



**Q2 2020  
DC default review  
After the storm...?**



# DC meteorologist's update

- After the thunderstorms of Q1 2020, where global equity markets fell by over 20%, Q2 provided sunnier days, with overseas markets recovering most of the losses despite the continued uncertainty around the ongoing Covid-19 pandemic. UK equity returns, whilst positive in Q2, were more subdued.
- Pension pots of younger members rose on average by 15% over Q2, and for members closer to retirement the average Q2 return was over 9%.
- Three year returns were around 5% pa for younger members and 4% pa for older members.
- The rapid change in fortunes, reaffirms our advice in our previous paper for DC investors not to panic and to maintain a long term strategy.

## Sunnier days

We remind readers of the 3 D's of DC investing included in our previous market update. Investors who did not panic, will have seen DC fund values recover to levels they were at in 2019. However, we are aware of some investors who sought safe refuge in April and may have crystallised significant losses that could take years to recover.

Providers with an ability to take a dynamic approach to their asset allocation, may have taken the chance to increase equity weightings at deflated values and thereby benefited further from the subsequent rally.

The following pages outline the experience of early-career and late-career members in a selection of Master Trust default strategies.

## Action in light of the improved weather forecast

The forecast for the remainder of the year is still uncertain. The continued impact of Covid-19 with the threat of a second spike, the end of the furlough scheme in the UK and the forthcoming US elections all have the potential to give DC investors more gloomy periods.

Whilst younger members may be able to ride out the threat of another storm ahead, older investors with one eye on retirement should make sure they steer a safer course as they try to navigate through the fog ahead.

## Our view – the 3 Ds of DC investing

### Don't panic... *in the growth phase*



Growth strategies will continue to experience short term volatility due to a reliance on riskier, higher return seeking assets. However, we would reiterate that for younger members, future contributions will have a bigger impact than short term investment returns on the eventual outcome so stay calm in choppy waters.

### Diversify appropriately... *in the retirement phase*



Don't lose sight of risk levels for older members approaching retirement, as chasing lost returns could result in disaster. The benefits of appropriate diversification were highlighted in Q1 to provide some protection for members.

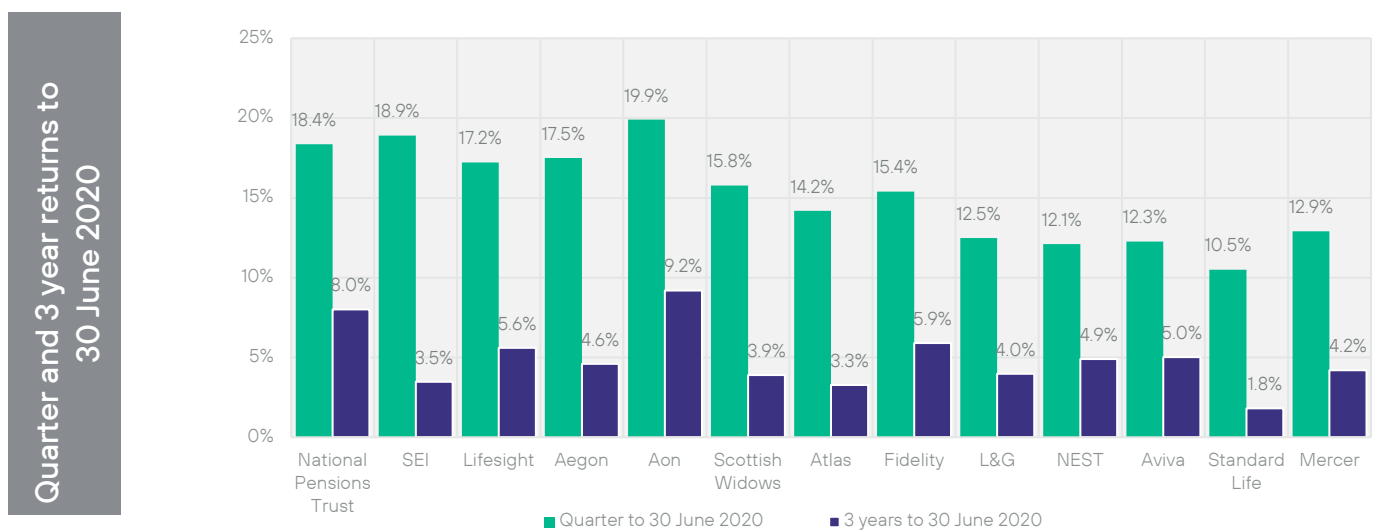
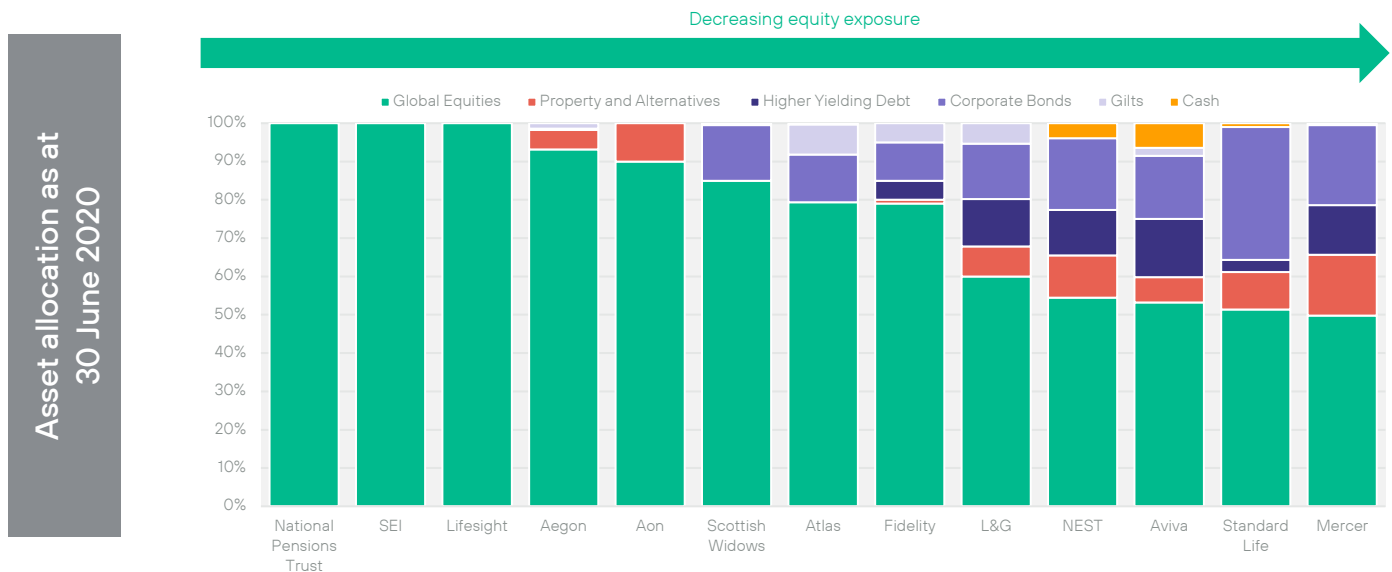
### Dynamism... *where it matters*



Active management at an asset allocation level as opposed to a stock selection level, can provide opportunities for long-term investors to exploit. Master Trusts with a governance structure to be nimble in response to current market conditions could add real value to members, with the changes in equity market valuations in the first half of 2020 providing opportunities for some strategies to benefit.

# Sunnier days return for younger members

## Comparison of Master Trust strategies (30 years to retirement)



Note: 3 year performance returns are annualised

- **Early-career members** in the growth phase of our sample Master Trust default strategies saw their pot sizes increase between 10.5% to 19.9% over Q2 2020 across the leading Master Trust provider defaults.
- **Equity-driven strategies** benefitted the most, especially those with lower UK equity allocations, as overseas equity markets recovered the majority of the losses from the previous quarter.
- **Diversified strategies** did not fare quite as well given the equity-led rally, but still delivered strong double digit returns.



### Don't panic... in the growth phase

Playing a patient waiting game paid off very quickly with younger members largely recovering losses incurred over Q1.

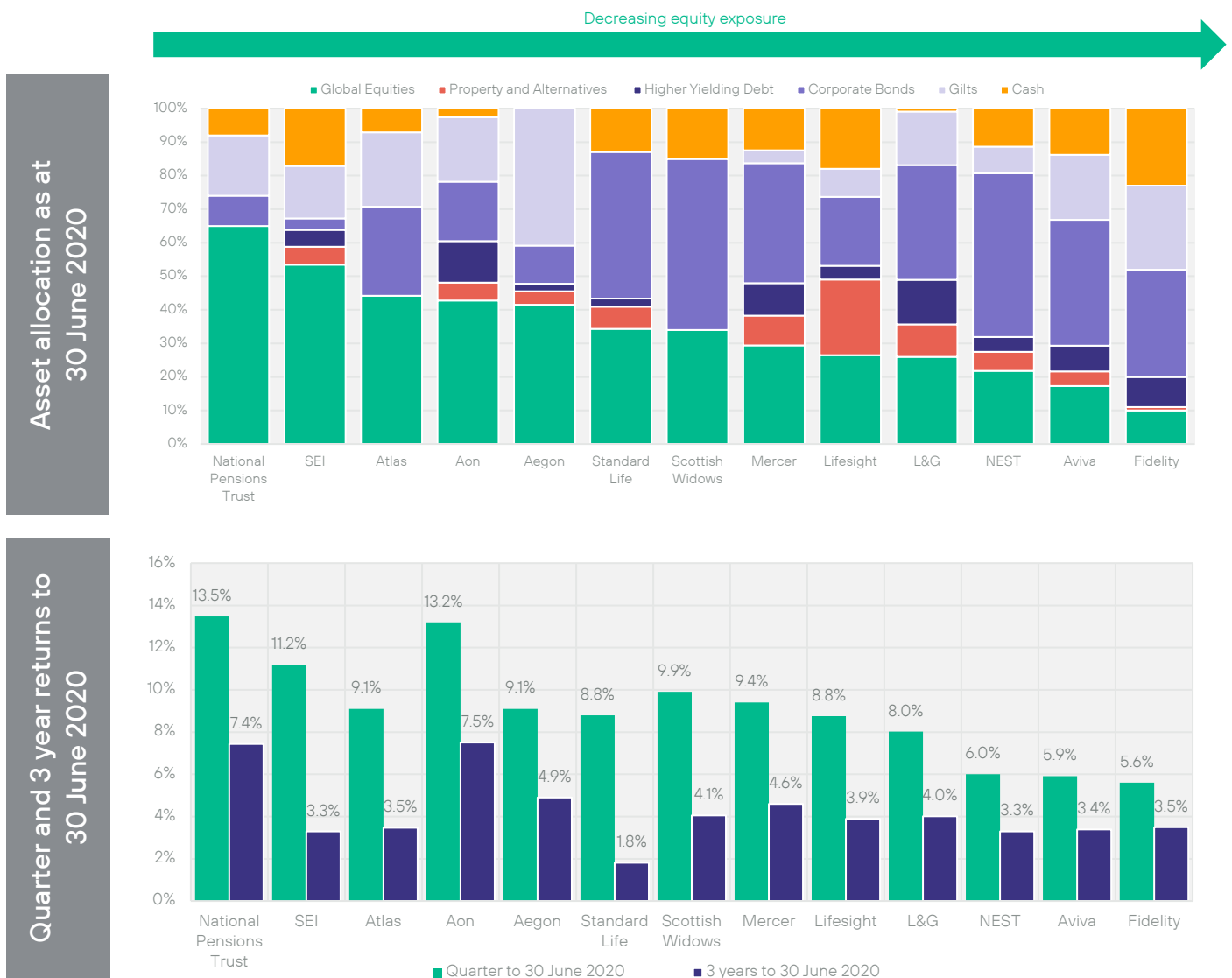


### Dynamism... where it matters

Whilst we prefer providers whose approach allows them to adapt to market conditions and take tactical opportunities, having a high equity allocation benefitted across the Master Trust provider universe over Q2.

# Older members back on track....

## Comparison of Master Trust strategies (2 years to retirement)



Note: 3 year performance returns are annualised

- **Late-career members** have recovered the Q1 losses with longer term returns now averaging 4.3% pa.
- **More defensive strategies** with higher gilt and cash allocations lagged riskier growth strategies but still delivered positive returns.
- **The impact of automatic de-risking** in lifestyles and target dated funds helps preserve capital for older members whilst still generating positive absolute returns.

### Diversify appropriately... *in the retirement phase*



Strategies should not rely on any one asset class in this phase, with a broad mix of assets providing reduced risk at a time investors have larger pots and less time to recover any losses.



### Don't panic... *when the end is in sight.*

Whilst Q1 performance in this phase may have caused some nervousness, sitting tight into Q2 will have been beneficial for older members.

Data sources: DC Providers, Financial Express Analytics, Isio Calculations

Returns shown gross of fees and may be estimated. 3 years returns have been annualised.

Past performance is not a guide to future returns.

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

Aegon Lifepath  
Aon Managed Core Retirement Pathway  
Atlas Higher Equity  
Aviva My Future Focus  
Fidelity FutureWise  
L&G Pathway  
Life sight Medium Risk Target Drawdown  
Mercer Smartpath Target Retirement Drawdown  
Nest Retirement Date Funds  
Scottish Widows Balanced (Targeting Flexible Access)  
SEI Aggressive  
Standard Life Active Plus III Universal  
XPS NPT Life Stage

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