Research Agenda for 2025/26

Paving the Way for Continued Innovation in the AB UK Target Date Funds

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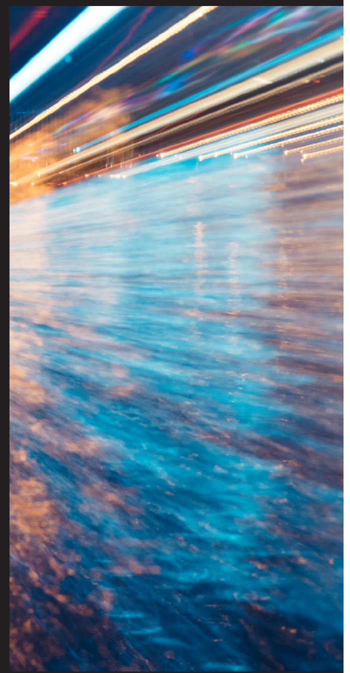
We are committed to constantly improving our UK Target Date Funds (TDFs). This ongoing process ensures that we offer our clients and their members efficiently managed default strategies that include the most attractive sources of risk-adjusted returns and offer the design features that they need to save for, and then take an income during, retirement.

One of the standout features of our TDF structures is the numerous adjustments and updates we've made since we started managing our UK TDFs in 2009 and launched our ready-built strategy in 2011. We implemented all these changes routinely through time, without disruption or costly, large-scale implementation projects for our clients and their members. There were no confusing investment communications for members. And nobody was left behind in legacy arrangements. Every default member benefited from our latest glide path designs, each dedicated to a single TDF with a track record dating back to its inception.



To support this process, we instituted an annual formal research agenda. This agenda highlights all the key areas of focus for the year ahead, ranging from investment research to product enhancement/development to data/reporting improvement projects. To maintain transparency, we publish this agenda each year—along with the supporting rationale and analysis—so that our clients, their advisors and our industry partners can see this ongoing evolution in action.

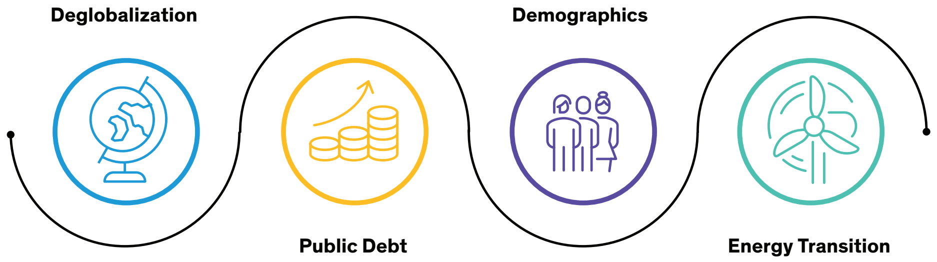
Key Dynamics Informing This Year's Agenda

In the last few years' research agendas, we have pointed to DC savers' generally strong realized investment returns over recent decades. Despite some short periods of bumpiness, traditional asset classes have generally delivered strong returns, with inflation tending to be low, and the diversification between stocks and bonds being very supportive for managing portfolio risks.

We have long recognized that this exceptionally supportive regime had to come to an end or, at the very least, diminish. Our proprietary long-term asset-class forecasting tool, the AB Capital Markets Engine (CME), has shown fairly continuous degradation of forward-looking equity market returns paired with growing expectations of higher inflation. This viewpoint is shared by our fundamental strategic research, which sees several mega-forces in play that suggest we are now in a very different investment regime. This new regime has profound implications for the ways we must invest to continue to achieve the real returns that members need for a comfortable retirement.

How Mega-Forces Will Reshape the Macro Regime and Investing

Four mega-forces seem set to dominate the investment landscape for the next decade or longer, with major implications for the macro regime and portfolio design. Each of these forces is significant in its own right but, where they're likely to interact in a directionally similar way, they have the power to reshape financial outcomes and create a new world for investors to navigate.



We think that the key implication of these mega-forces is a lower baseline level of economic growth and structurally higher inflation, accompanied by greater market volatility.

Here's a brief overview of each force and how it could play into growth and inflation prospects.

Deglobalization

Globalization's long advance is reversing and looks set to continue doing so. There's widespread dissatisfaction with globalization arising in the internal politics of developed economies, and tensions between the US and China are intensifying. Deglobalization can affect growth through declining trade, a fragmenting of the global labour force and reduced capital mobility, along with possible secondary forces such as political instability and geopolitical conflict.

Higher worldwide tariffs will likely accelerate deglobalization and further fragment supply chains. This will likely weigh on growth rates and corporate margins through increased inefficiencies and higher costs.

Public Debt

Across G7 countries, public debt as a share of GDP has returned to WWII peaks.

In recent centuries, this level of debt had only been reached in times of existential conflict. This time, the reason for the extraordinary debt build-up was to keep consumers happy. Public debt has been rising for decades, but its scale, combined with a turn in the long-term path of interest rates, means that debt-service costs are set to consume a growing share of government expenditure indefinitely. Our view is that the politically easiest way out might be to let inflation run at a slightly higher level.

Demographics

The global population of working-age people has peaked and is set to decline in coming decades. Boosting labour participation could help counter the decline, but only a relatively small share of workers is in scope for extended careers, and efforts to raise retirement ages have been controversial.

A growing need for long-term care could impair productivity by crowding out research and development or infrastructure spending while diverting more workers into the care sector. Artificial intelligence (AI) has the potential to mitigate these negatives by boosting productivity. But to fully offset all the headwinds that we outline would take a technology advance on a par with the most revolutionary changes from previous eras.

Energy Transition

We believe the energy transition will take longer than currently assumed. It will be too hard, politically and socially, to change behaviour enough to achieve net zero by 2050. Moreover, power demand will have to rise in emerging economies to improve the standard of living for the world's poorest people. Despite hopes of reducing power demand in developed countries, extra demand from AI data centres will soon need a power increase equivalent to Japan's total power usage.

All this makes it highly likely that temperatures will breach the "Paris limits" of a 1.5°–2.0°C increase relative to pre-industrial levels. Such a temperature rise increases the probability of irreversible effects, such as thawing permafrost or melting ice sheets.

The consequences for growth and inflation are hotly debated. From a growth perspective, academic studies show a huge range of potential estimates for climate-related GDP setbacks. To us, rather than suggesting a certain shift in future growth expectations, this implies that the main impact is increasing uncertainty—and hence volatility—in GDP growth, driven by rising temperatures. From an inflation perspective, price pressures will largely depend on whether governments attempt to change behaviour more through stimulus than taxation. But, in any event, the higher incidence of extreme weather events implies much higher inflation volatility.

What Are the Implications for Asset Allocation?

These mega-forces suggest an environment of higher inflation, lower economic growth and lower corporate margins. They also suggest greater volatility in macroeconomic outcomes. This might sound like a bearish conclusion for investors in the context of the exceptionally benign environment seen in recent decades. But we still expect many risk assets (like equities) to deliver positive absolute returns over the long term, albeit with a flattening of real risk-adjusted returns across the spectrum.

This weaker return outlook demands a strategic asset allocation response. DC savers need to grow the purchasing power of their savings, and many of them will need to take on more risk to meet their objectives. Given savers' long horizons, this can be done through modest increases in risk, but over longer periods—such as continuing to retain growth assets exposure into retirement. It can also be done through diversifying beyond the traditional equity risks that dominate many approaches. We believe investors should consider integrating diversifying exposures such as illiquidity risk premia, active management expertise (where cost-effective), and factor risk premia. The other reason to diversify exposures beyond more straightforward, traditional asset classes is the expectation that, in a higher-inflation environment, nominal government bonds are unlikely to deliver on real return objectives going forward. Nor will they offer the low (even negative) correlations of recent history. High levels of inflation and the potential for greater inflation volatility, along with elevated levels of government debt and higher interest rates, are a key headwind for sovereign bonds.

Higher inflation also implies a greater need for real assets, including inflation-linked bonds and physical real assets like commodities, infrastructure and real estate. For investors who need to protect the purchasing power of their investments, equities should be an anchor position, but diversifiers and other return sources, like private assets, should also be included.

The Changing Role of the Pension Industry

Adverse demographic trends will materially impact the role of the pension system.

With people living longer and birth rates declining significantly, our societies are growing older. Research from the UN's Population Division[*] estimates that by 2050, the number of people older than 65 could double from current levels to around 1.6 billion people, or just over 16% of the world's population. In the UK, nearly 25% of the population are forecast to exceed age 65 by 2050 (versus currently around 19%).

Governments globally are adapting to this reality. Traditionally, state benefits were the cornerstone for funding retirement, but their sustainability is under pressure. The ratio of retirees to working-age individuals is increasing, while government debt burdens are growing and becoming increasingly costly to service. As a result, more emphasis is being placed on private retirement savings.

So far, solutions offered to help savers have tended to focus on accumulating savings for retirement. This is no longer sufficient. The focus must now shift to how to put those savings to work over what are likely to be longer retirement periods. The asset management industry can help with this, contributing impactful new solutions to enable seamless investment transitions into retirement to meet retirees' income needs.

Historical analyses do not guarantee future results.

[*]Historical data and forecasts as published by the United Nations Department of Economic and Social Affairs (Population Division) in "World Populations Prospects 2024". Forecasts represent their medium fertility variant.
As of 31 July 2024.
Source: United Nations, AB.

RESEARCH THEMES

Our research for the year ahead can be segmented into the following key themes:

1 — Optimising Risk Levels

Reviewing our established member risk budgets to ensure that we are taking the optimal level of risk within our glide path strategies. This enables us to target the maximum level of return potential while avoiding an unsuitable level of risk. This review will consider new product evolution and new market research.

2 — Enhancing Diversification and Risk Management

Considering allocations and alternative approaches that allow us to unlock additional returns, and/or to better manage risk. Ultimately, more efficient diversified asset allocation allows us to incorporate higher-growth-orientated asset exposures without taking more overall risk in the glide path strategy. We incorporate in this agenda item research related to managing strategies' ESG risks.

3 — Improving Client Transparency

Continuing to improve insights for our clients and their members on how their money is invested.

4 — Innovative Product and Policy Development

Building new product concepts to address emerging client challenges and needs, as well as innovating to update existing concepts.

Research Agenda Summary

Below is a summary of the items on our research agenda for 2025.

Theme	Item	Description
Optimising Risks Levels	**Risk-Return Profile / AB CyRIL (our proprietary membership analysis tool)**	Review risk budgets and corresponding strategic asset allocation in line with changes to asset-class forecasts and member research
Enhancing Diversification and Risk Management	**Private Markets**	Develop and publish asset allocation framework for private markets Explore cost-efficient private market exposures for clients—particularly in private credit
	Public Equities	Explore consolidation of developed, EM and small-cap equities into a single mandate to enhance operational efficiency and ESG policies Review equity factor efficacy and the approach employed in AB's TDFs— including specific factors targeted
	Bond Duration	Review role of nominal duration and reconsider the benefit of global (rather than UK-specific) duration for diversification
	Real Assets	Continuation of ESG research project. Seek to integrate upcoming AB research on the role of real assets in asset allocation Initiate research into gold as a standalone allocation. Also consider other assets such as tokenized assets, bitcoin and other non-fiat investment opportunities
Improving Client Transparency	**TCFD Support**	Implement enhancements to standardized ESG and climate reporting to better support clients
	Risk Reporting	Consider suitability and external reporting of portfolio-management team's look-through-based risk reporting
Innovative Product and Policy Development	**Whole-of-Life TDFs**	Implement combined accumulation/decumulation (i.e. whole of life) glide path for founding client; socialize capability with other clients
	Retirement Income	Expand income strategies across multiple borders and client types (retail and institutional)

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Source: AB

Detailed Overview of Research Items

Below is a detailed overview of some of the rationale behind our key agenda items for 2025.

Optimising Risk Levels

We face a strategic outlook that likely requires DC savers to take more investment risk to offset the headwinds of weaker returns and higher inflation, while macroeconomic forces may drive greater market volatility and higher asset correlations. It's therefore critical to calibrate the level of risk taken at each point correctly. If savers take too little risk, there is a greater chance that their return objectives will not be achieved. If savers take too much risk, they may be exposed to outsize market moves and left-tail drawdown risks.

Through quantitative tools, like our Capital Markets Engine and CyRIL, we will continue to calibrate our strategies' risk profiles to fit the needs of invested retirement savers. To supplement this, we employ more qualitative inputs like our biannual member research survey—which is scheduled to be completed later this year.

Enhancing Diversification and Risk Management

We believe that private markets and the prudent integration of illiquid assets will be key portfolio additions as we continue to address members' savings needs in a more adverse investment environment. Over the last 5–7 years, we've built exposures to private equity and sustainable infrastructure for our TDF clients. This is in addition to real estate exposure, which has been a component of our TDFs since their inception in 2013. All of these illiquid assets are accessed through listed structures to support liquidity and diversification. Given this private market experience, we are seeking to develop and publish an asset allocation framework to support multi-asset investors and UK DC plans in effectively integrating these exposures into their investment strategies.

We see the strongest private market investment opportunity in unlisted private credit. This asset class provides access to structural return drivers that are reliably incremental and diversified relative to public market assets. Investors can access private credit assets in a way that overcomes the value for money and practical considerations that have limited private markets exposures in UK DC. In 2024, we concluded the implementation of private credit allocations for a bespoke client's TDF strategy, and this year we are working on a project to identify and integrate allocations for use by all our clients who want them.

Last year, we introduced a new custom core developed-market equity allocation that combines our previous global equity, climate transition equity and multi-factor equity allocations into a single mandate. This transition enables us to apply investment and ESG policies more consistently across allocations and streamline operational implementation, as well as capture greater scale benefits. Considering our initial success using this approach, we are evaluating the potential benefits of broadening this custom mandate to also absorb our emerging-markets equities and global small-cap equities. As part of these changes, we will also consider the factors and style-premia tilts targeted within the allocation—both in terms of the efficacy of the different factors themselves, their combination and the specific definitions/methodologies employed.

One of our key strategic forecasts is higher inflation over the long term compared with the norm in recent decades. This has significant implications for interest-rate-sensitive exposures like sovereign bonds (e.g. duration). Given this outlook, we plan to review the role in portfolios of nominal bond duration relative to inflation-linked duration. Going beyond the UK-oriented exposure we hold today, as fixed income has potential to be more volatile and with weaker real returns, we will also consider the use of global sovereign bond exposure (such as debt from other high-rated sovereigns like the US, Europe and Japan) to enhance diversification and defensive characteristics.

Real assets can support diversification while also offering inflation sensitivity. We expect these characteristics to be increasingly valuable going forward. We already have meaningful exposure to real assets in our TDFs, but we are planning to evaluate the merits of new allocations—such as to gold, bitcoin, tokenized assets and other non-fiat investment opportunities—and re-evaluate existing allocations. While some of these assets are relatively new compared with traditional investments, and can be quite volatile, we can see a case for alternative stores of value in a world facing deglobalization, high government debt, and structurally higher inflation. Consequently we want to undertake further research on their suitability for UK DC pension savers. For existing allocations, we will consider the scaling and relative allocations within the total portfolio, while also focusing on approaches and methodologies that can help further integrate ESG considerations into their security selection.

Improving Transparency for Clients

With ESG data and reporting requirements, specifically those relating to climate, remaining an important focus for UK pension plans and regulators, we are undertaking a project to enhance the standardized reporting we provide to clients. We hope that this updated approach will give clients more readily available access to the data necessary to fulfil their reporting requirements, while also highlighting the effect of ESG actions taken within their strategies.

To help our portfolio-management team understand the key risks taken within our glide path strategies, we employ a sophisticated risk analytics tool that can look right through to the underlying securities held. With a view to improve transparency, we are considering ways that some of this output can be made available to clients. Using this capability, we could provide clients with data on characteristics such as largest absolute exposures, active security/sector/region tilts, and most of the significant factor exposures. We may also be able to offer stress-testing results.

Innovative Product and Policy Development

As populations age and life expectancy rises, there's an urgent need for innovative retirement income solutions. We were an early innovator, and we have more than 12 years of experience in the retirement-income space. In the UK, we have offered a standalone retirement income solution, known as Retirement Bridge, since 2015. Leveraging this skillset, we have designed a next-generation solution for the UK DC market.

Following a multi-year research, design and implementation project, we have recently implemented an innovative whole-of-life target date fund strategy for a founding client. Now that this is completed, we will begin socializing this capability more broadly. This strategy is founded on the belief that—given the inherent complexity of drawing retirement income and remaining appropriately invested—DC retirees need a default, "do-it-for-me" solution that can provide a sustainable income in retirement together with exposure to market upside, offer flexibility in the event that members' needs change, and is professionally managed with institutional-quality governance.

Our whole-of-life TDFs provide a joint accumulation and decumulation strategy, enabled by adding income-paying share classes for savers aged 55 and older. The income payouts are prudently managed with a view to lasting all the way through to later life (that is, age 95). These payments are fixed for 12-month periods but reviewed annually for attractiveness and sustainability. Our review process compares income yields with a low-risk proxy (e.g. government bond yields), building a "sustainable yield range" that delimits the payout rate. A key advantage of a range-based approach is that it enables smoothing: we can build a safety margin in good market years and release that margin in bad years. By maintaining diversified exposure to markets, including through growth assets, investors also retain upside potential with the aims of increasing income through time and limiting the impact of inflation.

Given our unique skillset and experience in retirement income, paired with a growing need for retirement solutions across many different countries and investor types (i.e. both institutional and retail), we are planning to explore the design and launch of solutions that can be accessed across borders and by all client types.

About AllianceBernstein

AllianceBernstein is a leading investment-management firm with $784 billion in client assets under management, as of 31 March 2025. With a unique combination of expertise across equities, fixed-income, alternatives and multi-asset strategies, we aim to deliver differentiated insights and distinctive solutions to advance investors' success. Across our global network, we're fully invested in delivering better outcomes for our worldwide clients, including institutional, high-net-worth and retail investors. By embracing innovation, we seek to address increasingly complex investing challenges and opportunities. And we pursue responsibility at all levels of the firm—from how we work and act to the solutions we design for clients.

Contacts

Patrick Chantah
Client Account Manager
T: +44 (0)20 7170 0554
patrick.chantah@alliancebernstein.com

Mark Williams
Managing Director—Institutional Client Group
T: +44 (0)20 7170 5122
mark.williams@alliancebernstein.com

For any other queries, please contact ABUKClientServices@alliancebernstein.com

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INVESTMENT RISKS TO CONSIDER

The value of an investment can go down as well as up and investors may not get back the full amount they invested. Past performance does not guarantee future results.

Some of the principal risks of investing in Target Date Funds include country risk, emerging markets risk, currency risk, illiquid assets risk, portfolio turnover risk, management risk, industry / sector risk, derivatives risk, borrowing risk, taxation risk, and equity securities risk.

Target Date Retirement Funds (TDFs) are designed for a typical pension fund saver intending to retire in or around the years stated in the name of the Fund. As the Funds are intended to be default pension saving vehicles which seek to meet the requirements of a broad range of persons, they do not take into account an individual's personal circumstances and may not be suitable for a particular individual or group of individuals with complex financial or personal circumstances.

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