Master Trusts Unpacked

Default investment strategies

April 2025

Welcome

Welcome to the 2025 edition of Master Trusts Unpacked: Default investment strategies, our fourth report to date. This report is also the second part of our Master Trusts Unpacked series this year, with the first report available here.

This report offers a look at the performance of master trust default strategies both over recent periods of market volatility and throughout 2024. Whilst last year equity markets exceeded expectations, we have seen volatility increase dramatically in 2025 as President Trump's seesaw approach to trade policy has impacted market confidence. We investigate how these events have affected the various master trust default strategies.

For employers and trustees alike, who are reviewing or selecting a master trust, this report aims to shed light on the nuances of default design approaches and their performance at a time where master trusts are evolving their investments strategies to add higher allocation to growth assets like equities.

As per last year, 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.

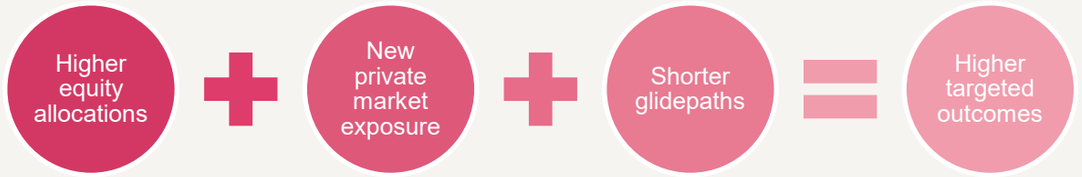
Looking forward, President Trump's tariff decisions have the potential to bring material change to the global order in a way that could have significant consequences for investment strategies and how they are best implemented. In addition, increased incentives to allocate to private markets and invest in UK private markets has, and is likely to, continue to influence strategic allocations going forwards.

We hope you enjoy reading the report.

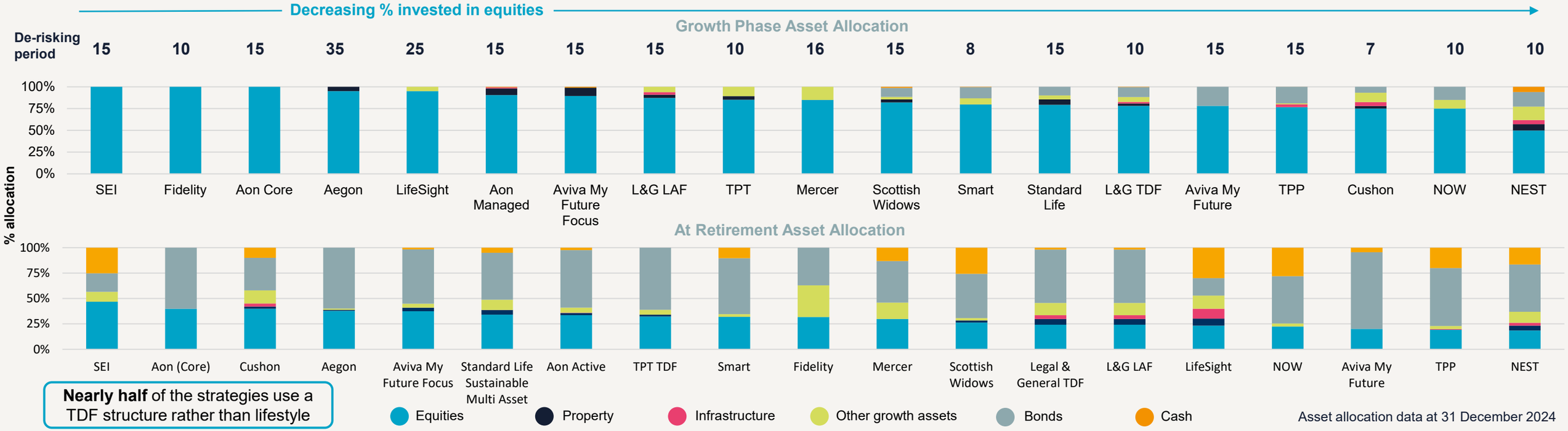
Nigel Dunn
Partner

Significant evolution in asset allocations

Master trust investment strategies are currently going through a significant amount of evolution. Providers are overhauling existing strategies and introducing new premium strategies, all in the pursuit of improving member outcomes. Typically, the evolution has centred around three key themes: higher equity allocations in the growth phase, new private market exposure (both near and far from retirement) and shorter glidepaths to retirement for some. All of these changes improve the expected long-term return in the strategies as master trusts conclude that members can tolerate more risk in their investments. Premium strategies are being used in some cases to introduce higher exposure to private markets, requiring employers to look past the costs and focus on the higher expected returns.



There is an unprecedented amount of change and evolution in master trust investments strategies in the pursuit of better expected outcomes for members.



Nearly half of the strategies use a TDF structure rather than lifestyle

Growth phase performance

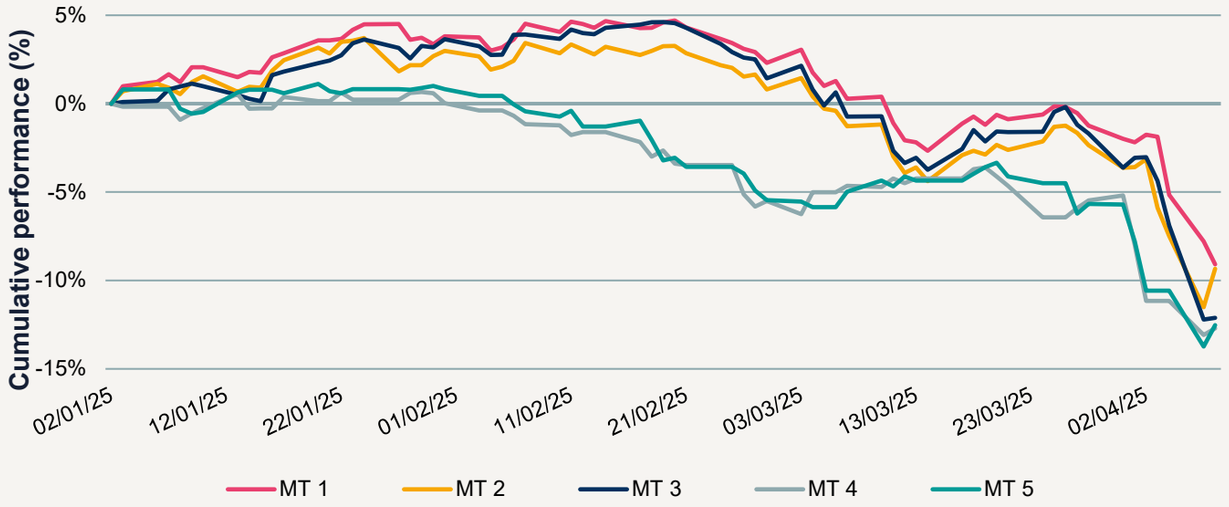
Equity market volatility follows a strong period of performance

A new narrative for 2025

Whereas 2024 rewarded master trusts leaning heavily on overseas equities – particularly US tech – this year's market turbulence has reversed that trend. Strategies built on a concentrated global equity approach have been hit hardest, while those with broader diversification are holding up comparatively well. It's a marked shift from just a few months ago and underscores how quickly market conditions can evolve. With cumulative returns since late 2024 tracking mostly negative, it will be worth watching how performance develops through the rest of 2025. Though near-term volatility may be unsettling, members in the growth phase remain years away from retirement – making a predominantly growth-focused approach still sensible. Over the coming months, these strategies will be put to the test as policy and market conditions continue to shift.

Whereas strategies heavily weighted towards overseas equities performed strongly in 2024, the volatility in 2025 has led to sharp falls in the growth phases of master trusts.

Year to 8 April 2025 performance for a selection of master trust growth strategies



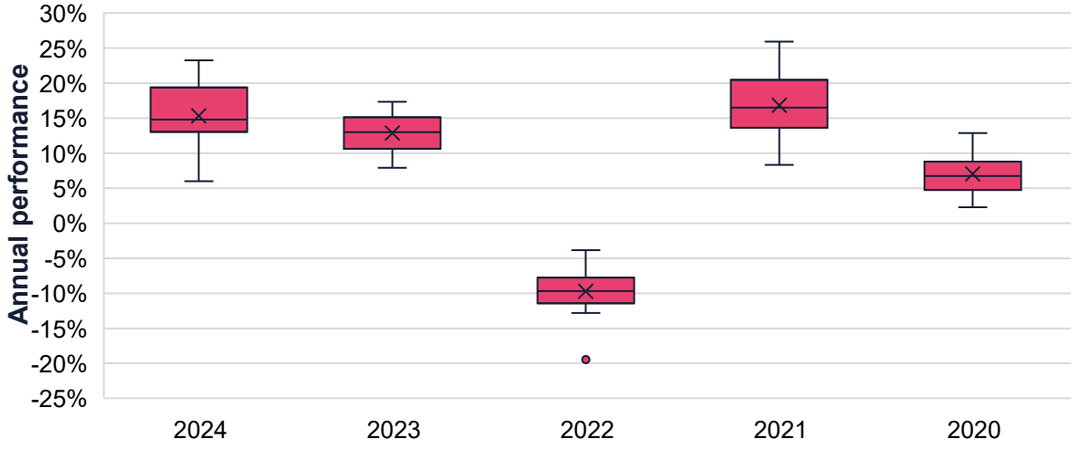
Wider variation in returns in 2024 compared to 2023

What do box and whisker charts show?

The box and whisker charts show the median return as an 'x' and the 1st and 3rd quartile returns as the box area. The line at the limits of the whiskers show the highest and lowest data points excluding outliers.

History shows the variation in returns is wider in the growth phase than near retirement as expected. Over 2024, the variation in returns in the growth phase was higher than in 2023 but remained in line with historic levels and with no outliers.

Range of master trust performance over the last five years for members far from retirement with 30+ years to go

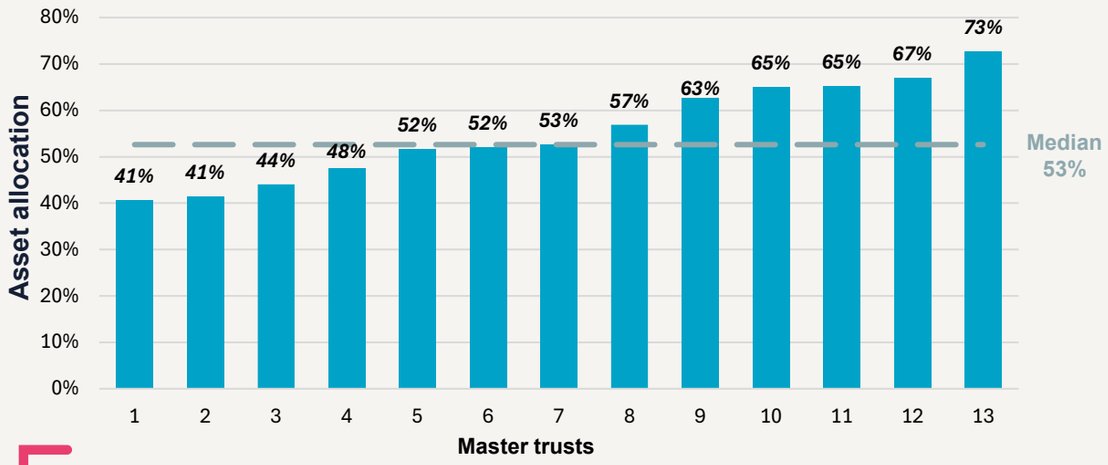


Under the bonnet: Uncovering equity nuances in master trusts

Most master trusts hold a significant weight to US markets

Lots of focus has been poured on the Magnificent 7 (Mag 7) in the last few years as the stocks delivered impressive market gains, buoyed by surging enthusiasm for AI innovation. Whilst these stocks rose further at the end of 2024, supported by pro-growth policies following Trump's re-election in November, the stocks have fallen sharply over the year to date, highlighting the risks of holding concentrated positions in an equity strategy. Having delved into master trust allocations, we have seen varying exposures to North American and Mag 7 stocks, reflecting diverse strategies in an environment where growth prospects are both promising but unpredictable.

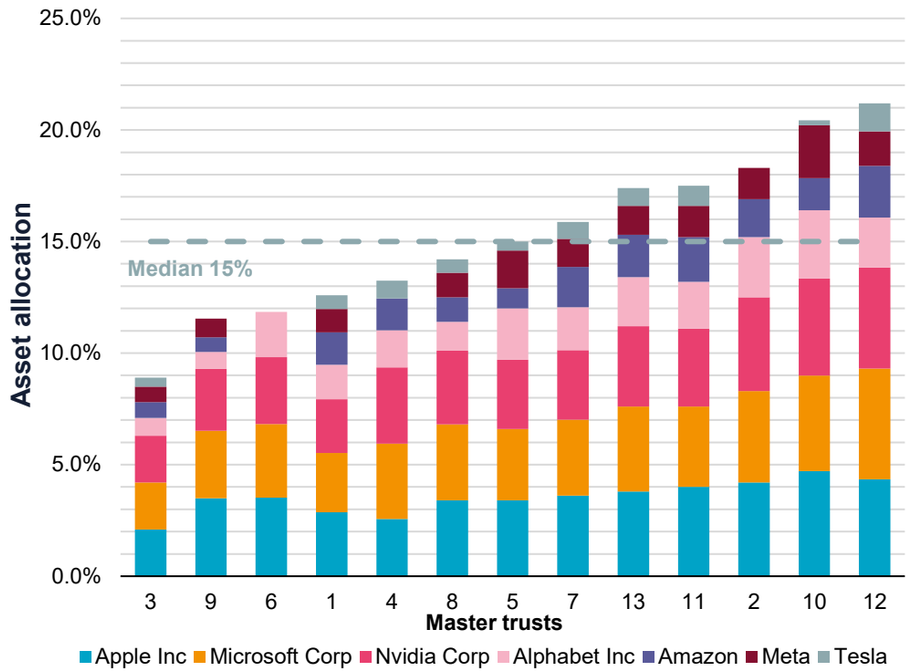
North American equity exposure in growth phase of master trust defaults



The allocation to North American equities within master trusts' growth phases varies widely. Some hold fewer equities overall in their growth phase, which shrinks their North American allocation. However, even master trusts with a 100% equity-focused growth phase invest anywhere from 63% to 73% in North America, reflecting different takes on opportunity, risk, and diversification.

Highlighting varied Mag 7 exposures across defaults

Mag 7 stock exposure in growth phase of master trust defaults



Asset allocation data at 30 September 2024

A larger allocation to North American equities doesn't necessarily mean more exposure to the Mag 7. Some master trusts use ESG or climate tilts that favour certain growth names, while others rely on factor strategies that cut exposure. Some even exclude stocks like Tesla due to valuation concerns.

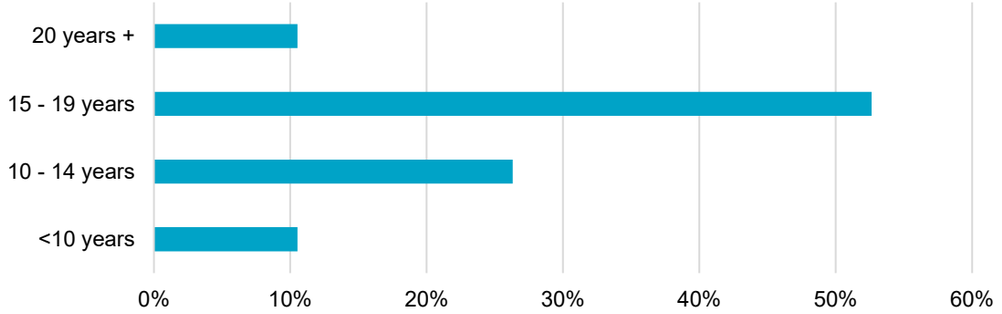
Diverse paths to retirement

De-risking pace variations expose members to timing risk

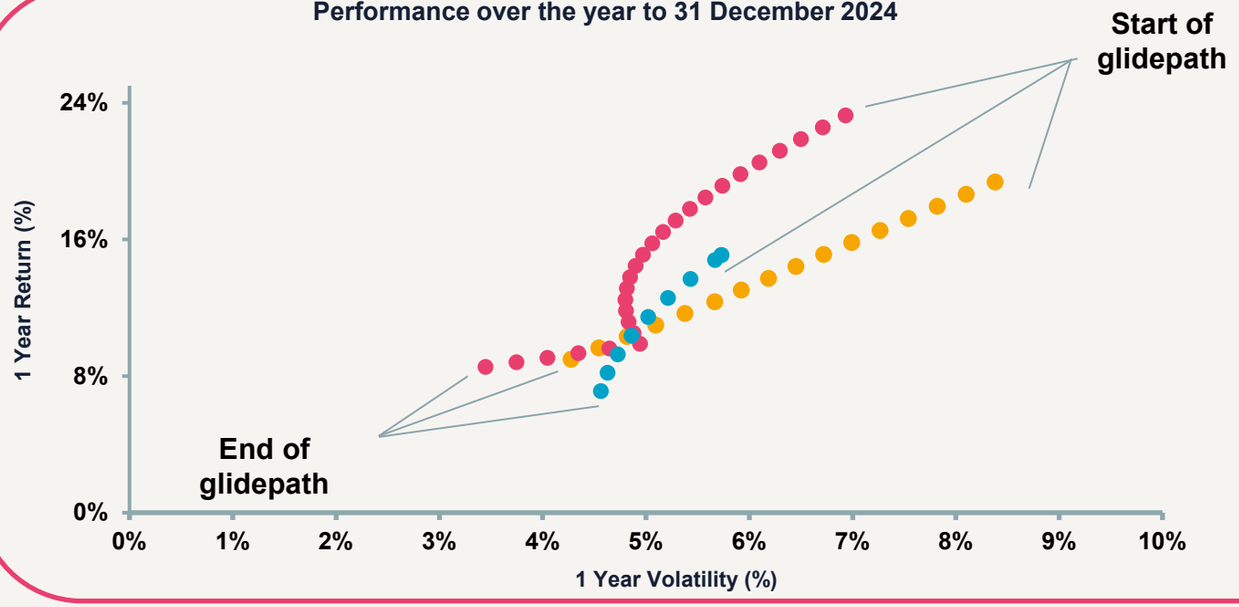
As members approach retirement, they typically move through a glidepath that changes their asset allocation from what is deemed high risk to lower risk assets. The de-risking phase of these glidepaths can be as long as 35 years or as short as seven years so it's helpful to see how performance varies between these strategies.

Master trust glidepaths differ considerably in length leading to varying performance and member experience along the journey to retirement.

Length of glidepath for master trust defaults



Performance over the year to 31 December 2024



Equity/bonds strategy
A high allocation to equities in the growth phase produced a strong return, whilst the use of shorter duration bonds helped gradually reduce risk as members approached retirement

Diversified with equity focus strategy
This strategy provided a strong return in the growth phase, with a large allocation to cash at retirement providing protection for members

A shorter strategy
Whilst the strategy de-risks over a shorter period, the allocation to bonds in the growth phase led to reduced returns for members furthest from retirement

The run up to retirement

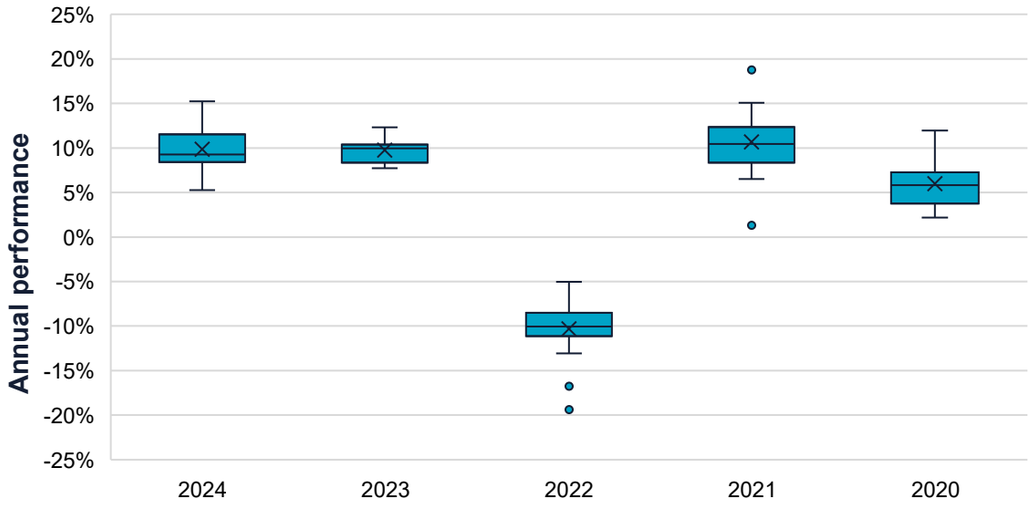
Falls in 2025 will be more impactful for members close to retirement

Larger variation in 2024 between providers near retirement

Over 2024, returns have been less consistent across the different providers than in 2023 and 2022, which indicates that there is greater variation between providers' investment strategies near retirement. Returns over the most recent years have been positive for all providers at this stage.

No outliers were recorded in 2024, however variation in returns increased when compared to both 2023 and 2022.

Nearing retirement - 5 years to go

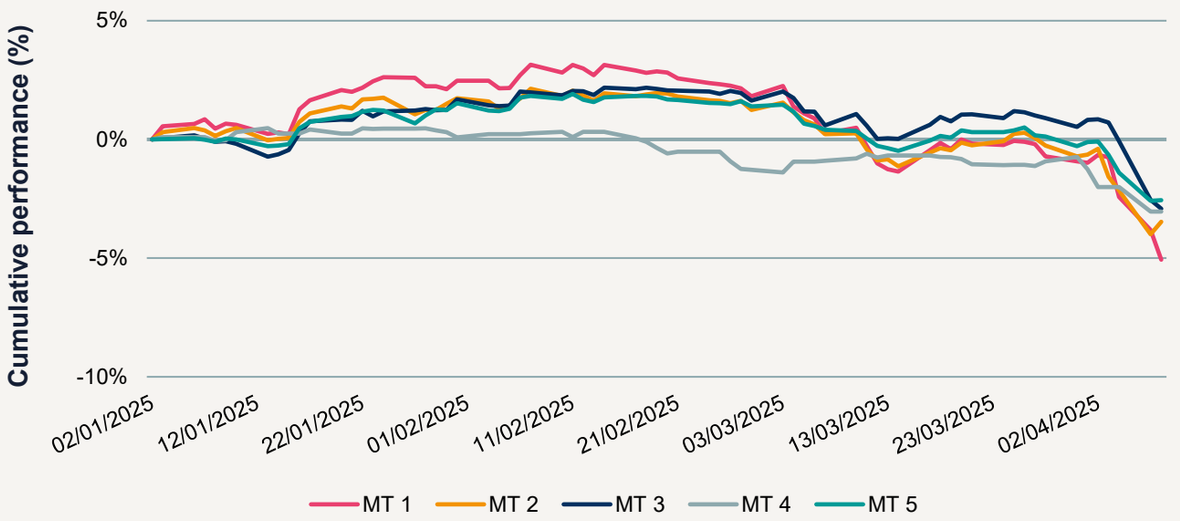


Increased volatility at retirement in 2025

At retirement there is huge 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. Assuming members are cashing out at retirement then poor performance at this stage will not leave members sufficient time to recover their losses. Whilst the default strategies are designed to reduce volatility in the run up to retirement, we have observed negative performance year to date in a sample of strategies shown in the chart below.

Members who are at retirement have been protected from the worst of the market volatility seen in recent weeks. Losses will be felt most by members taking cash whereas those taking drawdown will have time to recover.

Year to 8 April 2025 performance for a selection of master trust at-retirement strategies



Beyond the one-year mark: Exploring the ups and downs of long-term performance

Year on year performance is mixed

The quilt shown on the right demonstrates how performance from some master trusts can vary quite significantly from year to year whilst others have produced more consistent returns. Perhaps what is most striking in the quilt is the difference in performance each year of the best and worst performing strategies.

In most years, including 2024, equities have outperformed most other asset classes so those strategies with a high equity allocation near retirement have benefited from this exposure. A driver of poor returns was the level of duration held within bond assets.

Those with a more diversified approach have seen mixed performance in 2024 and most previous years.

The master trust quilt demonstrates how for some master trusts, relative performance can vary year to year whilst others have produced a more consistent return across the last five years.

Annual performance of master trust when members are five years from retirement

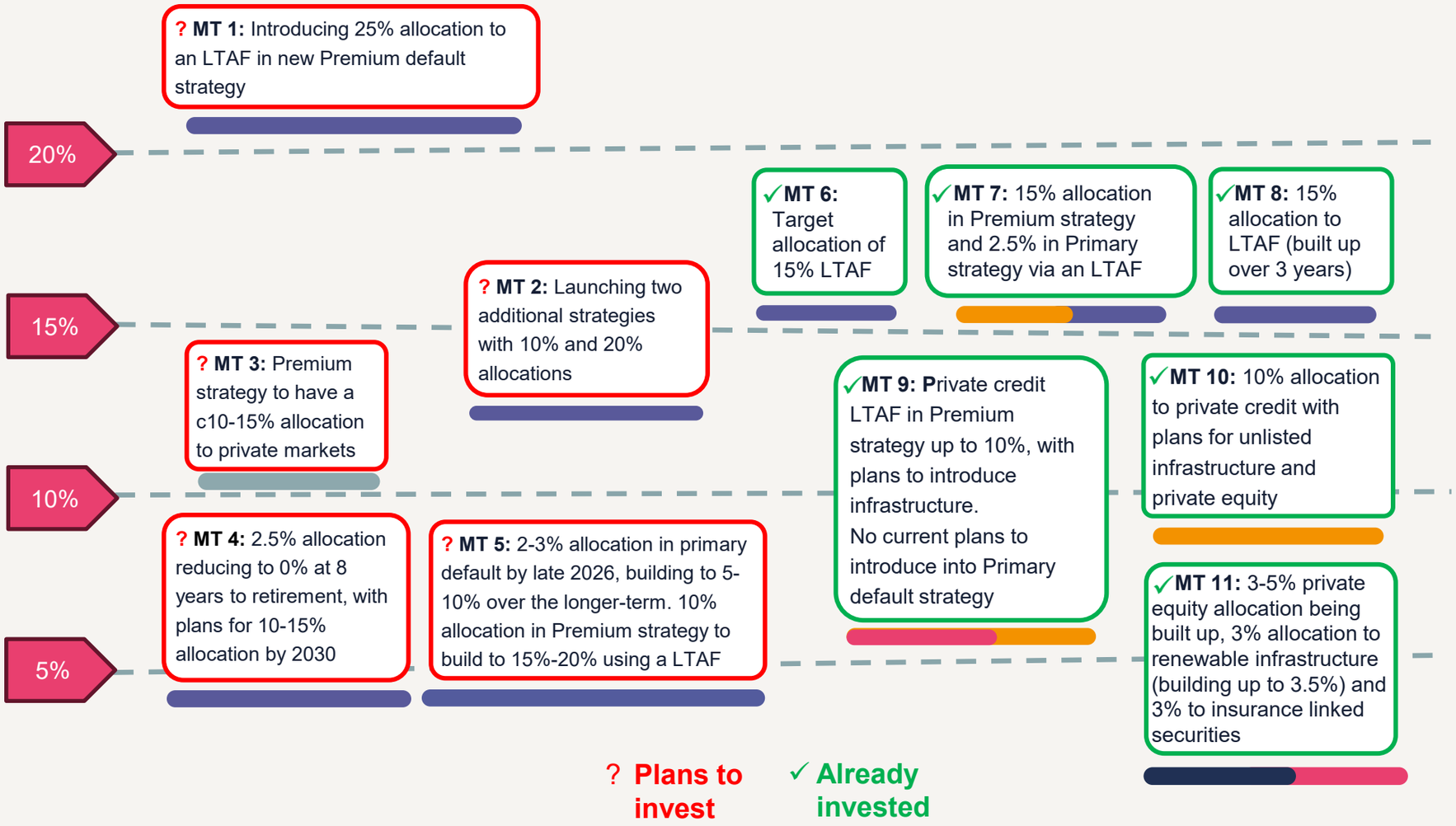
2024	2023	2022	2021	2020	3 year pa	5 year pa
15.2%	12.3%	-5.0%	19.1%	11.9%	6.1%	8.7%
14.8%	12.3%	-7.0%	18.8%	11.9%	4.7%	8.5%
13.4%	12.0%	-7.0%	15.1%	8.6%	4.4%	7.2%
12.0%	10.5%	-8.5%	12.6%	8.3%	4.0%	6.1%
11.5%	10.4%	-8.5%	12.3%	6.9%	3.8%	5.6%
10.8%	10.3%	-8.6%	11.6%	6.2%	3.6%	5.5%
10.4%	10.2%	-8.7%	11.1%	6.1%	3.4%	5.4%
10.1%	10.1%	-8.9%	10.7%	6.0%	3.4%	5.3%
9.9%	10.1%	-9.2%	10.5%	6.0%	3.0%	4.4%
9.3%	9.9%	-10.0%	10.4%	5.7%	2.5%	4.4%
8.9%	9.4%	-10.3%	10.4%	5.1%	2.4%	4.4%
8.8%	9.1%	-10.4%	10.3%	5.1%	2.1%	4.0%
8.6%	8.9%	-10.6%	9.6%	4.4%	2.1%	3.5%
8.5%	8.9%	-11.1%	9.2%	3.8%	1.5%	3.5%
8.4%	8.4%	-11.1%	8.4%	3.5%	1.1%	3.4%
8.2%	8.4%	-11.5%	8.2%	3.5%	1.1%	3.4%
7.6%	8.3%	-13.1%	6.6%	2.8%	0.6%	2.8%
6.0%	7.9%	-16.8%	6.5%	2.2%	0.4%	1.1%
5.3%	7.7%	-19.4%	1.3%		-0.2%	

Source: Manager data and Bloomberg. Returns are presented gross of charges for all providers except NEST and Scottish Widows where returns are net. The number of master trusts in the quilts increased from 18 to 19 in 2021.

Master trust quilts - how do they work?

Each coloured section in the quilt represents a different master trust provider's performance over that year (e.g. 2024) or longer-term periods (e.g. 5 year pa). Each master trust has been assigned the same colour each year and these are then ranked from best to worst.

Focus for 2025: Private market allocation roadmap



Increase in private market investments

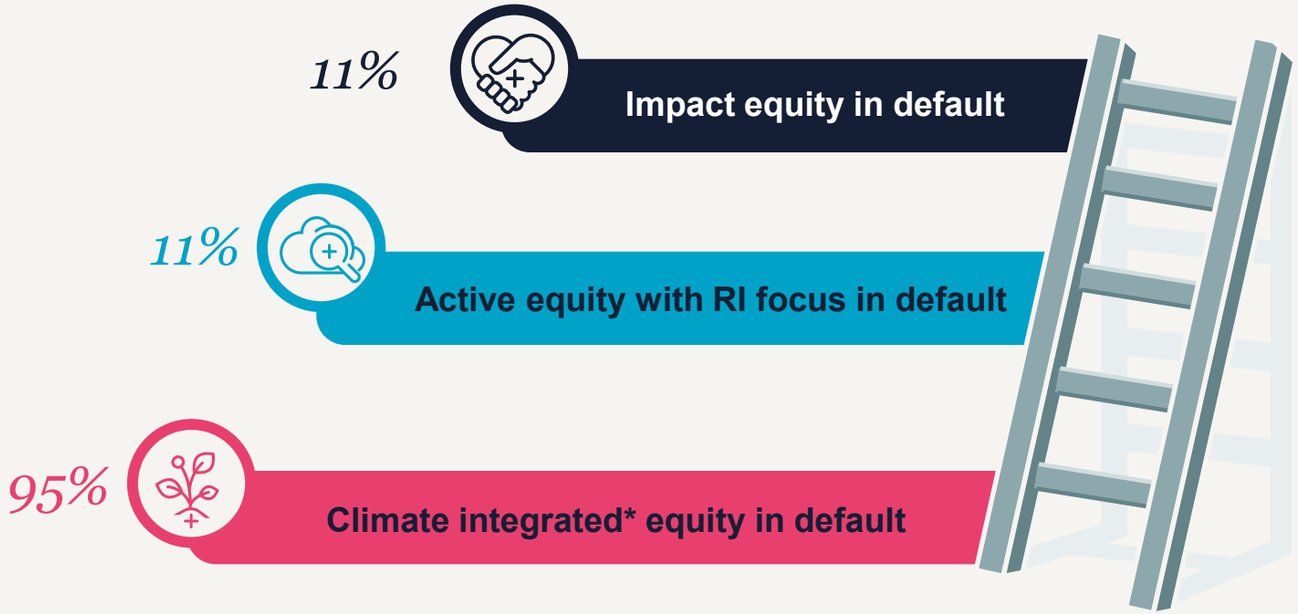
Over the past year, master trusts have dedicated significant effort to exploring private market assets or launching and investing in new private market funds.

A key factor in this process is determining how to incorporate private market investments while still delivering value for money to members. Some master trusts have opted to include a minor allocation within the primary default strategy and a larger portion in a more premium default strategy. This approach provides companies choosing a master trust with the option of a low-cost default or a default that offers potentially higher investment returns.

Since most allocations are quite recent, we are eager to see the performance figures in next year's report.

Most master trusts are testing the water with private market investments – making small allocations in the main default strategy and larger allocations for companies that select the premium strategy.

How are master trusts incorporating responsible investment in their default strategies?



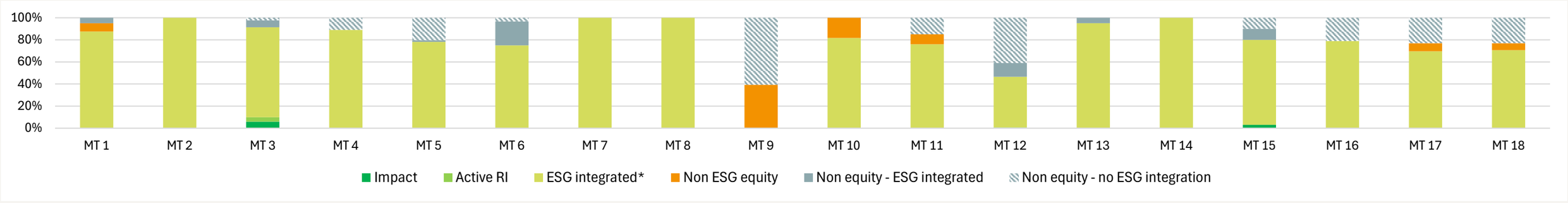
*Through tilts or optimisation. As at 31 December 2024.

Evolving for a sustainable future

Despite increasing negative sentiment towards mitigating climate risk in the US following the election of President Trump, UK master trusts continue to place a high priority on accounting for climate risks within their default strategies. Nearly all providers integrate climate considerations in some form to ensure that their portfolios are resilient in a changing market environment. Beyond equities, many providers are now exploring climate integration in fixed income and some are going a step further with their private markets allocations focusing on climate-driven sectors such as renewables. We look forward to seeing further developments and innovations in this area throughout 2025.

All master trusts are integrating RI into their default strategies within equities to some extent.

ESG equity allocations within Master Trusts



Allocations shown for 18 master trusts defaults with available data as at 31 December 2024. * 'ESG integrated' does not include funds that only apply screens. Includes integration through tilts or optimisation.

What are the key takeaways?

The key takeaways from this year's report are:

- Equity markets experienced high levels of volatility in early 2025 following a year of strong returns. Strategies have been building up higher allocations to overseas equities in their growth phases which has meant members have experienced more volatility than in the past. Ensure your master trust is providing suitable communications to members on what this means for them depending on how close they are to retirement.
- The allocation to North American and Mag 7 stocks is high but varied between master trusts. Ask your master trust how it is considering concentration risk in these investments.
- Master trust glidepaths vary with some providing a bumpy run in for members whilst others provided a much smoother approach. This is the most important part of the journey for members, where smooth returns can make the difference between a predictable or uncertain retirement. What is your master trusts approach in the run up to retirement?
- The majority of providers have included or are considering including private markets into the growth phase of their default strategies. Some providers are doing this within a Premium version of their current default whilst others are integrating into the Primary default. Find out what your master trust is doing and how this will impact your members.
- All master trusts are integrating RI into their default strategies to some extent but only a few can claim to be making a real-world difference. Find out whether your master trust is one of these.

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 get in touch with our team shown on the next page.

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