



Master Trusts Unpacked

Default investment strategies

FEBRUARY 2026

Welcome

Welcome to the 2026 edition of Master Trusts Unpacked: Default investment strategies, our fifth report.

This report provides insights into how master trust investment strategies are evolving. Private markets are becoming more common; most providers are now including, or actively considering, private market allocations either within their core default strategy or through premium strategies. Approaches differ, with significant variation in scale, structure and pace of implementation. Given that many providers are at an early stage of implementation, we have not explored this topic in detail in this report. We plan to publish a more detailed analysis of private market allocations in due course.

For employers and trustees alike, who are reviewing or selecting a master trust, this report will help you understand the nuances of default design approaches and their performance.

We have decided against naming the individual master trusts in our performance breakdown. Our rationale is that while historical performance is an important consideration, it is not the sole factor valued by savers. We wish to ensure that the overall value proposition offered by these master trusts is not overshadowed.

Looking forward, it will be interesting to see whether fears of the popping of the 'AI bubble' are founded, particularly given most master trusts have been increasing their allocations to equities in recent years. In addition, the two best performing master trusts over the past year are those that employ factor-based approaches, allocating more to stocks with strong upward momentum.

On the responsible investment front, integration is widening beyond equities to fixed income, infrastructure and private markets, where climate-aligned opportunities are gaining traction.

We hope you enjoy reading the report.



Edward Dixon
Partner

Evolving defaults with an increasing emphasis on growth assets

Master trust default investment strategies continue to evolve, with providers refining existing designs and launching new default options. The focus remains on a high-risk/high expected return growth phase design, although approaches to implementation have diverged.

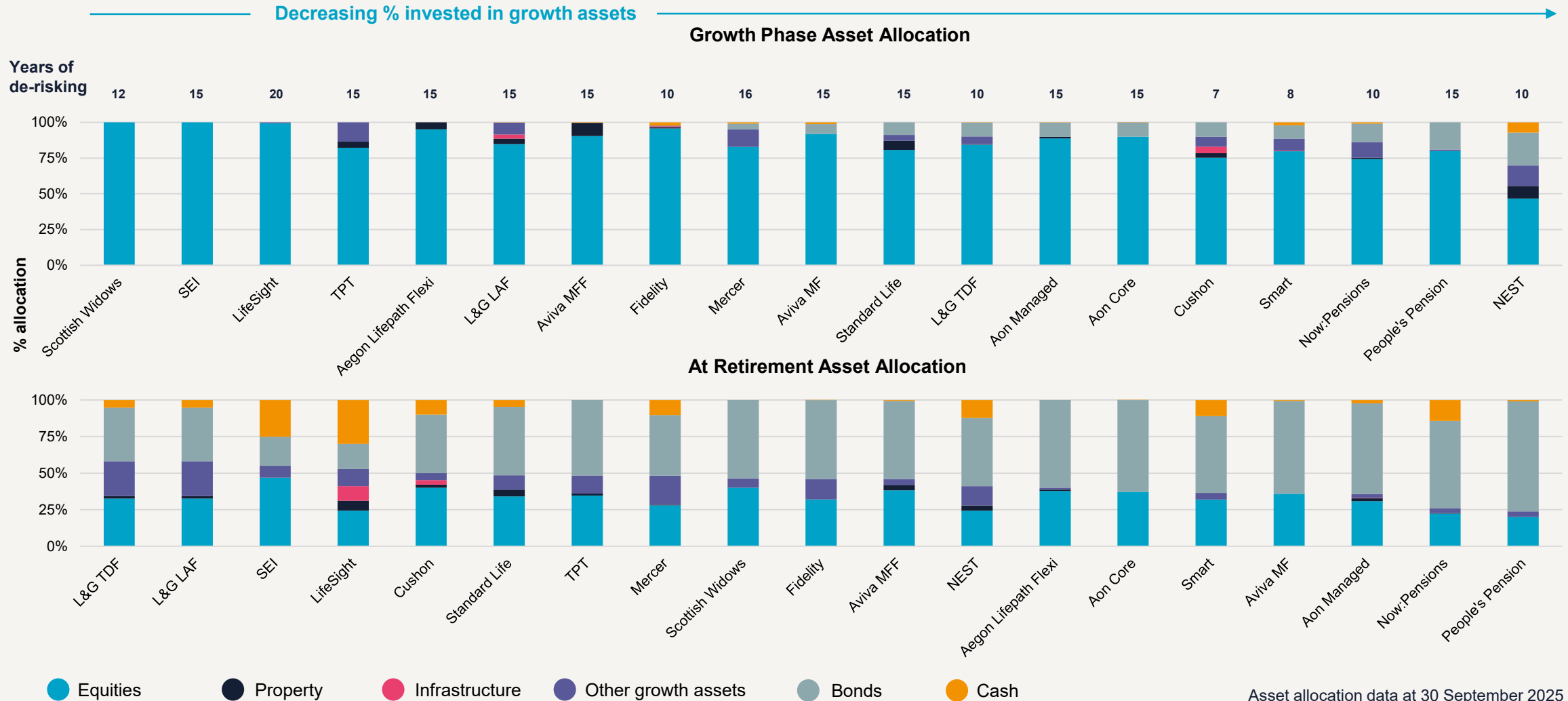
Providers have adopted varied approaches to private markets, including small allocations within the main default, alternative strategies with higher allocations, or both, implemented through either diversified multi-asset or single-sleeve solutions. A small number of providers (two) have also added allocations to long-dated gilts in the growth phase.

Glidepath changes have been mixed, with some longer glidepaths shortened and some shorter glidepaths extended to reflect higher-risk growth phase designs and liquidity considerations as members approach retirement. We note that providers target different retirement outcomes, universal or drawdown most commonly, which impacts asset allocation.



With many providers moving beyond equities in the growth phase, other growth assets have become a key area of focus.

Evolving defaults with an increasing emphasis on growth assets



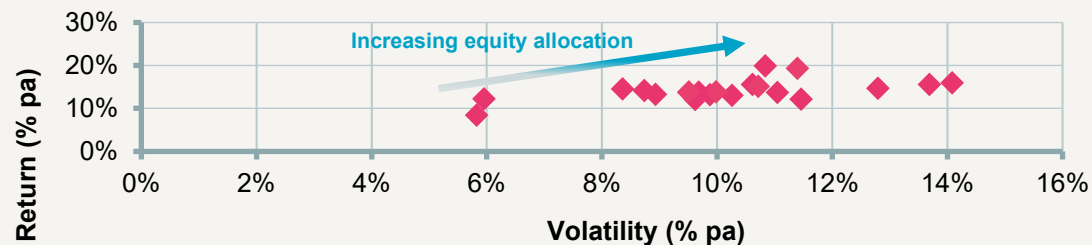
Master trust growth phase performance comparison

A core driver of equity gains has been technology and AI-related companies

Overseas equities were the main driver of returns over the year to 30 September 2025. Master trusts with higher equity exposure, particularly to the US, delivered the highest returns. A number of providers have started to introduce private markets in the growth phase. Private markets allocations are still ramping up for those defaults, so are not a significant differentiator for provider returns at this point in time.

Returns over the year to 30 September 2025 across providers ranged from around 12% to 20%, with an average return of 14.6%. The two highest returning master trusts, outliers in the chart below, used factor-based approaches for their equity allocations – momentum investing, that is allocating more to stocks with strong recent performance such as Nvidia, has been particularly in favour recently. Of course, an Artificial Intelligence driven bubble popping could mean leaders become laggards, therefore diversification by country and sector remains something all investors should be considering.

Strategies with a high allocation to overseas equities performed well, particularly those taking a factor-based approach to equity investing.



Strong returns but wider variation over the longer term

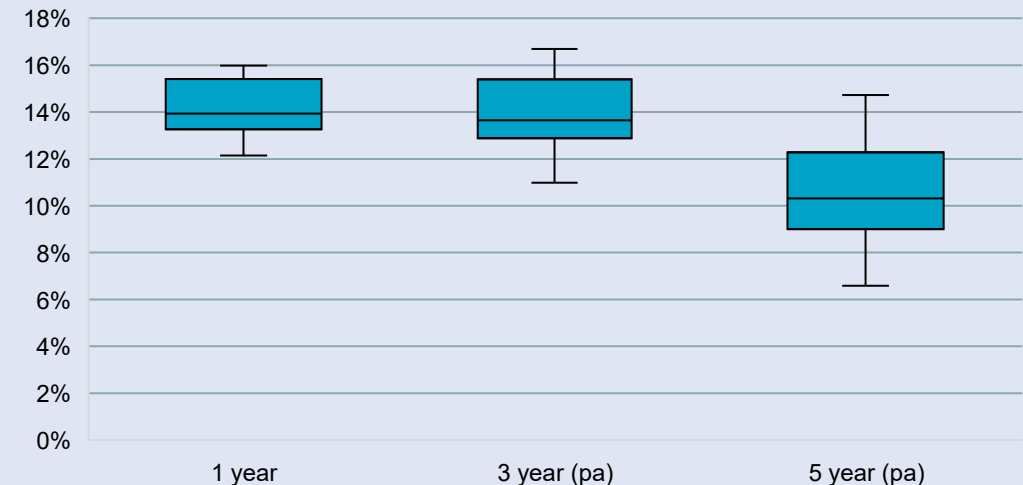
What do box and whisker charts show?

The box area is the 1st and 3rd quartile returns and the horizontal line in the box is the average (median). The line at the limits of the whiskers show the highest and lowest data points, excluding any outliers.

Over the 1-year to 30 September 2025, most strategies invested predominately in equities, and since equities were a key return driver this led to similar returns from providers.



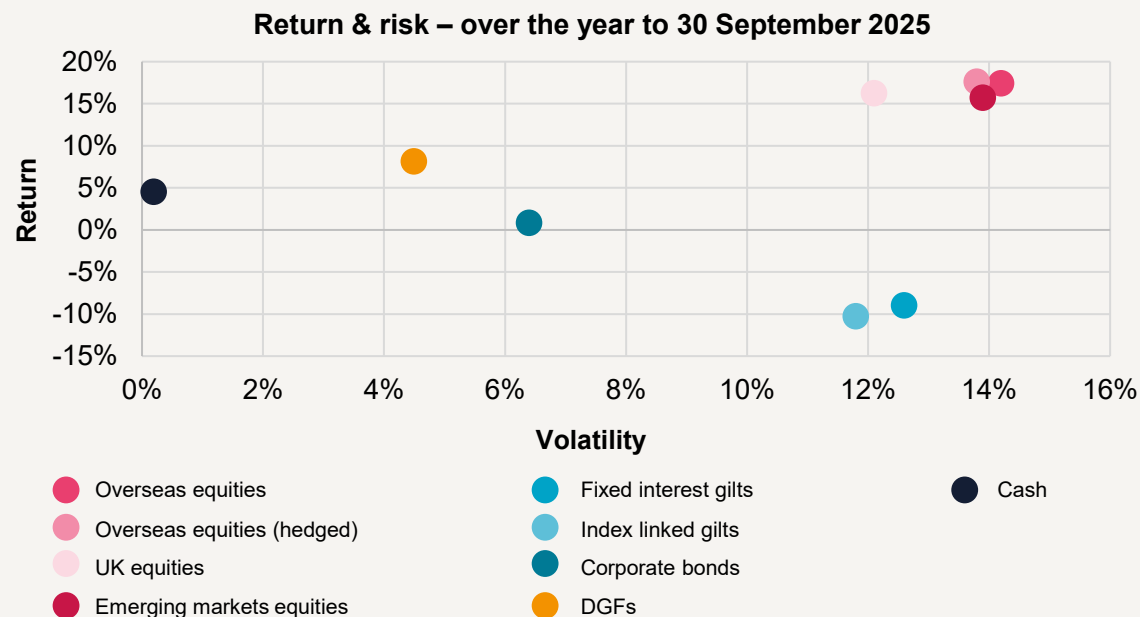
Far from retirement – 30+ years to go



What's driving growth phase returns?

Four factors shaping performance

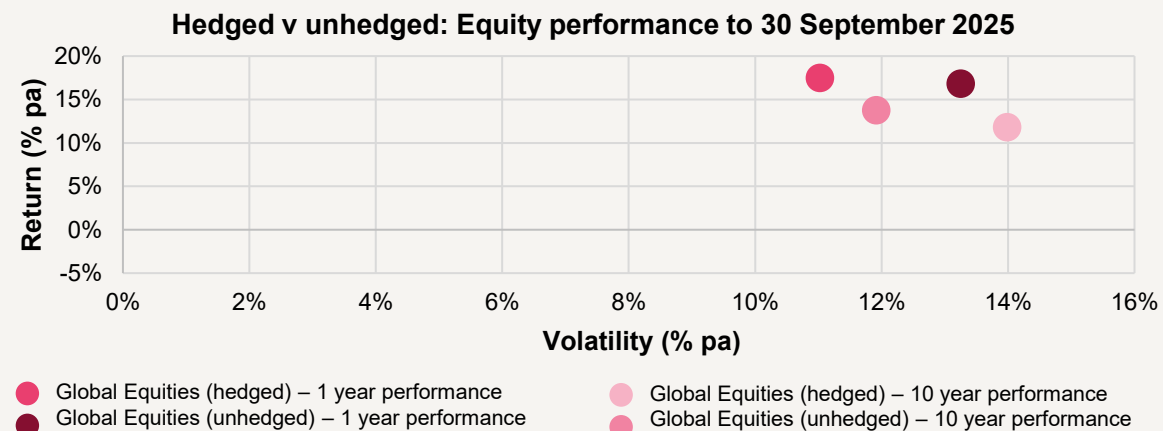
Individual asset class performance



Differences in asset class performance were the primary driver of returns over the year to 30 September 2025. Equity assets delivered the strongest returns but also carried higher levels of volatility, while bonds detracted. As a result, master trust default strategies with higher strategic allocations to equities generally outperformed those with lower equity exposure. This reinforces the continued importance of strategic asset allocation in shaping outcomes, with asset class mix having a greater influence on performance than shorter-term positioning decisions.

Currency exposure

Over the shorter term, higher FX volatility driven by changing interest rate expectations and geopolitical uncertainty has tended to increase risk for unhedged assets, with mixed effects on returns. Over the longer term, sustained foreign currency strength, particularly the US dollar, has supported higher returns from unhedged exposures, with different risk outcomes across equities and corporate bonds. This shows that currency exposure can act as both a source of risk and a return driver depending on market conditions and time horizon.



Currency exposure has influenced outcomes differently over time, showing contrasting effects over shorter and longer periods.

Master trusts often leave growth phase currency exposure largely unhedged.

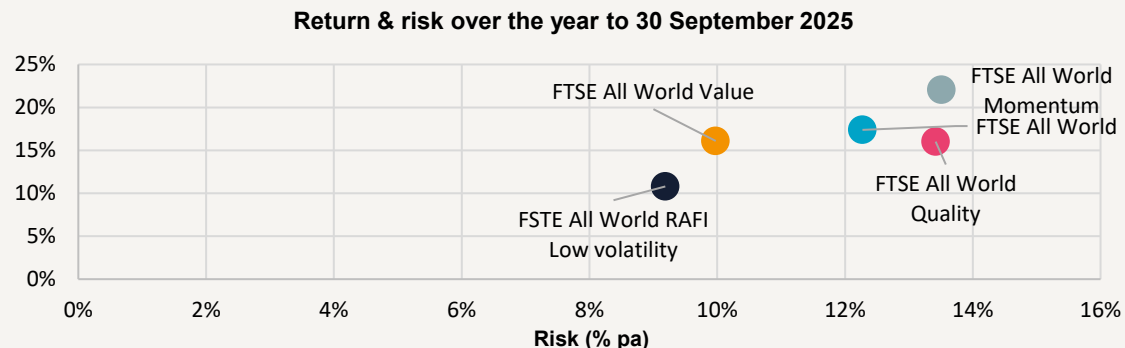
Master trusts typically hedge overseas currency risk within fixed income.

Currency hedging increases across master trusts to control risk near retirement.

What's driving growth phase returns?

Four factors shaping performance

Factor-based equity



Factor performance varied materially over the year to 30 September 2025. Momentum and quality factors delivered the strongest returns, benefiting from continued market concentration and strong performance from large growth stocks. Value strategies also performed well, while more defensive factors such as low volatility lagged in a risk-on market environment.

These differences help to explain variation in master trust performance, particularly among strategies that make explicit use of factor-based equity exposures within the growth phase. Across the peer group, some master trusts employ broad multi-factor approaches, combining value, momentum, quality and low volatility, while others apply more selective factor tilts. In contrast, strategies without explicit factor design relied primarily on market-cap equity exposure.

Differences in factor exposure across master trusts helped explain some of the variation in returns over the year.

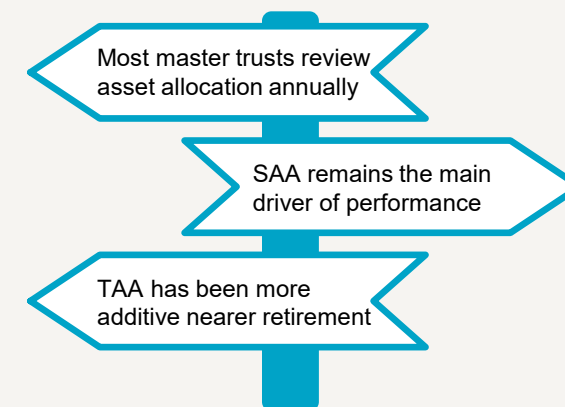
Tactical asset allocation (TAA)

TAA refers to a manager's ability to use an active management style to make short-term asset allocation decisions in order to take advantage of market conditions.

TAA plays a limited and varied role across master trust investment strategies. For most providers, strategic asset allocation (SAA) remains the primary driver of returns and is formally reviewed on an annual basis. While some providers monitor asset allocation more frequently and retain flexibility to make tactical adjustments, these are typically modest in scale and focused on risk management rather than return enhancement.

Disclosure on the contribution of tactical asset allocation to performance remains limited. Where it has been disclosed, the impact within the growth phase has ranged from around -0.7% to +0.4%, reflecting differing market environments and approaches. There is some evidence that tactical decisions have been more consistently additive closer to retirement, where risk management objectives play a greater role.

Few providers disclose TAA impact; where disclosed, growth phase impact ranged from +0.4% to -0.7%

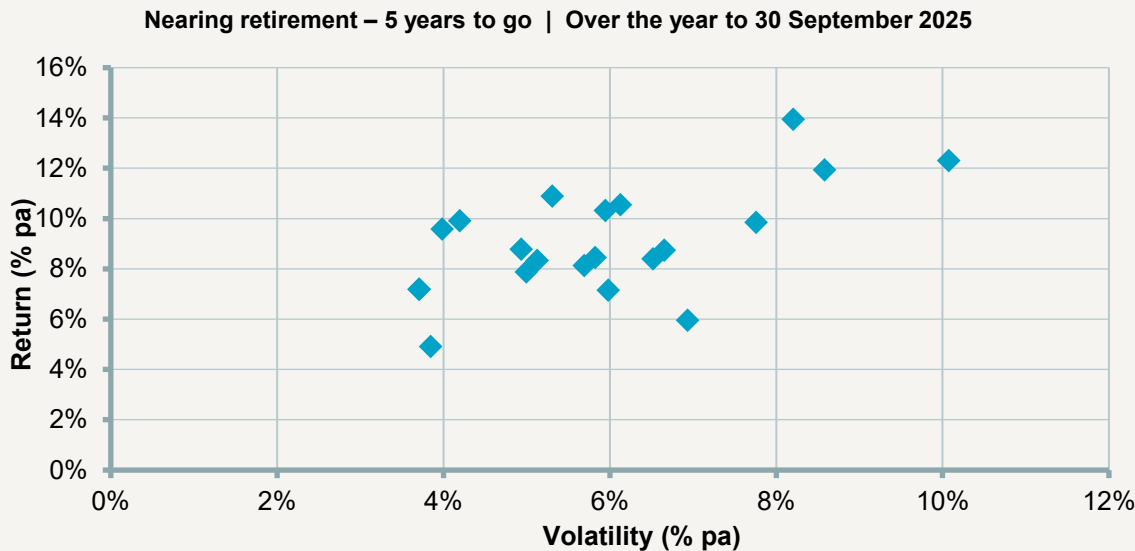


The final years: performance to 30 September 2025

Significant variations in returns and risk for members close to retirement

At five years from retirement there is higher potential for capital growth/loss compared to the growth phase as member pot sizes are generally much larger. Performance over this period is critical to member outcomes at retirement. Assuming members are taking benefits at retirement then a large drawdown at this stage may not leave enough time to benefit from a market recovery. Performance over the year to 30 September 2025 has been positive for all strategies, however volatility of returns has been varied with master trusts weighing up different attitudes to what is the right balance between managing risk and maintaining expected returns.

Performance over the year for members five years from retirement was between 5% and 14% for most master trusts. However, volatility varied significantly between 4% and 10%.

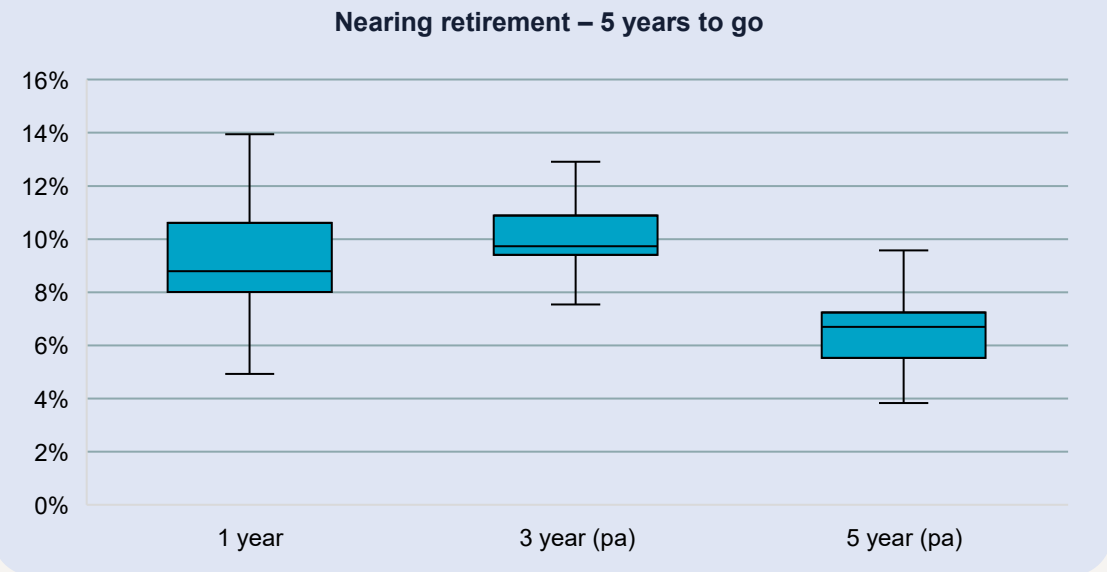


Larger variation over the short-term between providers near retirement

Returns tend to be more volatile over the short-term (1-year) period compared to longer horizons. While this suggests that short-term performance is less influenced by asset allocation, there are several outliers over the 5-year period which indicates that asset allocation can still play a significant role in enhancing performance relative to peers.

In contrast to the growth phase, variation in returns near retirement over the long-term was highest over the short-term.

Variation in returns is greater over the short-term than over 3- and 5-year periods.



Beyond the one-year mark: How performance rankings change

Persistent leaders and laggards over time

The quilt (the coloured table opposite) highlights that while performance across master trusts can vary meaningfully, some strategies have delivered consistently stronger outcomes while others have persistently lagged over both short- and longer-term periods. This persistence is particularly evident at the top and bottom of the performance range, which is less obvious when performance is assessed on a year-by-year basis.

In most years, including to 30 September 2025, equities have outperformed other asset classes, meaning strategies with higher equity allocations close to retirement have tended to perform better. Weaker outcomes have often coincided with higher duration exposure within bond allocations, with the impact more evident over three- and five-year periods following the 2022 gilt market disruption.

The master trust quilt opposite shows how performance is at the top end consistently across the one, three and five years for some master trusts, but for others there is more variation in how they stack up versus peers over time.

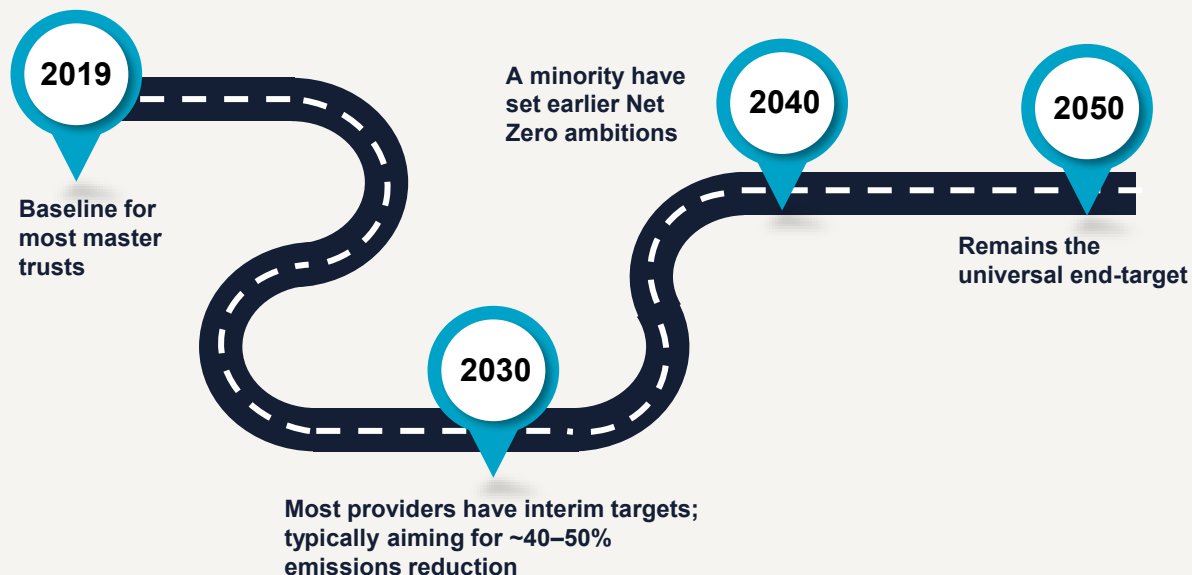
Master trust quilts

In the table below, each colour represents a different master trust provider's performance, and the three columns are returns over one, three and five years to 30 September 2025 respectively. The returns are for provider default strategies over the period preceding the five years before retirement point of the strategy. Each master trust has been assigned the same colour each year and these are then ranked highest to lowest.

ONE YEAR	THREE YEAR PA	FIVE YEAR PA
14.0%	12.9%	11.2%
12.3%	12.8%	10.3%
11.9%	12.6%	9.6%
11.3%	11.7%	8.1%
10.9%	11.1%	7.3%
10.3%	10.4%	7.2%
9.9%	10.3%	6.8%
9.9%	10.2%	6.8%
9.6%	9.8%	6.7%
8.8%	9.7%	6.7%
8.8%	9.7%	6.7%
8.4%	9.6%	6.1%
8.4%	9.5%	5.8%
8.1%	9.4%	5.4%
7.9%	9.3%	4.7%
7.2%	8.7%	4.4%
7.2%	7.8%	3.8%
6.0%	7.5%	2.7%
4.9%	N/A	N/A

Source: Manager data and Bloomberg. Returns are presented gross of charges for all providers except NEST and Scottish Widows where returns are net. One strategy has a one-year performance track record.

Net Zero: trajectories across UK master trusts

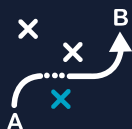


Continued progress amid changing global views on climate

Despite mixed international signals and growing scrutiny of ESG terminology, UK master trusts continue to progress their climate ambition. Providers are increasingly adopting structured Net Zero pathways with 2030 checkpoints, deeper climate analytics and enhanced oversight of external managers.

Coverage is widening beyond listed equities to fixed income, infrastructure and private markets, where climate-aligned opportunities are gaining traction. The direction of travel is clear: more transparency, more consistency, and a stronger focus on demonstrating meaningful progress.

Decarbonisation efforts are broadening, with a stronger emphasis on real-world outcomes and stewardship-led change.



Are providers on track?

Yes. Most report being **on track**, with steady progress against interim milestones. Several already show **early emissions reductions** and improved climate data.



Are targets being revised?

No master trust researched has changed its Net Zero targets, with providers focused on improving measurement rather than shifting end dates. While they recognise that real world decarbonisation is uneven and some countries may miss 2030 goals, this has not reduced long term ambitions or commitments to 2050 targets. Climate policy advocacy has become increasingly more important – we have set out our findings in this area [here](#).



What's being focused on?

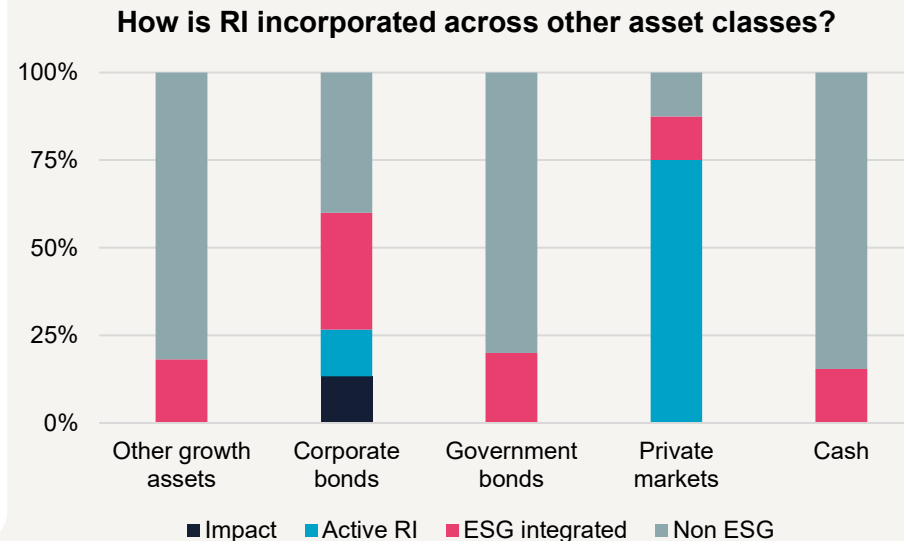
Efforts are centred on **better data, clearer reporting and stronger oversight**, while extending climate integration **beyond equities into other asset classes**. Stewardship and escalation remain the main tools for driving decarbonisation.

How are providers incorporating responsible investment?

ESG integration is primarily concentrated in equity allocations, with the majority of master trusts using climate-tilted passive strategies throughout their default strategies. Below we have looked at how master trusts are integrating responsible investment (RI) in asset classes outside of equity.

Integrating RI considerations is more challenging in some asset classes than others but remains an important objective for many master trusts as they seek to meet net zero targets across the default strategy.

For example, emerging market debt is often used as a growth asset, yet RI integration can be more limited due to regulatory constraints, less consistent ESG data and the more transactional nature of debt markets, which can restrict engagement and stewardship activity.



RI integration to any extent is highest in private markets, followed by corporate bond allocations.

Cushon takes one of the highest levels of ESG integration, investing in an impact bond fund that targets issuers delivering measurable social and environmental outcomes. Smart follows a similar approach through investment in green bonds that finance environmental projects.

Aon uses an active credit strategy aligned with the UN Sustainable Development Goals, reflecting a broader sustainability approach rather than a specific impact focus.

Allocations shown for 15 master trusts defaults with available data. * 'ESG integrated' does not include funds that only apply screens. Includes integration through tilts or optimisation. Where a master trust offers more than one strategy, we have shown the most premium/innovative version. Similarly, when a master trust uses more than one fund within an asset class, we have shown the fund that integrates RI to the furthest extent.



Cushon was one of the first master trusts to make a meaningful allocation to ESG-focused private markets, investing in the **Schroders Climate+ fund** to support the energy transition and broader sustainability goals.



Master trusts are increasingly investing in **renewable infrastructure** such as wind and solar. For example, LifeSight invests via the Schroders Greencoat Global Renewables+ LTAF, while Smart has invested in the Octopus Energy Generation's Renewables Infrastructure Fund to help finance green energy projects.



A smaller number of master trusts are investing in **natural capital and carbon solutions**. Cushon has allocated to Aviva Investors' Carbon Removal Fund, which invests in afforestation and land restoration projects.

What are the key takeaways?

The key takeaways from this year's report are:



Investment design remains the key driver of outcomes: Differences in strategic asset allocation, glidepath design and diversification continue to result in materially different member outcomes, particularly as members approach retirement. Whilst the majority of strategies have a high allocation to equities in the growth phase, a market-cap vs factor-based allocation has created some variation. Towards the other end of the glidepath, currency hedging tends to increase towards retirement, impacting returns across providers. Ask your master trust how it is considering concentration risk in these investments.



Higher growth exposure brings greater volatility: Higher allocations to overseas equities have supported returns but increased exposure to market concentration, particularly within US equity markets where a small number of large technology stocks have driven a significant share of performance. This reinforces the importance of helping members understand that equity markets can be volatile over shorter periods.



Responsible investment is widespread, but depth of integration differs: While all master trusts now integrate RI to some extent, only a small number are moving beyond integration towards strategies that aim to deliver measurable real-world outcomes. Over the last year we have seen an increased number of innovative ideas implemented in strategies which aim to increase RI integration in asset classes outside of equities.

The report has highlighted how important investment design is in delivering good outcomes for members and how analysis like this is required to avoid selecting a master trust with a poor investment strategy.

If you would like to discuss our findings in this report and how this could help you provide better benefits to your employees or scheme members, then please contact our team shown on the next page.





**Edward Dixon, CFA
Partner**

020 7432 0642
Edward.Dixon@lcp.uk.com



**Anika Soanes
Senior Consultant**

020 7432 6616
Anika.Soanes@lcp.uk.com



**Natalie Porter, CFA
Consultant**

020 3824 7317
Natalie.Porter@lcp.uk.com



**Beth Harvey
Associate Consultant**

020 7432 6685
Beth.Harvey@lcp.uk.com

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