

The DC provider report

From performance to outcomes – what it means for members

Executive summary

Welcome to the latest edition of our DC provider report, where we assess the impact of default investment strategies of master trusts and group personal pensions (GPPs) on member outcomes.

Set against the backdrop of the Pensions Investment Review, the Pensions Bill and the revival of the Pensions Commission, there's never been a more important time to understand how each provider is positioned relative to the market. Resilience in the face of market volatility and a changing regulatory and political backdrop will be key to success as we look ahead to 2030 and beyond.

Our report looks at recent investment performance and uniquely presents a forward-looking assessment to model the impact on member outcomes for different members. In simple terms, we answer the question:

“What does this mean for me?”

While recent fund performance and the investment development roadmap is clearly an important factor in the assessment, it must be considered in the context of longer-term member outcomes and the value offered by the wider proposition.

Table of contents

<i>Focusing on member outcomes</i>	02
<i>Tracking member outcomes</i>	03
<i>Growth phase</i>	09
<i>Consolidation phase</i>	11
<i>Pre-retirement phase</i>	13
<i>Closing words</i>	15

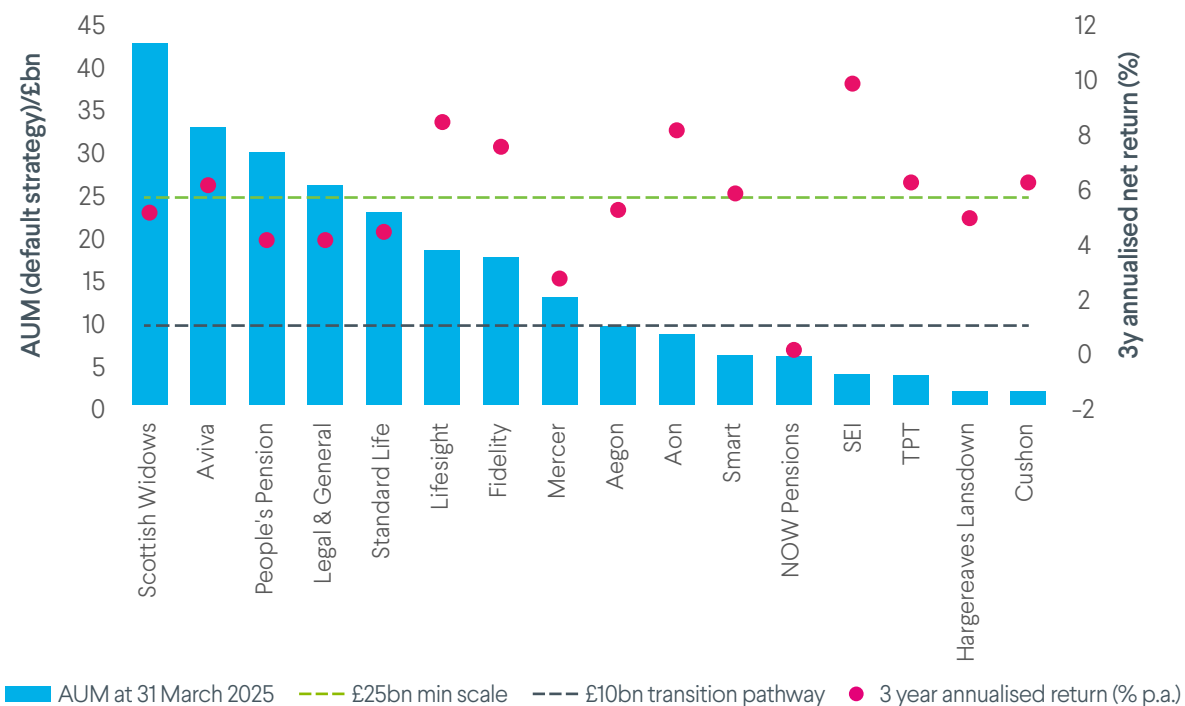
Achieving scale

The 2025 Pensions Bill marks a turning point for workplace pensions, with a clear push toward achieving greater scale in default arrangements. Under the proposed legislation, master trusts and GPP providers will need to demonstrate that one of their main scale default arrangements either exceed £25 billion in assets by 2030, or are on a plausible path to reaching that

threshold by 2035, with at least £10 billion by 2030. This reflects a growing belief that scale is essential to delivering better value, stronger governance, and more resilient long-term outcomes for savers.

We look at where the providers currently stand in relation to the £10 billion target and the £25 billion target across their master trust and GPP arrangements.

Assets under Management (AUM) for providers' default arrangements



Note:

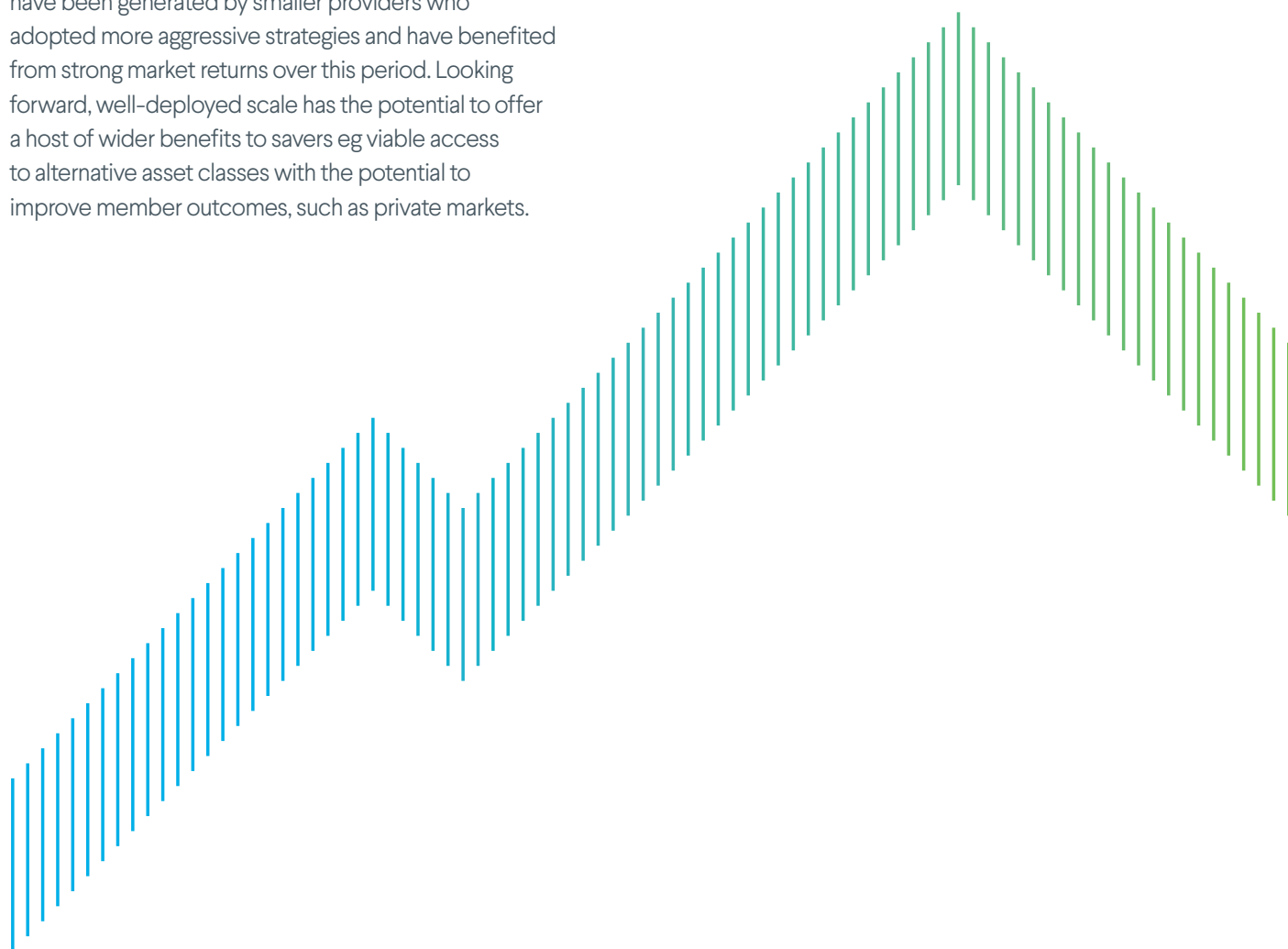
- 1 NEST are not included as this information was unavailable.
- 2 Currently there is not a consensus approach to reporting scale, with some providers disclosing AUM for all their defaults and some of them only disclosing for their 'main' default. We expect more consistency of approach over time as the Government's definition of scale becomes clearer. Where data is provided at this level we have shown AUM for a provider's main default option and corresponding growth stage performance.
- 3 3-year annualised net return is for the main default.
- 4 AUM from providers as at 31 March 2025.

Some providers look to be on track to meet the £25 billion threshold, while others have more work to do to get there. Over half are relying on future contributions, new client wins, or acquisitions to reach the target. We will continue to monitor how providers' AUMs progress relative to the thresholds over time. In the meantime, we expect those currently below the thresholds to present credible plans to the market outlining how they intend to meet the requirements by 2030.

What does this increased scale mean for performance and asset allocation?

When considering recent performance, it becomes clear that greater scale has not necessarily equated to better past investment performance. There are several reasons for this, but a notable driving factor was many larger providers adopted more balanced investment strategies in the wake of auto-enrolment, given concerns that members would opt out in the face of market volatility. Multiple economic and geo-political events have tested this thesis over the past five years, ultimately showing that members are able to withstand market volatility (whether knowingly or unknowingly) in pursuit of higher returns. Some of the highest returns have been generated by smaller providers who adopted more aggressive strategies and have benefited from strong market returns over this period. Looking forward, well-deployed scale has the potential to offer a host of wider benefits to savers eg viable access to alternative asset classes with the potential to improve member outcomes, such as private markets.

The investment strategies of some of the major master trusts have developed significantly over the past five years. Relying solely on backward-looking measures fails to reflect the innovation that has taken place during this time.



Tracking member outcomes

Our Member Outcomes Tracker model shows how expected retirement fund values have changed over the last five years. We've modelled this for three sample members at different stages of the savings journey.

In each chart, the solid blue line is based on the average master trust and GPPs' default investment strategy, which we've estimated based on the strategies of the providers sampled. The grey shaded regions show the potential range of expected fund value

for members invested in different provider default strategies and how these change over time. All data is as at 31 March.

We have used various assumptions to estimate the change in expected fund values for each sample member and therefore the changes shown are not guaranteed. In addition, the use of different assumptions is likely to lead to different results.

Jasmine

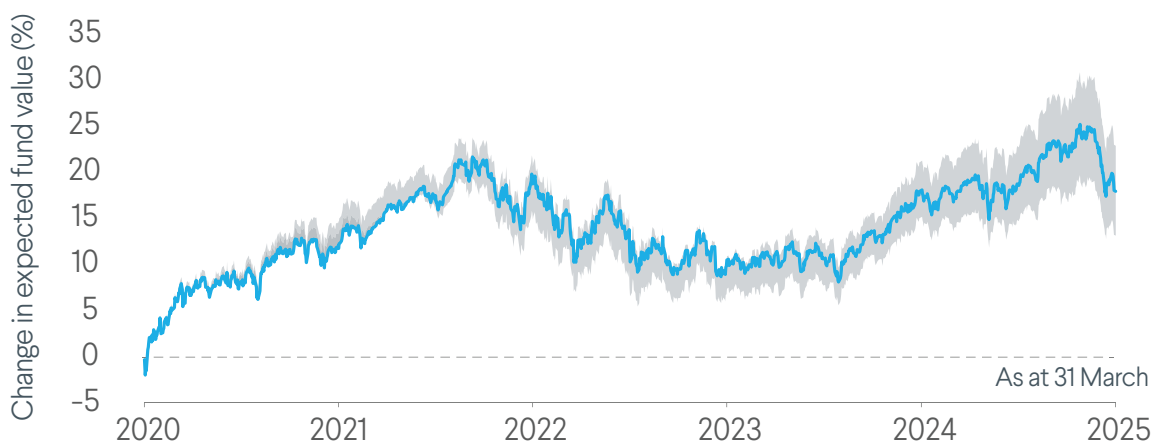
30 years from retirement

Jasmine is currently 30 years from retirement, in the early part of her savings journey and has a modest level of savings. At this point, she is most concerned about making ends meet and does not view her pension as a significant priority.

Over the past five years, Jasmine has seen an approximately 18% improvement in her expected fund value at retirement, because of strong returns in equity markets, which will make up most of Jasmine's asset allocation at this stage of her investment journey.

Given Jasmine is a long way away from retirement, she has time on her side and is in a good position to recover from any future market downturns. However, it's important she maintains or aims to maximise her pension contributions to continue to grow her pension savings over the long term.

Our view is that during the growth phase, a strategy should maximise the return potential given how long members are invested until retirement.



Louise

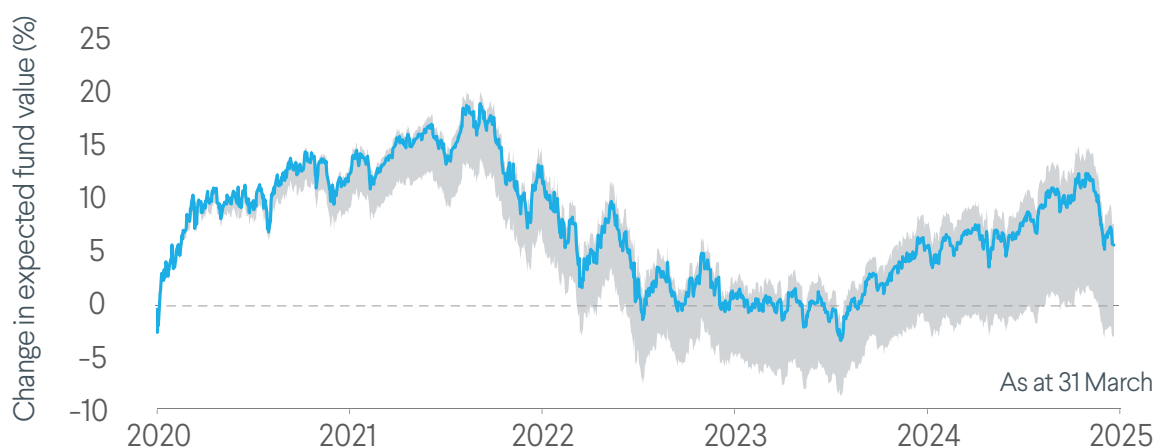
10 years from retirement

Louise is 10 years from retirement. She has a reasonably sized fund and is starting to think about her retirement choices.

Members like Louise who were negatively impacted by volatility within bond markets throughout 2022 and over 2025 have since experienced a recovery in their expected retirement outcomes, benefitting from strong returns in both equity markets and falling yields, which support positive returns for bonds. She has seen an approximately 6% increase in her expected retirement outcomes over the period since 31 March 2020.

It's important Louise understands the risks associated with her current investment strategy; any subsequent market falls associated with a prolonged recession could have a significant impact on her pension and the amount of income she is likely to retire with. Over the next 10 years, Louise's investment strategy will shift in focus towards assets focused on downside protection, to de-risk towards retirement.

The dispersion in outcomes at this phase is particularly pronounced with the average strategy producing relatively strong outcomes relative to a minority which has significantly underperformed the wider market.



David

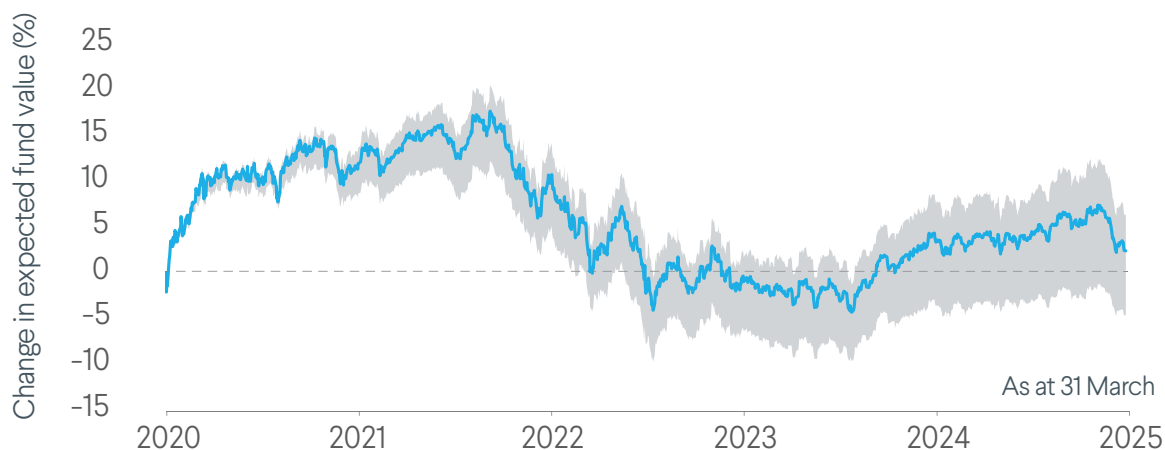
5 years from retirement

David plans to retire in five years and certainty of his pension value is important.

As with Louise, David's expected fund value at retirement has risen by approximately 2.5% on the back of strong returns within both equity and bond markets, having largely recovered from the bond market volatility

throughout 2022 and 2025. David's investment strategy will have a more defensive asset allocation and a greater focus on downside protection than Louise's, given he is five years closer to his retirement.

David must be invested in a manner that protects his pension while helping him meet his retirement goals.



In conclusion, the latter part of Q1 2025 has been marked by notable market volatility, impacting pension outcomes across different phases of investment. For Jasmine, who is in the growth phase, the emphasis remains on maximizing return potential through a higher allocation to growth assets. This strategy aims to leverage the long-term growth potential of equity markets, despite short-term fluctuations.

In contrast, Louise and David, who are closer to retirement, need to focus more on downside protection. Louise, with ten years to retirement, has started to shift her investment strategy towards less volatile assets. David, only five years away from retirement, has an even greater emphasis on even more defensive assets to safeguard his pension against market downturns. Both have seen some recovery in their expected retirement outcomes following steep falls in 2022 due to positive market sentiment, particularly over 2024. Both members must continue to understand and plan for the risks inherent in their current strategies.

Ultimately, the differences between these members highlight the importance of tailored investment strategies that consider the time horizon and risk tolerance of everyone, especially in times of market volatility.

What is appropriate at different stages of DC investing?

Growth

Take on more investment risk for the prospect of higher returns. Short term risk mitigation is of dubious value.

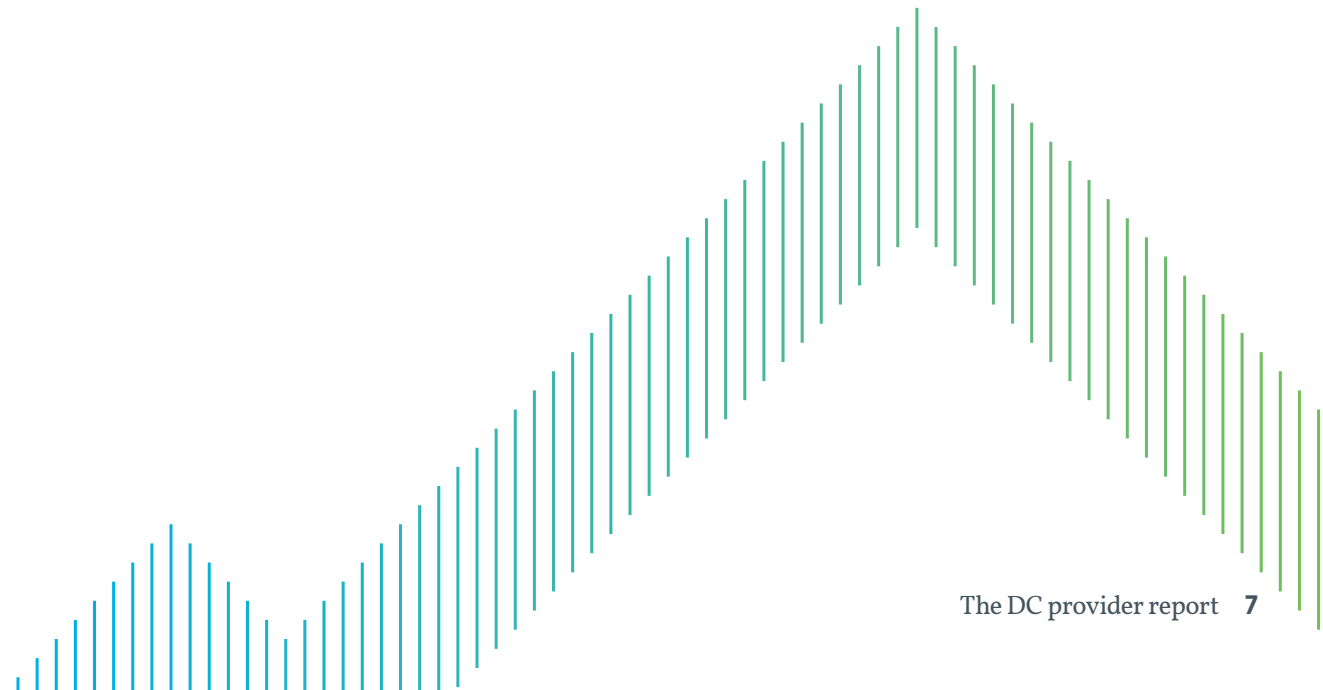
Consolidation

Balance risk reduction and aligning strategy with retirement goals.

Pre-retirement

There is a need to move away from 'one size fits all' defaults and understand what members plan to do with their savings.

In the next section, we compare the investment performance in the three years to 31 March 2025 for different providers and its impact on member outcomes in each phase. Providers who offer both a master trust and a GPP have the same default investment strategies for both. We differentiate between the providers who offer a master trust, those who offer a GPP and those who offer both.



Growth phase

Over the last three years, members in the growth phase have experienced positive, but varying, levels of performance. Depending on their provider, otherwise similar members could have faced differences in return of up to 8% pa. In general, members in strategies which have a higher allocation to equities during this stage have fared better because of stronger returns in equity markets over the period.

3yr performance and volatility

30 years from retirement

Based on net performance and volatility

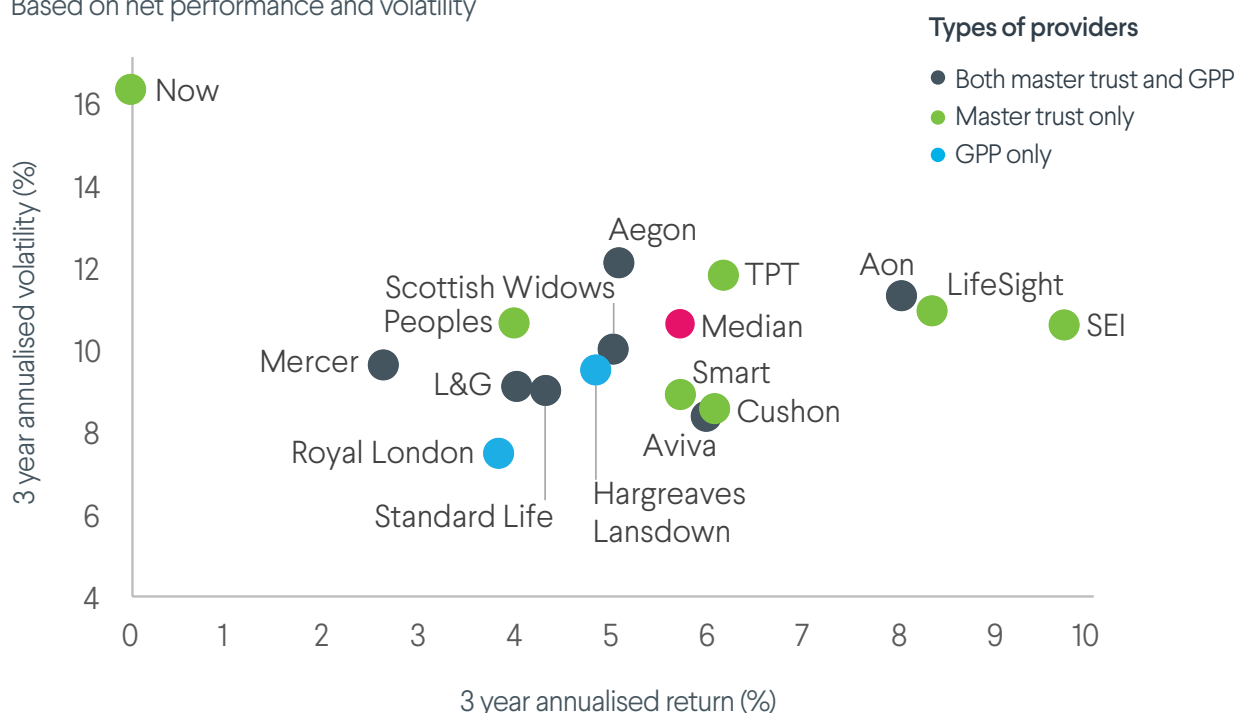
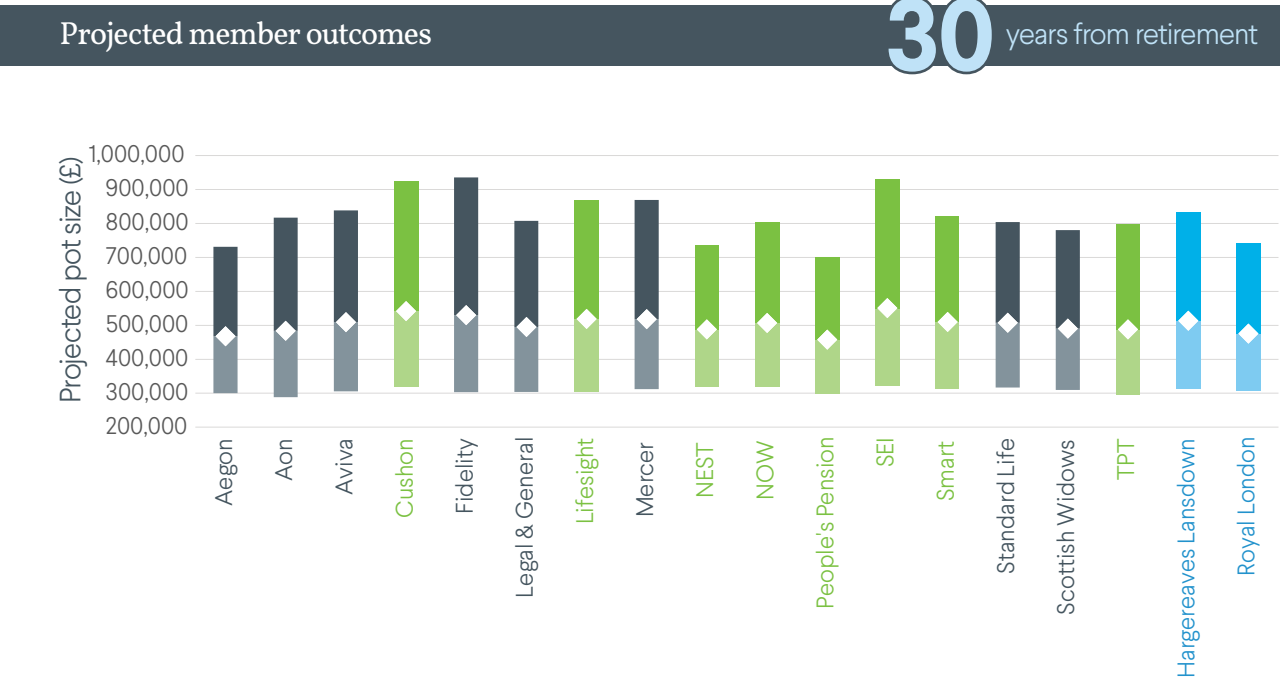


Chart is based on net performance and volatility to 31 March 2025, supplied by the providers and relates to their default lifestyle option. Please note that the performance figures are actual performance, except for those from Cushon which are based on a static allocation. Fidelity are not included in the performance charts due to their default strategies being in place for less than three years.

In the growth phase, members are a long way from retirement, so can withstand volatility and take greater risk given they do not need their benefits now and have time to recover from market shocks. Cautious investment strategies may show relative outperformance during periods of market stress, but it's unlikely such outperformance will persist and lead to better member outcomes (versus higher volatility approaches) over the longer term.

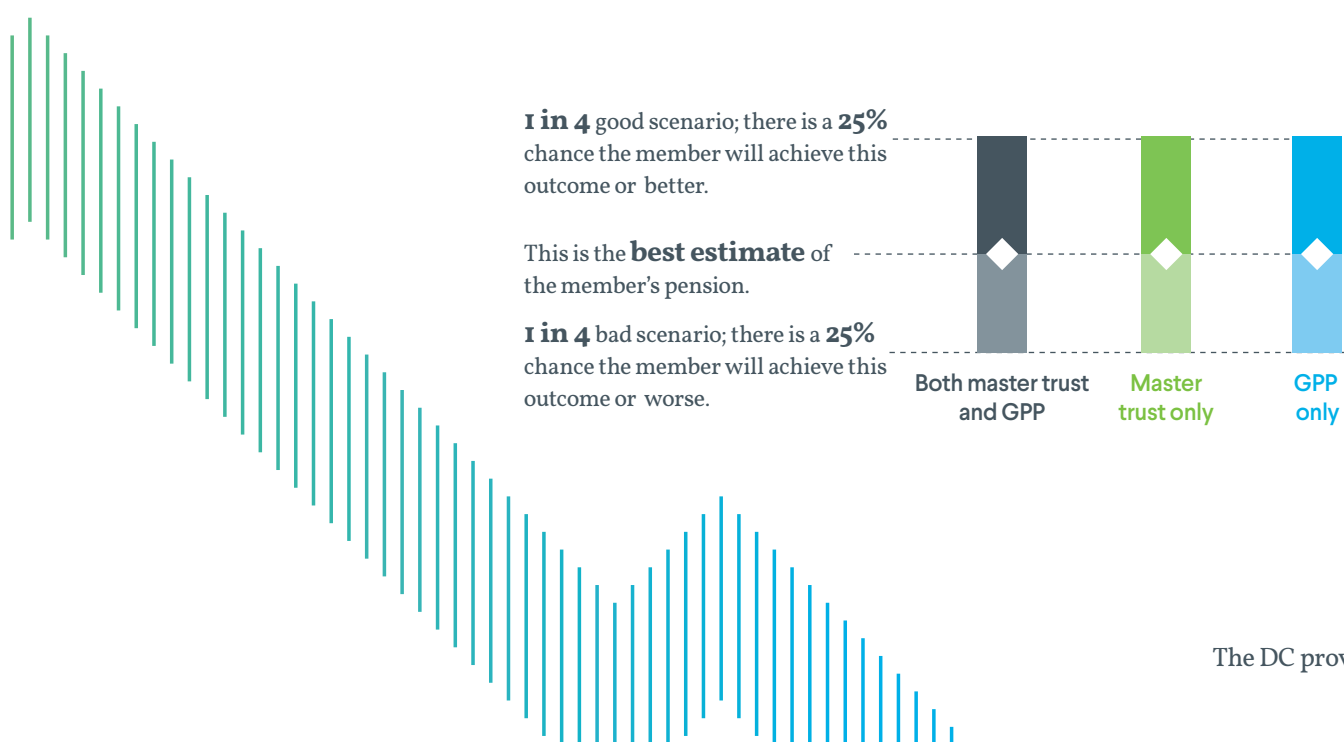
In addition, lower volatility strategies are unlikely to achieve significantly better downside protection over longer time horizons as well as dragging overall performance. To illustrate this point, we've projected the range of potential pension outcomes for growth phase members of the master trusts and GPPs in our sample.

Illustrating uncertainty in outcomes



Projections are based on a member 30 years from retirement on 31 March 2025, with a starting fund value of £50k, earning £30k pa and with a total contribution rate of 10% pa.

The chart shows that whilst potential worst-case outcomes are broadly similar across the providers, median and potential upside outcomes can vary considerably. The dispersion in potential outcomes is driven by several factors including the amount and form of growth asset exposure as well as the length the de-risking glidepath.



Consolidation phase

Most providers have returned in the region of 2-9% pa for consolidation phase members over the period shown, with one exception. At this stage, providers invest in diverse levels of growth assets, as evidenced by the range of returns and volatilities in the chart.

3yr performance and volatility

10 years from retirement

Based on net performance and volatility

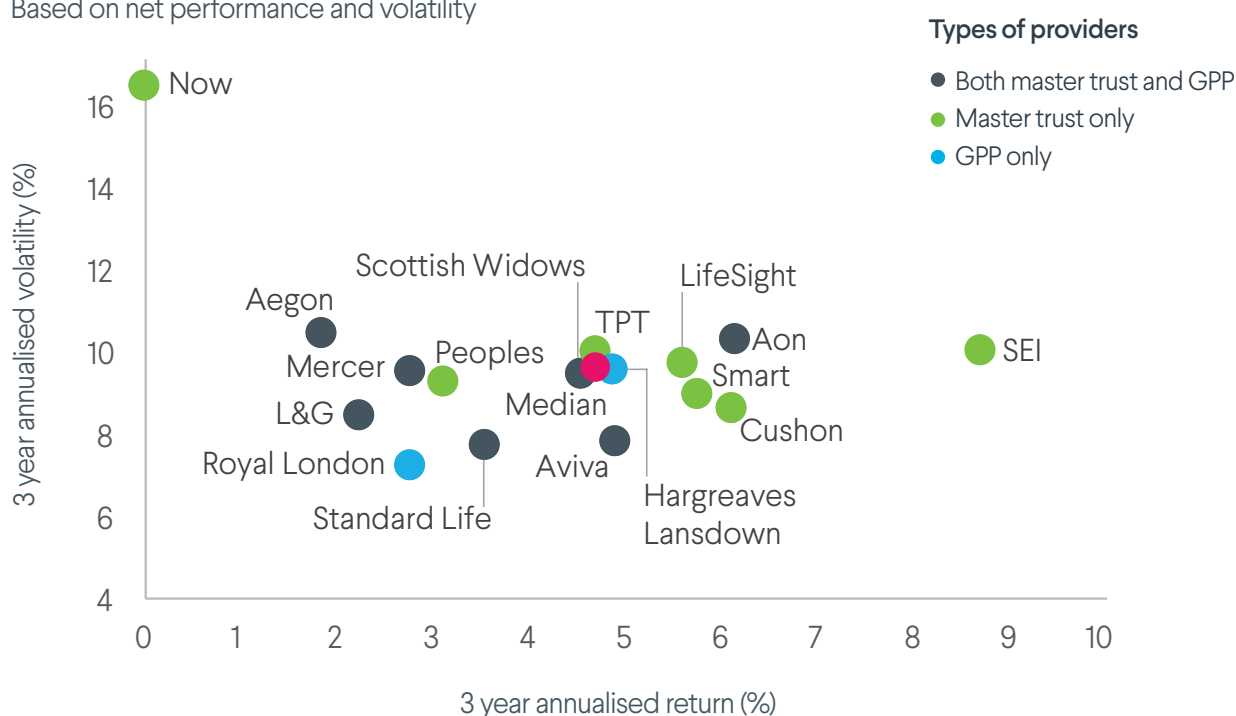


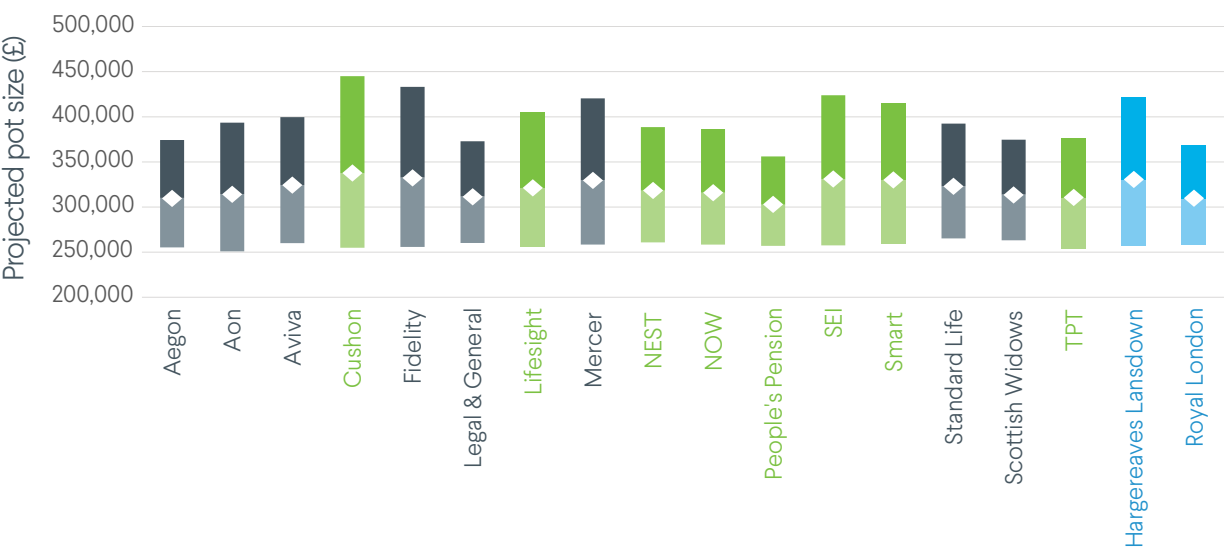
Chart is based on net performance and volatility to 31 March 2025, supplied by the providers and relates to their default lifestyle option. Please note that the performance figures are actual performance, except for those from Cushon which are based on a static allocation. Fidelity are not included in the performance charts due to their default strategies being in place for less than three years.

At 10 years to retirement, the investment strategy typically begins to shift toward downside protection as assets start to de-risk. However, any changes should remain aligned with the member's intended use of their DC savings, ie will they take cash, annuity or income drawdown. For members likely to take cash at retirement, risk reduction makes sense. However, those who can rely on other sources of income, such as a defined benefit (DB) pension, may wish to maintain a higher-risk strategy for longer.

Our projections show the level of uncertainty in member outcomes (indicated by the length of each bar) varies significantly across providers during the consolidation phase. At this stage, while riskier strategies may offer higher expected returns, they could leave members vulnerable to market shocks in their run-up to retirement. This represents a direct trade-off between maximising potential outcomes and ensuring a risk-controlled approach to retirement date. We expect this dynamic to evolve as post-retirement offerings across the market continue to develop at pace.

Projected member outcomes

10 years from retirement

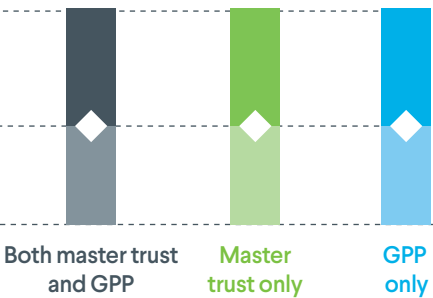


Projections are based on a member 10 years from retirement on 31 March 2025, with a starting fund value of £150k, earning £50k pa and with a total contribution rate of 10% pa.

1 in 4 good scenario; there is a **25%** chance the member will achieve this outcome or better.

This is the **best estimate** of the member's pension.

1 in 4 bad scenario; there is a **25%** chance the member will achieve this outcome or worse.



Pre-Retirement phase

As with the consolidation phase, differences in investment strategies during the pre-retirement phase are evident, with a wide dispersion of default fund performance and risk across providers. Providers' returns range from 1-7% pa, with diverse levels of investment in growth assets during this phase evidenced by the range of volatilities in the chart.

3yr performance and volatility

5 years from retirement

Based on net performance and volatility

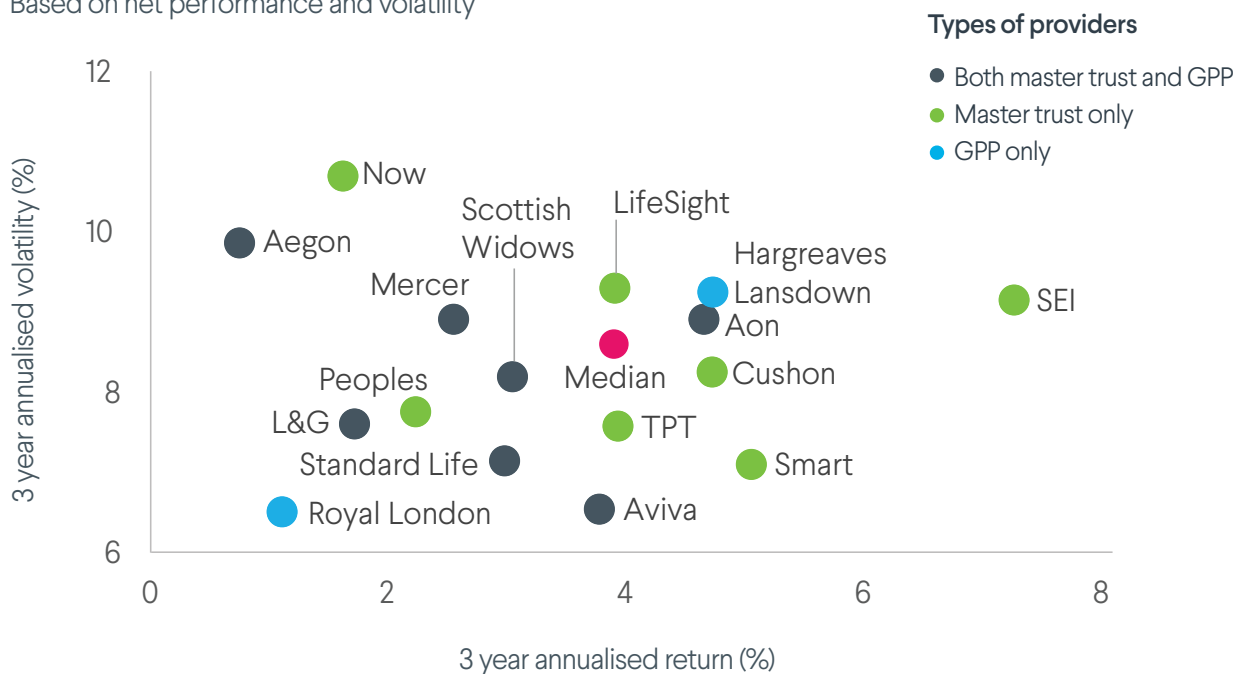
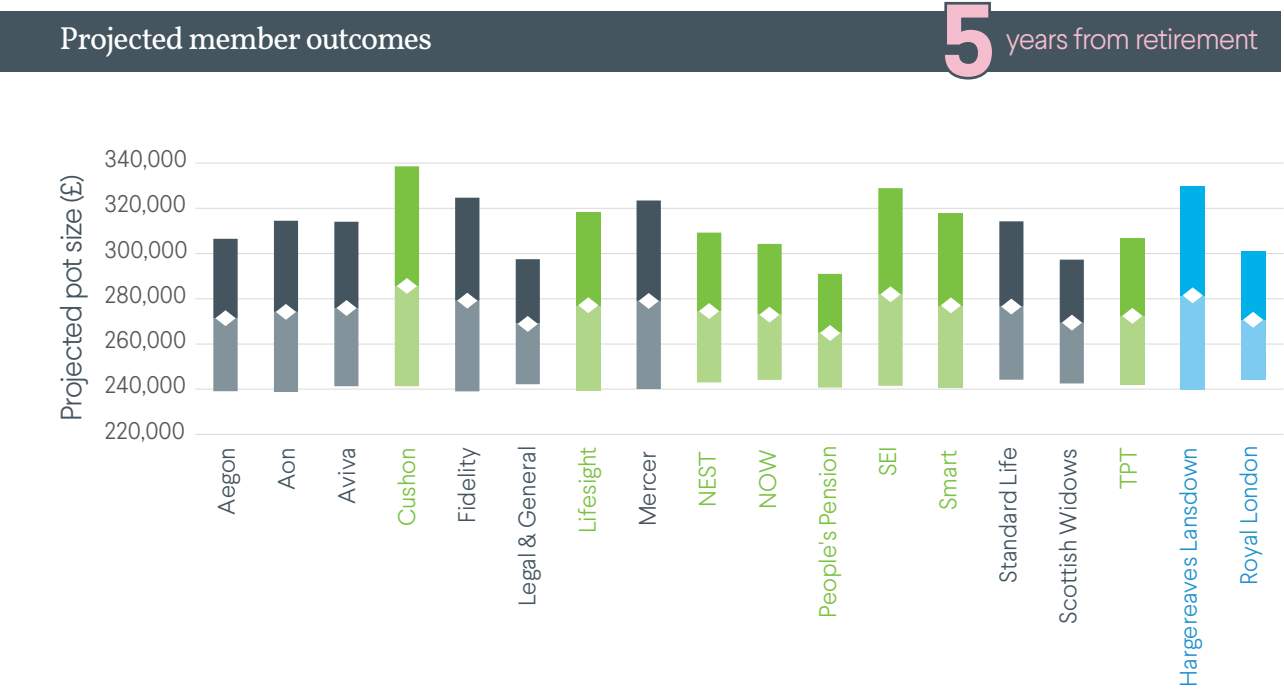


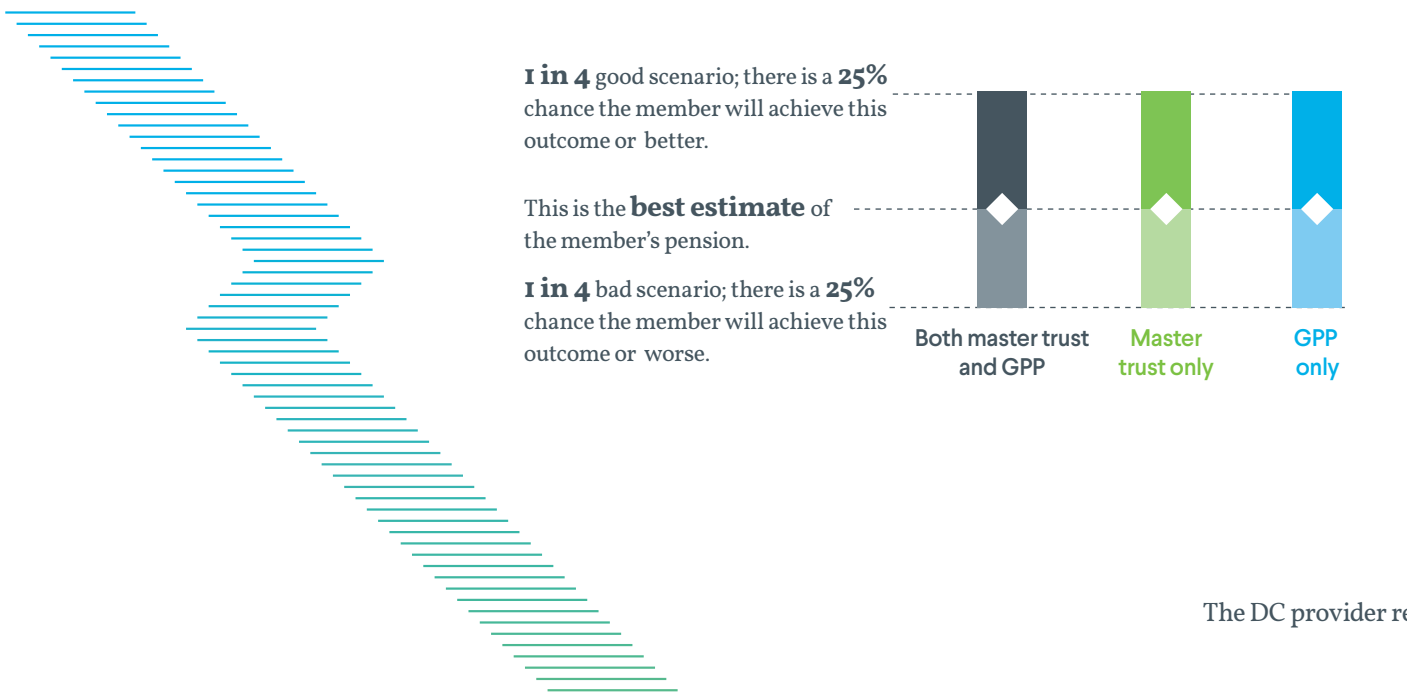
Chart is based on net performance and volatility to 31 March 2025, supplied by the providers and relates to their default lifestyle option. Fidelity are not included in the performance charts due to their default strategies being in place for less than three years.

Investment strategy in this phase should be aligned to members' likely decisions at retirement. In the short term, reducing risk will be the norm given most members withdraw if not all, then most of their DC savings as cash. However, as DC pot sizes are expected to become larger over time, there will be a growing requirement for pre-retirement strategies with higher levels of risk as members opt for flexible drawdown at retirement. Strategies targeting drawdown will still need to be able to generate growth at retirement, but also address the need for income, and certainty given members' ability to earn additional income in-retirement is diminished should markets fall.

Again, our projections illustrate a range of investment approaches being implemented by providers. While the shorter horizon and more conservative investment strategies mean the range of potential member outcomes is generally narrower (with shorter bars) than in other phases, there is evidence that members in this phase are assuming very different levels of risk.



Projections are based on a member five years from retirement on 31 March 2025, with a starting fund value of £200k, earning £55k pa and with a total contribution rate of 10% pa.



Closing words

Overall, our analysis indicates that member outcomes have improved since 2022, particularly for older members affected by the gilt market volatility. Since the beginning of 2023, members across all stages of the glidepath have generally benefited from more favourable market conditions. In Q1 2025, we have seen persistent market volatility, driven by geopolitical tensions, fluctuating interest rates and uneven global economic recovery.

However, over the long-term we expect the technology sector to continue to be a driving force in global markets and stocks associated with AI have generated significant outperformance, in particular benefitting younger members given their higher equity allocation.

Looking forward, we anticipate significant developments in providers' default strategies with the introduction of private market (unlisted) assets to strategies. We are seeing divergence in the market as some providers look to evolve their existing defaults by introducing high conviction private markets allocations. Others are opting for the launch of additional 'premium' defaults with allocations of up to 15-25% to private assets whilst still offering default options which continue to focus on listed assets at lower pricing points. Private assets are building a stronger track record in DC defaults. Their

diversification and performance benefits are becoming clearer. We expect more employers to support the shift across the industry from focusing on cost to focusing on long-term value. Strict governance, robust implementation and skilful selection of appropriate high quality private assets at the right stages of the glidepath will be key to bringing employers, members and trustees on this journey towards better expected outcomes.

Providers will be competing to showcase their capabilities in a market known for producing a wide range of outcomes. Designing and delivering a strong portfolio of unlisted assets is key. It is critical to successfully integrating private assets into DC defaults. The only certainty is that some will be more successful than others as DC default strategies diverge in approach and exposure over the next 3-5 years.

Please get in touch if you would like to discuss this further.



Shabna Islam

Head of DC Provider
Relations

shabna.islam@hymans.co.uk



Raluca Curca

DC Consultant and
Provider Research Lead

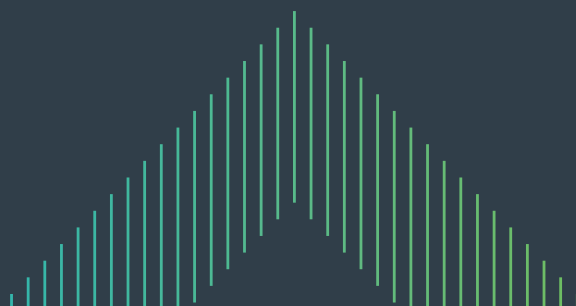
raluca.curca@hymans.co.uk



Michael Ardill

DC Associate Investment
Consultant

michael.ardill@hymans.co.uk



Key observations and questions to ask

‘Show me the money’ – the race to consolidate

Like it or not, further market consolidation is high on the agenda. Time is of the essence for providers to explicitly outline growth trajectories and business plans to reassure the market that they are on track to become a ‘mega-fund’ (having one of their defaults at £25bn of assets under management). Others significantly below

the threshold can apply for either an exemption under the regulations, or for entry to the transition pathway. If granted will be given a longer time to reach scale. Many providers will look to use acquisitions and mergers to help them continue operating beyond 2030.

Does scale automatically drive better member outcomes?

Historically scale has not always corresponded to enhanced returns from DC defaults. In some cases stronger historic returns have been delivered by the smaller players in the market. These providers adopted aggressive strategies which have delivered strong returns. Whilst some larger providers, concerned about the impact of market volatility on member opt-out rates post auto-enrolment, considered more conservative strategies.

With the Government and the market now focused on the benefits of scale and unleashing the potential of

private assets, the focus should shift to leveraging that scale in the most effective way to better member outcomes. This means understanding how that scale will be used to generate a competitive advantage in the market. That may be through access to deals, access to best-in-class managers or a strengthened negotiating position. DC pensions are tapping into a new world, and competition will be high for the best deals. Against this backdrop the balance between scale, allocation to true illiquid assets and diversification within private market allocations will be a key challenge for providers to address.

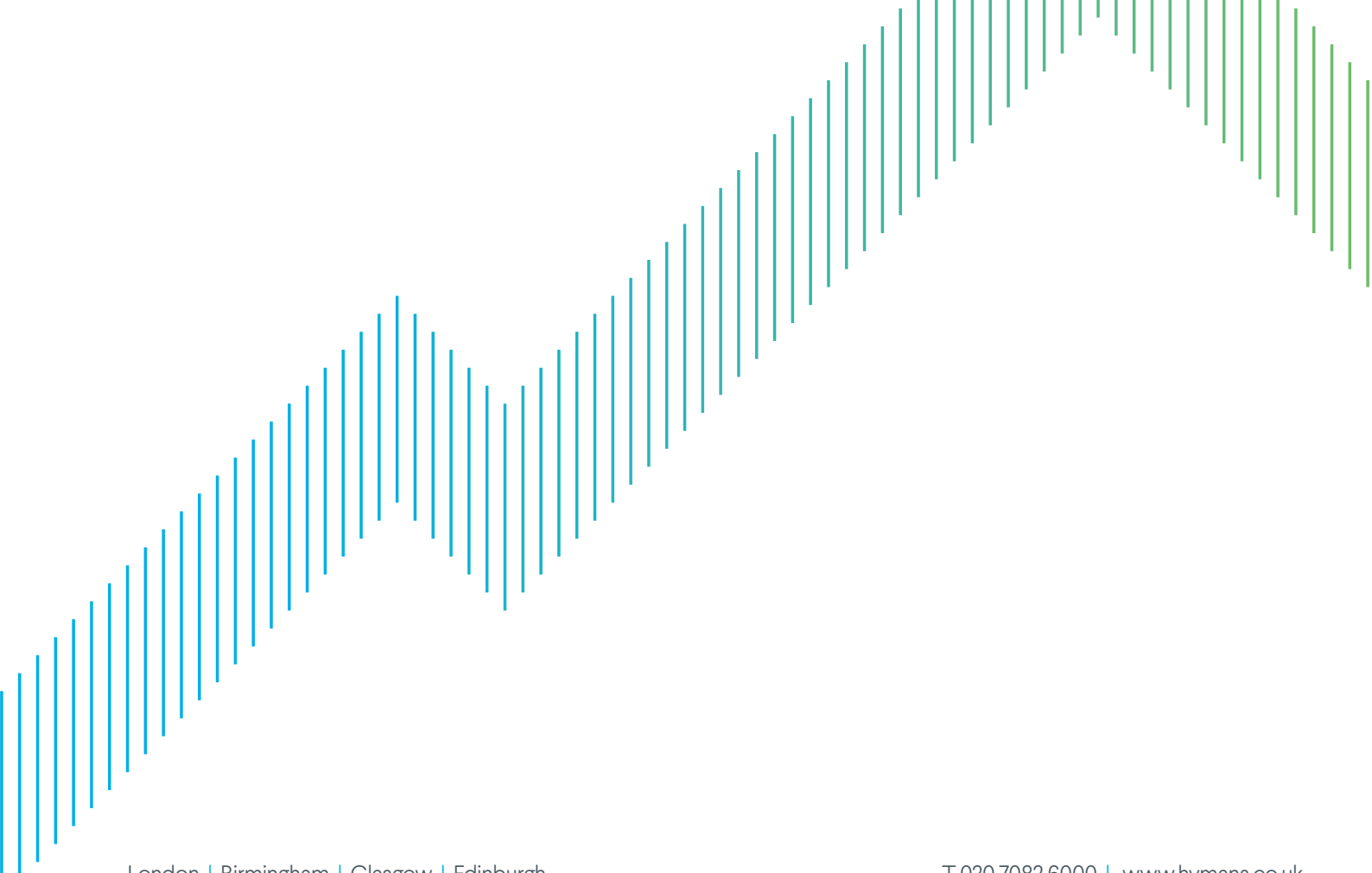
Mansion House Accord and The Pensions Bill– what does it tell us?

In May 2025, 17 signatories signed a voluntary expression of intent to invest 10% of default assets in private assets by 2030, with 5% of this directed to the UK. This builds on the 2023 Mansion House Compact, doubling down on private market investment. The big question is, what does this voluntary agreement tell us that we didn’t already know about the direction of travel in the market?

Both signatories and non-signatories to the Compact are busy designing and launching private asset solutions. Notable non-signatories have expressed their unwillingness to restrict their investment opportunities. They cite concerns about potential overexposure

to systemic risk in an overcrowded market. Additionally, their pre-existing allocations to the UK suggest that they have already achieved the aims of the Accord.

Reserve Government powers in the Pension Schemes Bill to mandate a minimum UK allocation continue to divide opinion. Ultimately, in a market of rational investors, ensuring a strong UK investment case with a plentiful supply of quality opportunities will be a much more effective and empowering way to direct pension scheme assets towards UK productive assets than the threat of mandation.



London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | www.hymans.co.uk

Hymans Robertson LLP is a limited liability partnership registered in England and Wales with registered number OC310282.

A list of members of Hymans Robertson LLP is available for inspection at One London Wall, London EC2Y 5EA, the firm's registered office.

Authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities. Hymans Robertson is a registered trademark of Hymans Robertson LLP.

A member of Abelica Global

The Member Outcomes Tracker is based on a number of assumptions. Pension outcomes for actual members may differ from the persona outcomes for a number of reasons, including but not limited to, differences between the persona profiles and actual member characteristics, differences between projected changes in markets and actual future changes in markets, changes in market indices being different to changes in the value of members' fund amounts, members choosing to convert their savings to income in different ways, and members changing contribution rates, retirement age or investment strategy between now and their retirement date.

Please note the value of investments, and income from them, may fall as well as rise. This includes but is not limited to equities, government or corporate bonds, derivatives and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of investments. As a result, an investor may not get back the full amount of the original investment. Past performance is not necessarily a guide to future performance.

This communication has been compiled by Hymans Robertson LLP® (HR) as a general information summary and is based on its understanding of events as at the date of publication, which may be subject to change. It is not to be relied upon for investment or financial decisions and is not a substitute for professional advice (including for legal, investment or tax advice) on specific circumstances. HR accepts no liability for errors or omissions or reliance on any statement or opinion. Where we have relied upon data provided by third parties, reasonable care has been taken to assess its accuracy however we provide no guarantee and accept no liability in respect of any errors made by any third party. Hymans Robertson LLP is a limited liability partnership registered in England and Wales with registered number OC310282. Authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.

© Hymans Robertson LLP 2024. All rights reserved.