whether private markets can play a role, but whether the chosen approach is operationally robust, suitably liquid, appropriately priced and genuinely capable of improving member outcomes net of fees.

In this latest paper, we review where the UK master trust market has landed and how plans have evolved over the last twelve months. Our analysis draws on desktop research and a structured survey of UK DC master trust providers, with findings reflecting plans and disclosures as at the start of 2026 (noting these continue to evolve). It is worth noting that the findings in this paper reflect providers' longer-term *target allocations* to illiquids, rather than any current/interim positions.



The key themes that come out from our analysis are set out below:



Rise of the single default: A majority of providers are now moving forward with just the one default with a material allocation to illiquids.



Larger target allocations to illiquids: Relative to twelve months ago the average target allocation to illiquids has increased in the growth phase, with a number of providers now also introducing illiquid allocations at retirement as well.



Definitely not "one size fits all": We are still seeing a variety of different implementation approaches being adopted, whether that be in terms of the asset classes invested in, the vehicles used or the type and number of managers appointed.



Implementation matters are not getting enough focus: We continue to believe that the market is not focusing enough on how illiquid portfolios are implemented. The implicit assumption from most market commentary is that allocations to illiquids will improve member outcomes. We believe they have the potential to do so if done well, but there are still serious unanswered questions and challenges over how the provider market is moving forward.



It is notable, however, that after several years of UK DC default strategies converging on similar themes (i.e. higher equity allocations, shorter de-risking journeys and reduced reliance on cash at retirement), differences in how providers implement illiquid assets – and the outcomes they expect to deliver – now have the potential to become a genuine point of differentiation within the market.



This paper explores providers' ambitions in this space and illustrates how providers are all on different stages of that journey. One thing that remains consistent however across all of this is our view that *how you implement private markets will be key to success, not the decision to invest in the first place. We touch on this more at the end of the paper.*

One default or two?

At the outset of providers considering illiquid allocations, there was a lot of debate about whether providers would offer one default with an allocation to illiquids, or go down more of a "Core" and "Additional" route with minimal to no allocation to illiquids in a "Core" offering and an allocation to illiquids in the "Additional" offering.

At the time of our paper twelve months ago, the market was evenly split with the majority solution being the "Core / Additional" route as providers in general were nervous about how the market would react to the additional cost and complication that the introduction of illiquids could bring.

More recently, we have seen a change in positioning in the market around this (as shown in the charts below) which seems to be gathering pace. In particular:

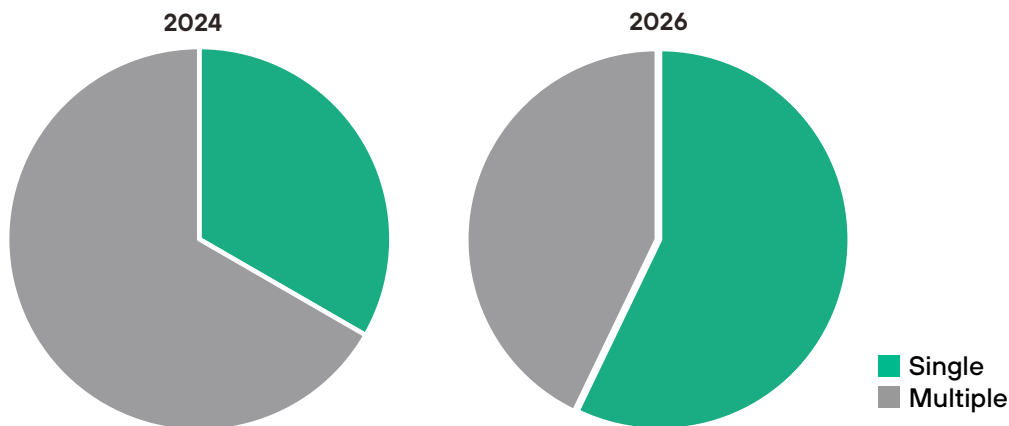


The majority solution (as shown by the charts below) is now the "one default" approach with an allocation to illiquids as opposed to the "Core / Additional" route.



For those maintaining the "Core / Additional" route, most providers also now either have an allocation to illiquids in their "Core" default or are considering whether to introduce one.

Preference for Single or Multiple default approach:



Isio view

Our preference would be that if a provider has a strong view on illiquids then they should ideally have a single default with illiquids in it, provided it can be implemented well. We are aware however that this is an emotive topic and we understand why some providers commercially have gone down the Core and Additional route. Concerns over materially changing strategies that members are already invested in, either from an asset allocation or fee perspective, have potentially been the key commercial drivers here. In addition, providing two options does give the end buyer (e.g. an employer or a member) a choice if they are still to be convinced by how providers are investing in illiquids within their default.

Our focus however is more on *how* the illiquids are implemented versus whether to invest in them or not, as we think this is the more pertinent question. If implemented well, we believe illiquids have the potential to improve member outcomes. However, we believe there are still some serious challenges around how some providers are implementing their illiquid allocations. We caution against diving head-first into an illiquid allocation without proper consideration and challenge around these implementation issues. More on this later.

Is size a key factor?

Relative to twelve months ago we are seeing two main trends when it comes to the size of allocations:

Growth phase



In the growth phase (for younger members), target allocations are increasing across the board. For 'additional' defaults, the average target allocation is now 21% versus 18% twelve months ago, and for those offering a single default it has increased marginally from 10% to 12%. In conjunction with this, we note that providers have since evolved their plans with more opting to retain a single default.

At these weights in an overall portfolio, illiquids have the ability to 'make or break' the strategy, either helping to deliver improved member outcomes at retirement, or, if implemented poorly, hurting members' outcomes. Later in this paper, we provide more detail on how Isio will be rating and reviewing illiquid allocations to help schemes/trustees/employers effectively judge the quality of their illiquid allocation.

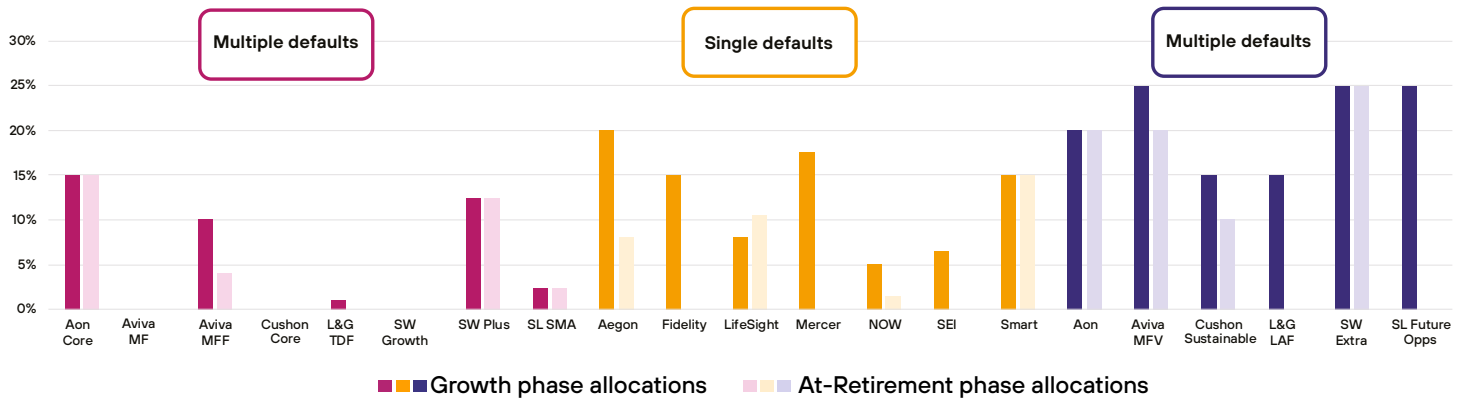
At-Retirement phase



Another development relates to providers' plans to include illiquid assets throughout the glidepath, in particular including the pre-retirement phase in addition to the growth phase, which has historically been the main focus area. Twelve months ago, only 7 out of 13 providers had plans to maintain an illiquids allocation in the run up to retirement (however some of these include existing property allocations). This has increased to 9 out of 13 as of today and we expect to see this increase further.

The chart below provides more information on the current picture. It shows the target allocation for illiquids for each provider in the growth phase (darker bar) and at-retirement phase (lighter bar). The chart is also split into those providers offering a core (pink bars) and additional (blue bars) default, and those offering a single default (yellow bars).

Allocation to illiquids across DC defaults



Please note: A few providers plan on offering three defaults. Where this is the case, two defaults have been shown as Core.

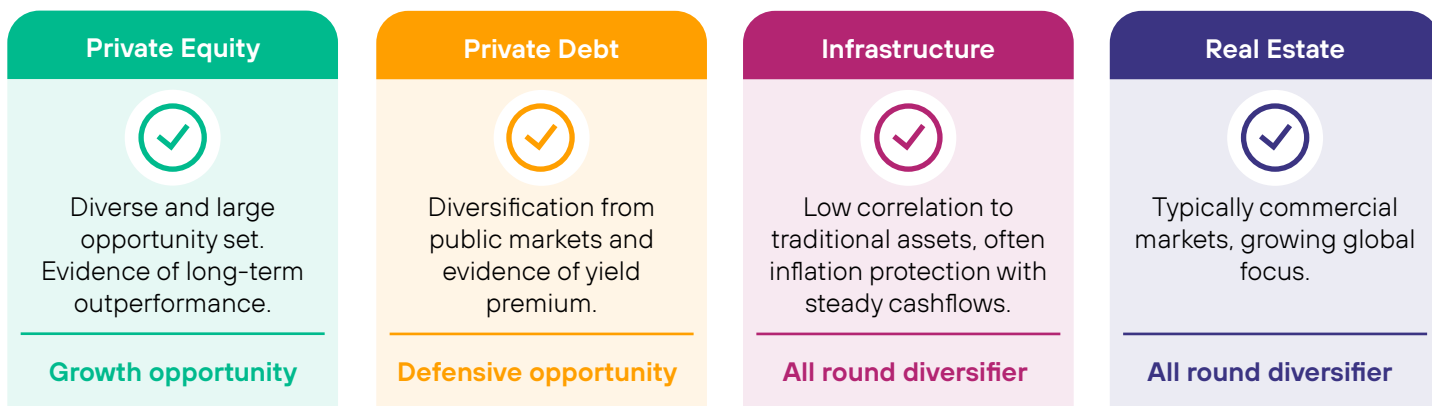


Isio view

If an allocation to illiquids is made, we would prefer to see a material one (at least 10%) which has the ability to make a genuine difference to member outcomes. We see smaller allocations as just "window-dressing" with very little benefit either way for members. The larger the allocation, however, the more there needs to be an increased focus not just on the size of the allocation but how it is being implemented.

The main asset classes

Illiquid assets may initially appear as a simple allocation within a broader portfolio, however crack open the lid of this and it's a wide universe of opportunity and choice. In general terms, the four asset classes illustrated below are the ones most commonly discussed. Across the 18 defaults containing illiquids in our latest survey, 16 have planned allocations to Private Equity, 14 to Private Debt, 17 to Infrastructure and 15 have planned allocations to Real Estate.



In addition to the building blocks above, we would also draw attention to the following two areas in particular:



Natural Capital:

Natural Capital as an asset class is defined as the world's stocks of natural resources – geology, soil, water, air and living organisms – that yield a flow of essential goods and services to people and the economy. Examples of asset classes in this space included timberland and agriculture. Currently 4 providers (across 6 strategies) are planning explicit allocations to this area.

Whilst some providers are reporting an explicit planned allocation to Natural Capital we are yet to see this as a standard approach in the market. Natural Capital provides an opportunity for inflation protection and supporting broader ESG ambitions and targets and we believe all providers should be looking at it.

When engaging with members, Natural Capital investments are a clear way to illustrate how pension investments are having a positive impact on wider social and climate factors closer to home. Reputationally, these are typically areas members feel passionately about when directly challenged. The more providers are able to ultimately engage members with their pension, save more and plan for retirement, the better outcomes will be in the future! As an industry we should be using every tool at our disposal to achieve that outcome.



Venture Capital:

Venture Capital as an asset class is a high-risk, high-reward alternative asset class focusing on providing equity financing to early-stage high-growth potential private companies – it is a subset of the wider Private Equity asset class. In terms of air-time this is the one of the most hotly debated asset classes in the DC illiquids space, with its discussion often being linked to investing in the UK.

As of yet, the details don't reflect the noise that is out there in the market. Allocations are still small and are typically included as part of a wider Private Equity mandate (as opposed to a stand-alone allocation). Some providers are exclusively calling out this underlying allocation in reporting and their long-term plans, however the majority remain open on the specifics.



Isio view

Our preference within an illiquids allocation is to see a diversified portfolio that makes use of the full opportunity set of asset classes. Over time, we expect to see the level of diversification build out as allocation sizes grow.

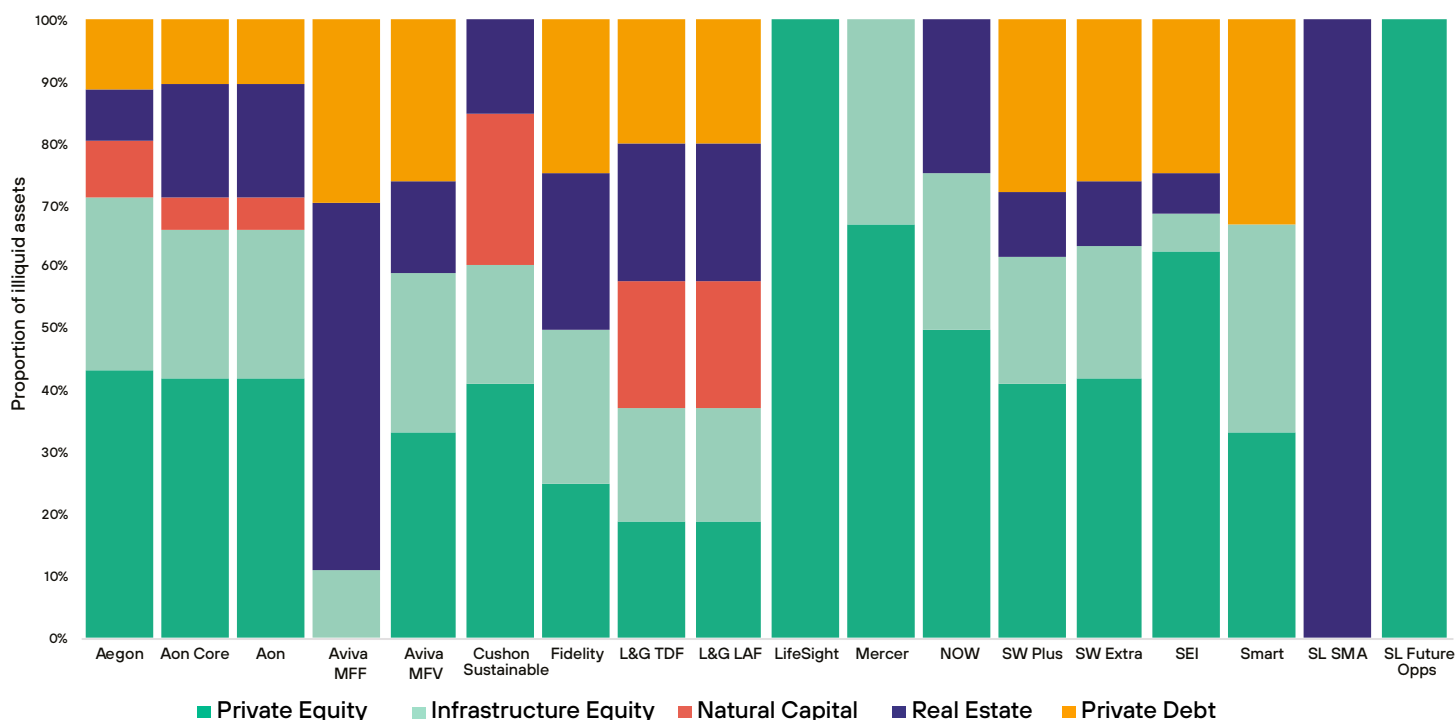
The growth phase

The chart below shows the target mix of illiquid assets providers will be investing in across their growth phase.

Private Equity is the most popular asset class in the growth phase with all providers (bar two) having an allocation, with the largest comprising the whole illiquids allocation. In some ways this is unsurprising given that, of the illiquid asset classes available, this will typically be targeting the highest return and therefore could have the biggest impact on member outcomes. Arguably of the major illiquid asset classes it is also the most expensive and has the widest dispersion of returns. A key implementation question for providers in this space is whether the fee constraints that still exist within the provider space have constrained them around their manager selection decisions. Private Equity has a wide dispersion of returns; manager selection risk is particularly high; and is an asset class where you do not want to settle for a “second string” investment manager.

Real Assets (Infrastructure and Property) are core parts of most providers’ allocations. Infrastructure is in the majority of provider allocations typically at the 10-20% allocation. In contrast, providers’ allocations to Real Estate are much more variable with two providers having over half of their allocation invested and some having none at all. Real Estate is also the illiquid asset class where it is most common to have a UK-specific allocation.

Private Debt often is the smallest of the four main illiquid areas within the growth phase. This is typically reflective of the return it is targeting versus other asset classes. Although this might be expected to have the lowest return, historically it has arguably had the best risk-adjusted return and where successful manager selection has arguably been the easiest. In recent times, we have seen Private Debt increasingly in the news albeit most successful institutional investment managers have been insulated from any return or liquidity issues.



Isio view

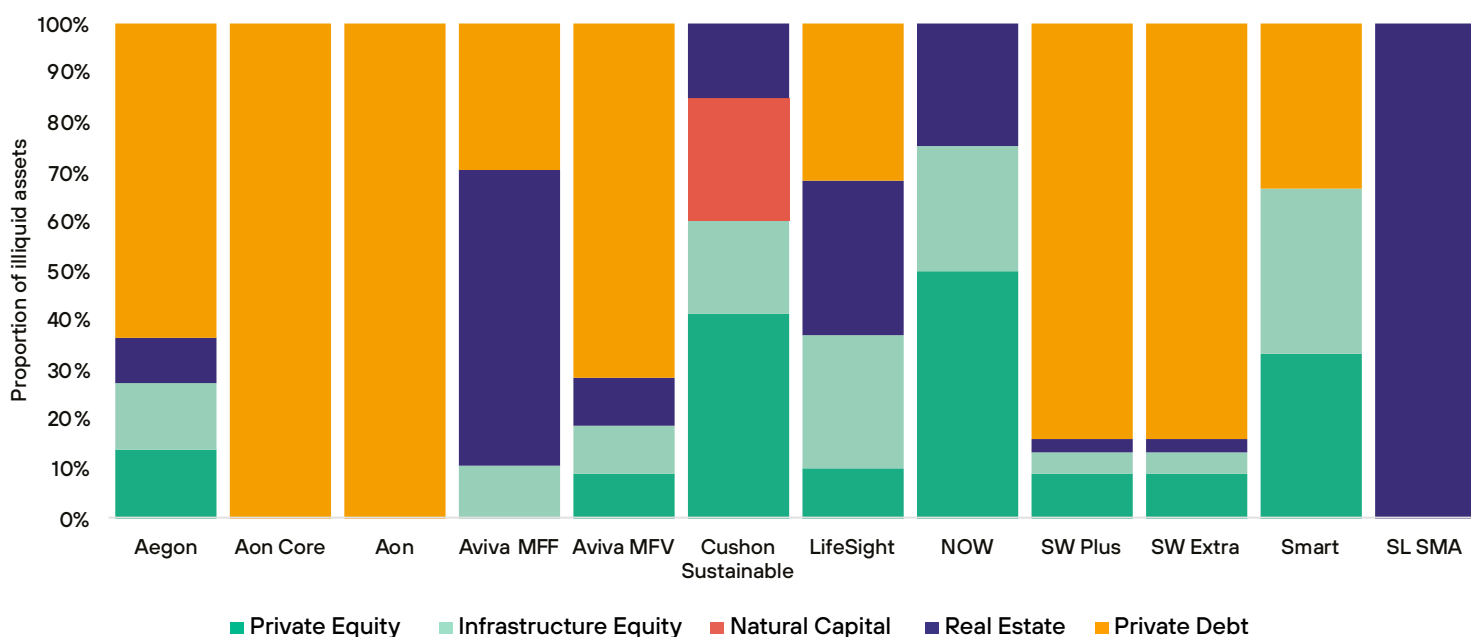
As seen above, there are a wide variety of provider target asset allocations within the growth phase. Our preference is for a more diversified approach. Although we understand the theory behind Private Equity and the potential for it to deliver the highest returns, we see it is as the hardest area to source a strong investment manager at the prices DC providers are willing to pay. In contrast, in areas like Infrastructure and Private Debt, historically it has been easier to select a successful manager and historical risk-adjusted returns have been superior. It should be noted that this analysis just focuses on the illiquid allocations - it is also important to consider how any liquid allocation blends with this, both from an investment and operational perspective.

The retirement phase

A number of providers are now integrating illiquid assets throughout the glidepath, including allocations on the approach to / at retirement. We would expect this to look materially different to 'growth' focussed illiquid portfolios as the drivers here should be diversification and defensive allocations balanced with growth opportunities.

As can be seen from the chart below, Private Debt becomes the favoured asset class at this stage of a members' glidepath. This is to be expected given, of the main asset classes, it is arguably the most defensive.

Where providers are retaining some Private Equity towards retirement, this illustrates a reduction in the size of the allocation when compared to the growth phase. In addition, Real Estate and Infrastructure continue to play a diversifying role here with most providers opting to include, one or both of these assets.



Isio view

We are pleased to see an increasing number of providers varying their allocation within illiquids dependent on the point of the glidepath. With allocations to illiquids at or around retirement becoming more common, we are also pleased to see the increased use of Private Debt. Despite recent press, we see this as one of the more attractive illiquid asset classes on a risk-adjusted basis. Whilst the above focusses on illiquid assets only, liquidity and how these assets sit alongside liquid assets will be key in the overall success of the default. We also note that different strategies may be targeting slightly different retirement outcomes/linkages to post retirement solutions which may also drive default design decisions.



Impact of Mansion House

Mansion House has meant that investing in illiquids in the UK DC market is increasingly synonymous with investing in the UK. As a reminder, the Mansion House Accord, signed in May 2025, is a voluntary initiative where 17 major UK pension providers committed to investing at least 10% of their Defined Contribution default funds into private markets by 2030, with 5% directed specifically to UK.

Based on the dataset, most providers are well on their way to achieving their 10% target allocation to illiquids. The main implementation challenge we see is for those providers that operate a "Core" and "Additional" approach. In this case, the "Additional" approach has the higher allocation to illiquids and as of yet typically holds smaller assets under management. However, if the trend to offer just a "Single" default with a material allocation to illiquids continues, then our expectation is the 10% target allocation to illiquids will not provide a challenge to providers.

In contrast, very few providers currently have a plan to achieve the 5% allocation to illiquids in the UK and when challenged on this their answers are still rather woolly. Most providers currently seem focused on building an allocation to illiquids that is more global in nature with less of a bias to the UK.

We see this as no bad thing, and whilst we accept there are potential indirect benefits to the UK economy of greater pension scheme investment, we believe there are risks in having an illiquid allocation that is concentrated in one country. **From a "pure" investment perspective we believe investing globally in illiquids will lead to a better financial outcome for a members' pot.**

To date, we have seen the majority of providers look to achieve their UK allocation through investing in UK Property (and Infrastructure in some cases). We have yet to see hardly any providers allocate any meaningful allocations directly to UK Venture Capital. Some have very small allocations (c.1%) within broader sleeves. For most Infrastructure and Private Debt mandates, at best the mandate is European with an allocation to UK within it. Some providers are expecting up to 30% of their illiquid allocations to end up in UK investments, over time, however these are not being set as formal strategic allocations.



Isio view

Providers are well on track on to achieve the target 10% allocation to illiquids in Mansion House, but less so for the 5% in the UK. Whilst we accept there could be social (and political) benefits to greater illiquid investment in the UK, our preference is to see a more global approach from a "pure" investment perspective. Our current read of the market is whilst there is ambition from providers to support UK opportunities, there are still some reservations in moving away from more diverse global or European mandates. In addition, a lot of providers are taking, in our view, the easy way out and focusing on UK Property as a means to get a long way to the 5% target. It will be interesting to see how this evolves over the next few years, especially with the possibility of mandate by the UK government.

Implementation considerations

Fund structures:

Long-Term Asset Funds ("LTAFs") remain the primary solution for accessing private markets in DC schemes. We have seen a meteoric rise in the number of FCA approved LTAFs, with 39 approved at the time of writing.

These are a mix of single sleeve LTAFs providing access to a single asset class, such as Private Debt, and multi-asset LTAFs which provide a diversified mix of exposures.

Whilst the majority of providers are opting to utilise a diversified approach within illiquid allocations, this is achieved through a variety of implementation approaches:



Appointing a single LTAF/manager with a diversified portfolio. They may then appoint external managers within this umbrella structure.



A variation of this is where providers are adopting multiple multi-asset LTAFs with different risk/return targets to utilise across the default.



Appointing individual managers across individual sleeves, (i.e. a Private Equity manager, a Private Debt Manager etc.). The provider is then able to tailor the allocation to each depending on placement in the default.

Outside of LTAFs some other fund structures are being explored, including SICAVs and LUX RAIFs. Each have their own set of regulatory guidelines and considerations.

Managers:

We are seeing providers use a variety of names across the asset manager universe.

The approach each provider is adopting may also be driven by existing in-house capabilities. If available, providers are able to access private assets at highly attractive rates.

However, there is a danger that these providers are limiting their access to genuinely best in class managers. We remain sceptical on one managers' ability to be best in class across the full private market universe.

Where providers are diversifying away from their in-house capabilities, we are in general seeing more of a reliance on "household" names and open-ended structures. Most providers are playing it safe which to an extent is unsurprising given the newness of illiquids to DC and the commercial implications of getting this wrong.



Fee considerations:

The focus of providers should be on delivering the best net of fee outcome for their members through the inclusion of illiquids.

Although intentions are undoubtedly good and providers have used their bargaining skills to the maximum, arguably providers' off-the-shelf defaults are still fee constrained (albeit less so in the past). If this behaviour continues into the longer-term, we believe this could have a detrimental impact on member outcomes.



Isio view

We still remain concerned that too much focus is spent on the decision to invest in illiquids, with not enough time spent on analysing the implementation approach.

In addition, a number of providers continue to rely on in-house capabilities or the larger household names in the illiquids space. While this approach may reduce the risk of poor outcomes, it can also lead to more conventional portfolios and, ultimately, only average returns from illiquid allocations.

We have provided more detail overleaf as to how we are reviewing providers' implementation capabilities.

Isio's approach to assessing illiquids

As the illiquids market in DC has evolved, we have been increasingly asked by our clients and prospects how this has caused our thinking around reviewing and rating default strategies to evolve. We believe there is a perception in the market currently that just including illiquids within your default will automatically improve it and result in better member outcomes. However, we fundamentally disagree with this view.

Effective implementation of illiquids is absolutely critical to the delivery of a better outcome for your membership. This isn't easy and there are a number of hurdles a provider or Trustee body can trip over without careful consideration. If implemented poorly, the inclusion of these assets may have a detrimental impact to member outcomes, as such, unless this is done well, providers may be better remaining 100% invested in liquid assets. When considering the impact illiquids have on our view of a default, we consider four main areas:

1 Size of allocation

We look at the size of an illiquids allocation from two perspectives. Firstly, if implemented well, we believe there is an optimum size to an illiquid allocation which will vary dependent on a members' distance from retirement. Any allocation should be big enough to make a difference to a members' outcome, but not so large that its impact can bring with it operational or liquidity issues that start to outweigh the benefits. Consideration of the membership profile and future trajectory of the scheme is a relevant consideration here.

Secondly, the size of an illiquids allocation throughout a member's glidepath will impact the extent it can impact our overall view / rating of that default. Put simply, the larger an illiquid allocation the more it can improve our score if implemented well, but also the more it can reduce it if it does badly. This variability both upwards and downwards in our scoring is how we compare a default with illiquids to one that is fully invested in liquid assets.

2 Overall level of risk

We believe at each point of the glidepath there is a range of risk that it is suitable for a default to take, and we look at a default's allocation to illiquids within this lens. For example, in the growth phase any allocation needs to stand up well versus an equivalent investment in equities (the most common asset class here). In our scoring here, we take care in not being overly prescriptive as we believe there isn't a "right" answer, but more of an expectation that a default will sit within a given risk range.

3 Strategic Asset Allocation

Like any investment, the strategic asset allocation of the illiquids portfolio will have an impact on our overall scoring. Our preference at all stages of the glidepath is to have a diversified asset allocation that invests across each of the main illiquid areas (Private Equity, Property, Infrastructure, Private Debt and Natural Capital) with the optimum allocations varying dependent on the glidepath point. For example, we believe Private Equity is more relevant in the growth phase and Private Debt more so in the run up to retirement.

4 Implementation

Finally, the biggest driver of our overall scoring of an illiquids portfolio is how it is implemented. We believe that this is the most critical part of our assessment of an illiquids portfolio. Whereas a poor active equity manager can still be bailed out by a rising equity market, we do not believe this is the case with an illiquids portfolio. We therefore spend a significant part of our research analysing how an illiquids portfolio is being managed (what experience do the team have?, how is a portfolio constructed?, how do they source opportunities?, how do they manage operational risk? etc).

We believe not enough time is spent on this by potential investors, as there is an implicit assumption that investing in illiquids is a good thing regardless. From our perspective, this assumption could have dangerous implications for members a few years down the line.

THIS IS KEY TO SUCCESSFUL DELIVERY

Summary



In the last twelve months, we have seen a rapid evolution in the inclusion of illiquids within providers' off-the-shelf defaults. The use of just one default (with illiquids) is increasing in popularity, target allocations within the growth phase have increased and the majority of providers are now allocating to illiquids in the run up to retirement.



We are also seeing much more variability in asset allocation across the glidepath with Private Equity being the most popular asset class in the growth phase, and Private Debt fulfilling the majority role in the run up to retirement. In relation to Mansion House, providers are well on track to achieve their commitment in terms of size of illiquid allocation, but their commitment to the UK is still patchy at best.



All of these trends seem to be universally treated as a positive by the pension industry, and at times it seems like investing in illiquids is a "golden ticket" to better member outcomes. Although we agree that illiquids have the potential to improve member outcomes if done well, we still think the "jury is out" on how illiquids are being implemented by DC providers and that not enough attention is being focused on questioning and challenging the implementation approach by providers. We think we will ultimately get there in terms of better outcomes, but it could be a very bumpy road with challenges and questions ahead for a number of providers.

Call to action: What does this mean for you?

Regardless of whether you are a Trustee, a Governance Committee member, a Provider, or just an interested market participant, we believe now is the time for you to consider what role, if any, will illiquid assets play in your own pension scheme arrangements. We've therefore included some key prompts to help you navigate this new and evolving landscape:



Are you invested in one of the providers' default strategies covered in this paper?

- Have you reviewed your providers' plans for evolving your default and incorporating illiquid assets?
- If your provider is now offering multiple default options, are you clear which one is most appropriate for your members?
- Have you spent sufficient time challenging your provider and adviser on how the illiquid assets portfolio is being implemented?



Are you invested in a 'bespoke' default strategy designed by your own advisers?

- For any Trust schemes, what are the long term plans for the scheme? Engage with the employer before jumping into private markets as if there are plans to wind-up on the horizon, investing in private markets is unlikely to be an optimal decision.
- If private markets are being considered, are you confident in your understanding of the key implementation considerations?
- Have you properly considered different options for accessing private markets? There are alternative access routes which may better support your needs in terms of managing some of the implementation, liquidity and governance challenges.



Are you a DC Provider currently developing your own illiquid asset solution?

- Are you clear on the strategic role of private markets for your membership at different stages of the lifestyle? Are your assumptions for what private markets can deliver are realistic?
- Given the importance of manager skill for success, for each default how do you intend to balance accessing best in class managers and fees?
- Ahead of making allocations to private markers, do you have a strong governance and liquidity policy articulated?

Contact

If you have any questions on the findings of this paper or need support in assessing your pension scheme's illiquid asset portfolios, then please get in touch with one of our experts below.

Notes

Data includes responses from the following Master Trusts:

- Aegon (LifePath),
- Aviva (My Future, My Future Focus, My Future Vision),
- Aon (Managed Core Retirement Pathway, Managed Retirement Pathway),
- Cushon (Core, Sustainable Investment),
- Fidelity (FutureWise),
- Legal and General (Target Date Funds, Lifetime Advantage Funds),
- LifeSight (Medium Risk Drawdown Lifecycle),
- Mercer (SmartPath),
- Now:pensions (lump sum plan),
- Scottish Widows (Lifetime Investment Growth, Plus, Extra),
- SEI,
- Smart Pension (Sustainable Growth),
- Standard Life (Sustainable Multi-Asset, Future Opportunities).

We note that providers plans are evolving at rapid pace, data contained within represents data collected as at the start of 2026.

George Fowler

Partner

george.fowler@isio.com

+44 0117 374 6478

Alex Tebbutt

Senior DC Investment Consultant

alex.tebbutt@isio.com

+44(0)117 374 6479

Helyne Slade

Head of DC Investment

helyne.slade@isio.com

+44(0)117 374 6483

David Mowbray

DC Investment Consultant

david.mowbray@isio.com

+44 117 450 2796

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