



The Silent Retirement Risk Shift



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Default fund design within defined contribution (DC) plans has undergone a structural shift. Persistently strong equity performance over the past decade have driven steadily higher equity exposure across glide paths. Simultaneously, equity markets have become more concentrated, meaning the risk embedded in today's defaults is more complex than equity weights alone suggest. These changes carry important implications for long-term retirement outcomes. Higher equity exposure has been rewarded in recent years, but its impact can

vary meaningfully across market regimes – with drawdowns, recovery periods and diversification playing a larger role than is often assumed.

Together, these developments suggest that default funds may warrant renewed examination to ensure they continue to deliver an appropriate balance between growth, diversification and resilience over time.

A Quiet Evolution With Loud Consequences

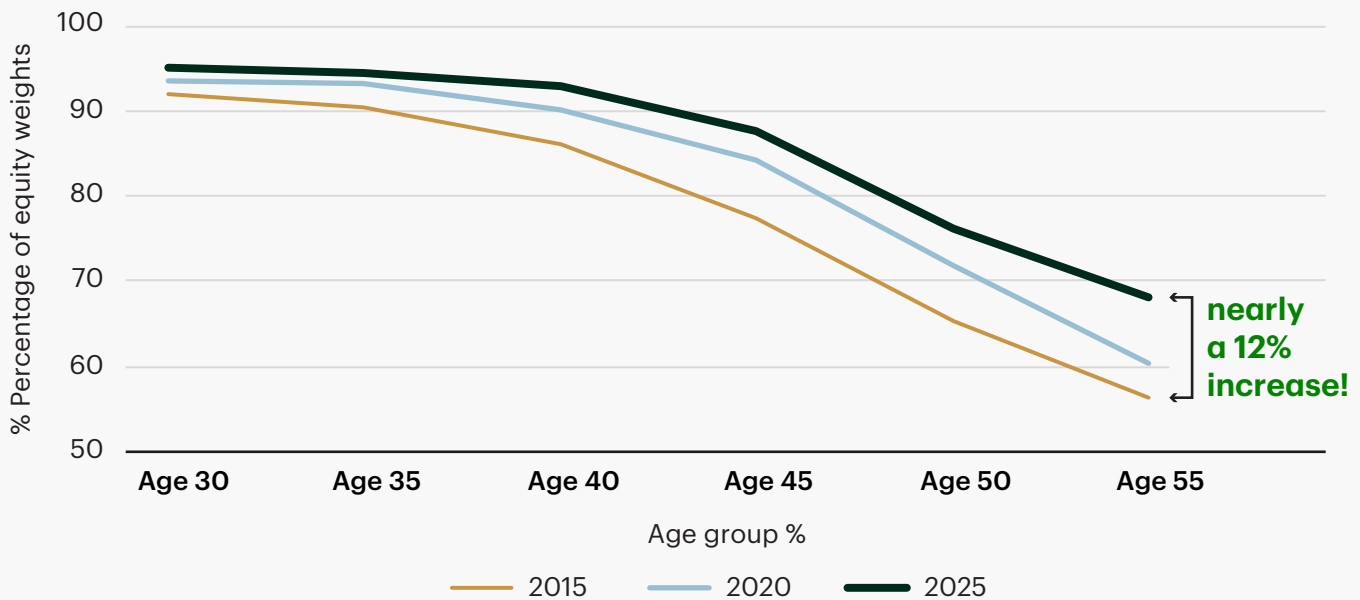
In the world of DC plans, change rarely announces itself. There are no press releases when glide paths shift, no headlines when equity weights creep higher. Yet over the past decade, default fund design has undergone a transformation that may prove as consequential as any market cycle.

For much of the modern DC era, default portfolios were built to balance growth and stability. Bonds were not exciting, but they played a clear role: dampening volatility, preserving capital and providing ballast when equities faltered. That balance began to erode over time as bonds generated less income, correlations shifted and equity markets delivered an unusually long and powerful run.

What began as a rational adaptation to changing market conditions has evolved into something more structural: a steady, industry-wide migration toward higher equity risk across all ages, vintages, and market environments (**Figure 1**). The result is not simply higher expected returns, but a reallocation of risk — from markets to plan members.

Over time, these incremental changes compounded into something far larger. Today's default portfolios are materially more equity-centric than their predecessors. What is often described as modernization is, in effect, a redefinition of what risk neutrality looks like.

Figure 1: Industry peer average target date fund equity weights across vintages



Source: TDAM. As of December 31, 2025.

Figure 1 shows that equity exposure has increased across all ages over the past decade. Notably, participants at age 55, among the most vulnerable to market drawdowns, now hold nearly 12 percentage points more equity risk than a decade ago.

Beyond Equity Levels: The Hidden Dimension of Concentration

Higher equity exposure has not occurred in isolation. It has coincided with a structural rise in market concentration, particularly in U.S. equities. Capitalization-weighted indices now allocate a growing share of risk to a shrinking number of companies, sectors and countries.

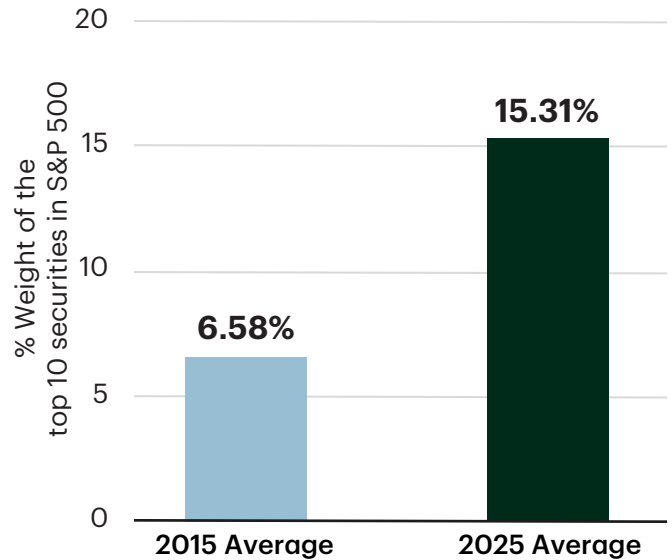
Over the past decade, this shift has been material. The combined weight of the top 10 securities in the S&P 500 has roughly doubled, rising from 19% in 2015 to over 40% by 2025.¹ As equity benchmarks have become more concentrated, default funds have simultaneously increased their equity allocations - amplifying exposure to a relatively small set of underlying return drivers.

In practice, this means many default funds are less diversified than their labels imply. Using average industry equity weights for target date funds, the effective allocation to the top 10 stocks in the S&P 500 increased from roughly 6.6% of the total portfolio in 2015 to more than 15% by 2025 (**Figure 2**).

Global diversification has not fully offset this effect. The U.S. share of the MSCI All Country World Index (ACWI) has climbed back toward historical highs, meaning that even global equity allocations are increasingly influenced by a single country's market dynamics (**Figure 3**).

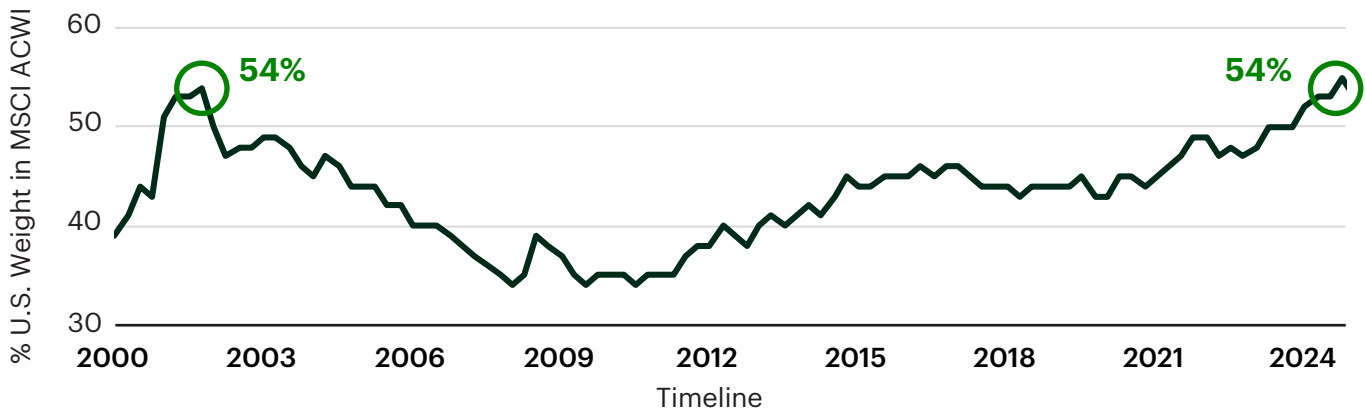
The uncomfortable reality is that many default funds now embed hidden concentration risk, not by design, but by drift.

Figure 2: S&P Top 10 stock concentration in portfolio using average TDF equity weights



Source: FactSet Research Systems Inc., TDAM. As of December 31, 2025. The use of the S&P 500 index is for information purposes only and is not necessarily correlated to any investment strategy.

Figure 3: U.S. market concentration



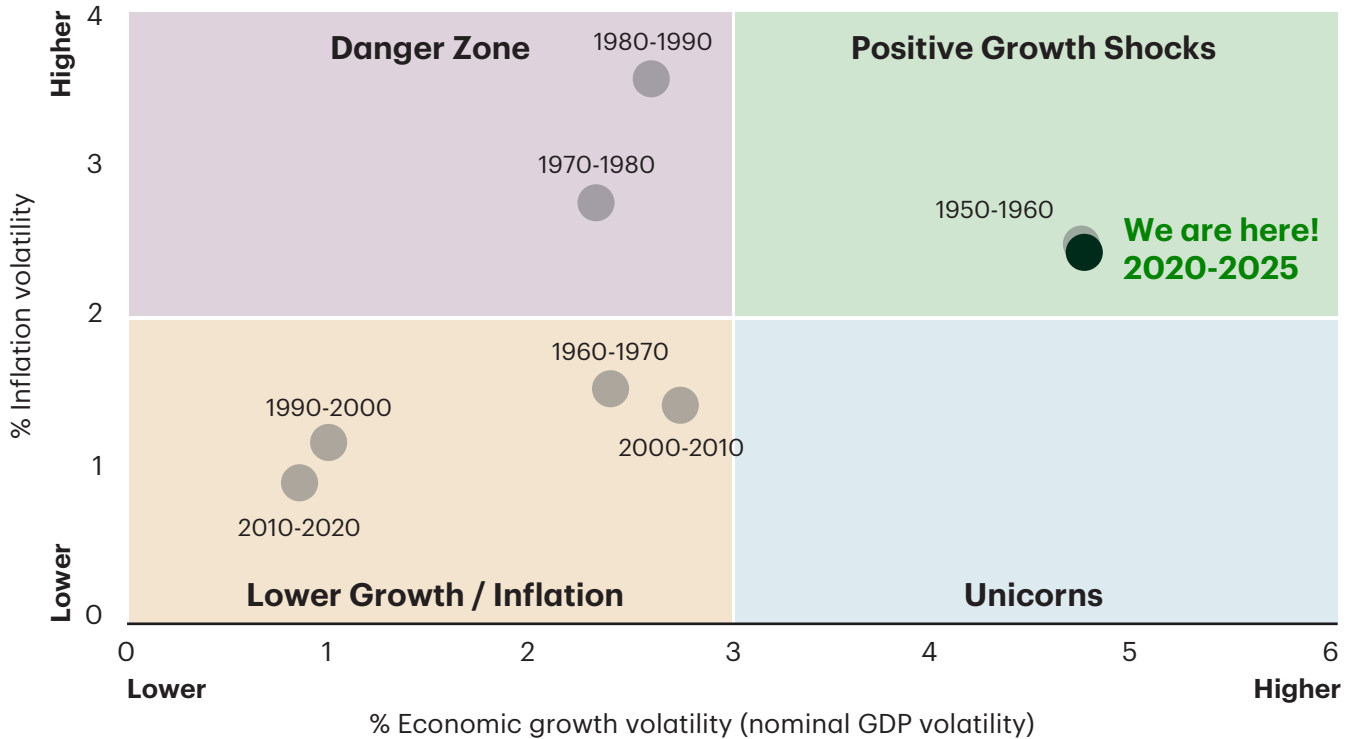
Source: Bloomberg Finance L.P. As of December 31, 2025. The use of the MSCI ACWI is for information purposes only and is not necessarily correlated to any investment strategy.

¹ Source: FactSet Research Systems Inc. As of December 31, 2025.

Defaults Funds Must Work Across Decades, Not Cycles

Default funds exist precisely because many members do not make an active investment choice. They are therefore expected to function across decades. History suggests that environments can look very different from one decade to the next. Periods of strong growth and low inflation have alternated with regimes marked by higher volatility, inflation uncertainty or prolonged drawdowns (**Figure 4**). The range of historical outcomes is far wider than recent experience alone might suggest.

Figure 4: Market regimes across decades



Source: LSEG Datastream. As of December 31, 2025.

What makes this especially challenging is that market regime shifts are difficult to forecast and often recognized only in hindsight. Even the most informed institutions have repeatedly underestimated how quickly conditions can change. In February 2000, the Federal Reserve Bank of Chicago famously noted in its economic outlook that “none of the forecasters are expecting a recession in 2000.”²

The Canadian Association of Pension Supervisory Authorities (CAPSA) reflects this challenge explicitly in its guidance for capital accumulation plans, emphasizing that suitability and diversification must be assessed across multiple dimensions—and that age alone is not sufficient to determine appropriate risk.

² Source: <https://www.chicagofed.org/publications/chicago-fed-letter/2000/february-150a>

Yet, many modern glide paths rest on an implicit assumption: that members, particularly younger ones, can tolerate large drawdowns in exchange for higher long-term returns. That assumption proves incomplete. Losses compound differently than gains, and large drawdowns early in a savings journey can leave lasting marks on contribution behaviour, risk tolerance and outcomes. The lost decade of the early 2000s remains a reminder that equity markets can test patience for years—and

not all members respond by staying the course. **Figure 5** illustrates the duration risk embedded in stock markets: following major drawdowns, the S&P 500 took roughly seven years to recover after the downturn of the early 2000s and nearly 9.8 years after the global financial crisis of 2008.

Risk, in other words, is not theoretical. It is lived.

Figure 5: S&P 500 total return index



Source: Bloomberg Finance L.P. As of December 31, 2025. The use of the S&P 500 index is for information purposes only and is not necessarily correlated to any investment strategy.

One Glide Path, Many Realities

Much of today’s glide path design rests on a small set of widely held assumptions. Chief among them is that time can offset risk—and that higher equity exposure is therefore appropriate for younger members. This is often paired with the belief that very high equity allocations are the only viable way to achieve long-term retirement objectives. While directionally intuitive, these assumptions understate the full impact of losses and the path-dependent nature of investment outcomes.

First, drawdowns are asymmetric: a 30% loss followed by a 40% gain still leaves an investor below where they started. In other words, higher equity exposure increases not only volatility; it also increases the probability of setbacks that require outsized gains to repair.

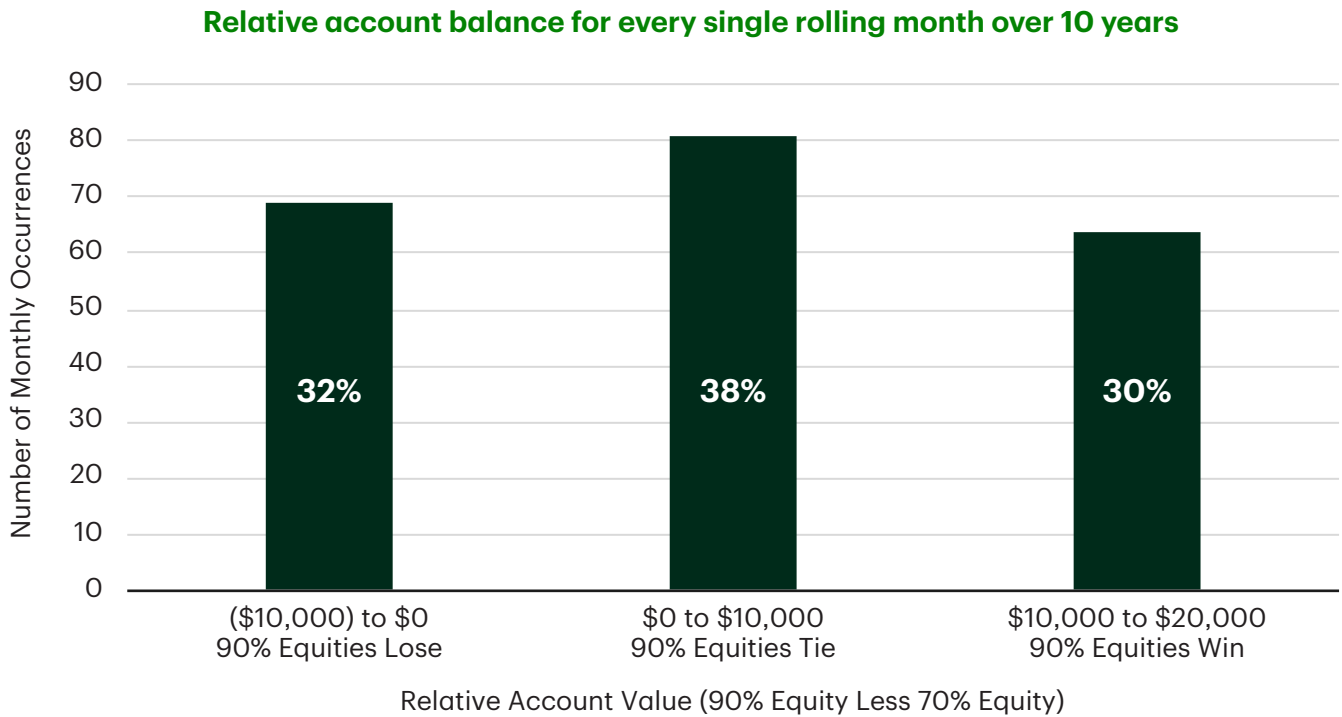
Second, recovery is not instantaneous. Major equity drawdowns can require years to work through, and the duration matters as much as the depth, particularly for members contributing regularly, where return sequencing can shape behaviour and outcomes.

When rolling 10-year outcomes are examined, an important nuance emerges that often gets lost in glide path debates: increasing equity exposure from 70% to 90% does not reliably improve results, and the upside—when it appears—is limited.

Figure 6 illustrates this dynamic. Across rolling 10-year windows for an average 25-year-old since

1998, a 90% equity portfolio finished behind a 70% equity portfolio 32% of the time, was effectively indistinguishable 38% of the time, and finished ahead only 30% of the time. In other words, a higher equity allocation increases the range of experiences, but it does not consistently translate into meaningfully better 10 year outcomes.

Figure 6: 90% equity vs 70% equity winning percentage



Source: TDAM. As of September 30, 2025.

Note: 90% Equity Portfolio = 60% MSCI World Index, 30% S&P/TSX Composite Index, 10% FTSE Canada Bond Universe Index.
70% Equity Portfolio = 47% MSCI World Index, 23% S&P/TSX Composite Index, 30% FTSE Canada Bond Universe Index.

For illustrative purposes only.

Equities

The Case for Broader Sources of Return

Asset classes such as infrastructure, real estate and commodities are no longer peripheral. Long-term return expectations within the industry place many of these assets broadly in line with equities, while infrastructure stands out with materially higher expected returns (**Figure 7**). This adds important context to the assumption that very high equity exposure is the only way to achieve long-term objectives.

More importantly, private assets behave differently across market environments. Their sensitivities to growth, inflation and market stress differ from those of equities and bonds. Incorporating them can meaningfully reshape outcomes rather than simply shift average returns.

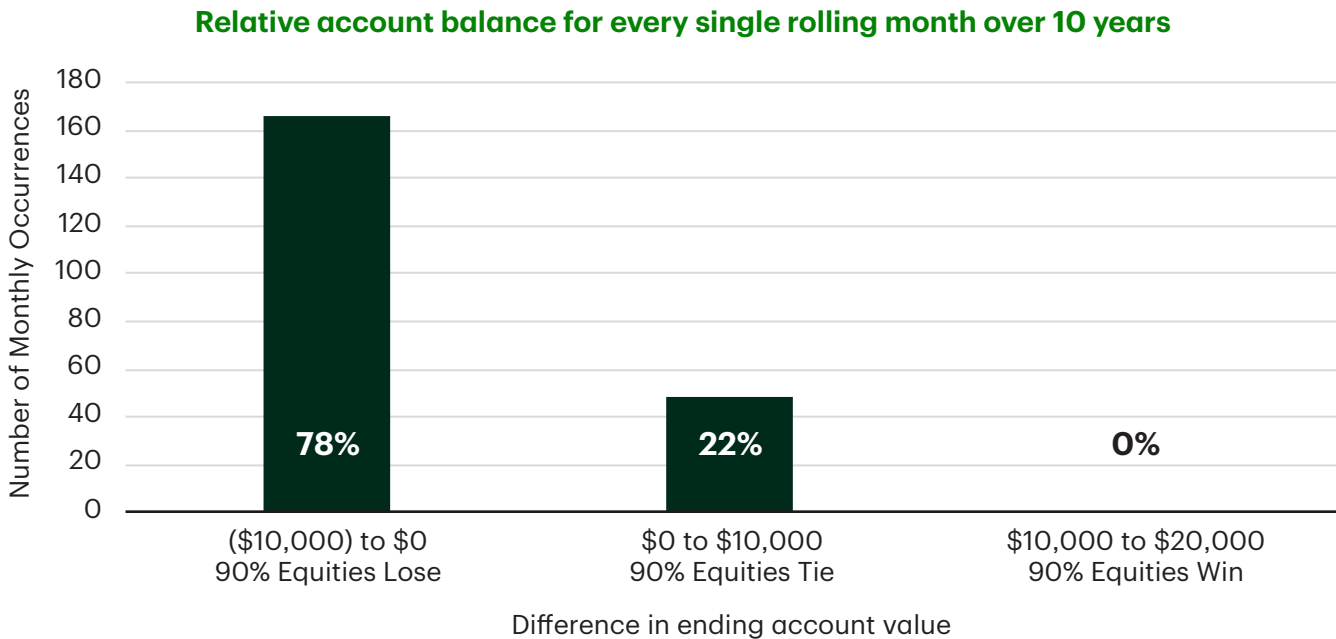
That distinction becomes evident when outcomes are examined over time. As shown in **Figure 8**, across rolling 10-year periods for an average 25-year-old since 1998, a 90% equity portfolio underperformed a diversified portfolio that included real assets 78% of the time, tied 22% of the time and never outperformed. The pattern is clear: concentrating risk in equities did not improve the likelihood of success—it reduced it.

Figure 7: Average of industry expectations

Asset class	Expected return
Canadian equities	5.55%
U.S. equities	5.23%
Global equities	6.00%
Global real estate	5.22%
Infrastructure	8.44%
Commodities	5.16%

Source: TDAM. As of September 30, 2025. For illustrative purposes only.

Figure 8: 90% equity vs diversified portfolio with alts winning percentage



Source: TDAM. As of September 30, 2025.

Note: 90% Equity Portfolio = 60% MSCI World Index, 30% S&P/TSX Composite Index, 10% FTSE Canada Bond Universe Index. Diversified Portfolio with Alternatives = 50% MSCI World Index, 25% S&P/TSX Composite Index, 5% FTSE Canada Bond Universe Index, 10% Real Estate, 10% Infrastructure.

The indices used are for informational purposes only and are not necessarily correlated to any investment strategy. For illustrative purposes only.

This is an uncomfortable insight. When it comes to default fund design, the question is not how high equity exposure is in isolation, but whether the portfolio is built to manage drawdowns, recovery time and the dispersion of outcomes across market regimes that rarely resemble the recent past.

Diversification, in this context, is not about giving up return. It is about avoiding a single, fragile path to it.

A Moment for Re-Examination

The past decade has rewarded higher equity exposure, and it's understandable how that experience has shaped today's default fund design. But markets and benchmarks have changed, quietly shifting risk in ways that are not always obvious from headline allocations alone.

It's worth pausing to reflect on what that means. We are coming off an unusually strong period for equities, but default construction needs to reflect a wider range of possible outcomes than the one most of us have grown accustomed to.

This moment invites a step back to ask whether today's target date funds still strike the right balance between growth and resilience—whether the risks embedded in default design are the result of deliberate choice, made with a clear understanding of how they may shape members' outcomes over the long horizon that matters most.

Silence, in this case, is not neutrality. It is a choice. ■



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