Sunlife
Global Investments

Modern target date fund design

Balancing trade-offs to improve retirement outcomes

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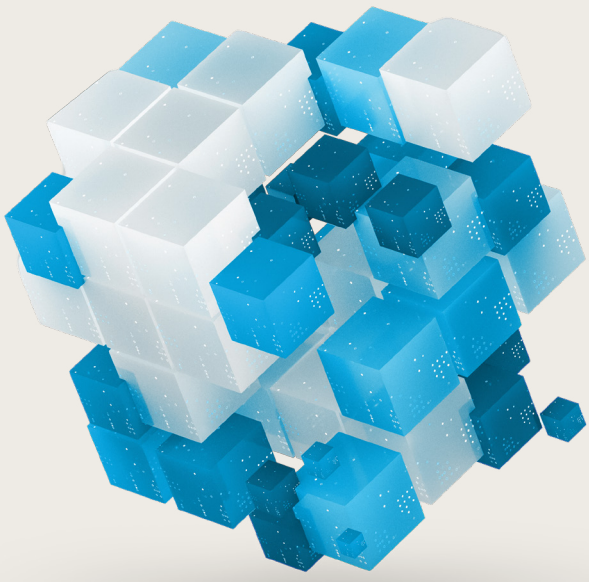

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01 | Executive Summary: The new target date fund design question

As capital accumulation plans (CAPs) assume a greater role in Canada's retirement system, target date funds (TDFs) have become more than default investment options. Their design can materially influence members' ability to accumulate wealth, withstand market disruption near and into retirement, and sustain income over an uncertain retirement horizon. The Canadian Association of Pension Supervisory Authorities' (CAPSA) updated guidance reinforces this outcome focus by emphasizing the importance of documenting intended member outcomes and ensuring fees provide tangible value to members.

This is reshaping the next phase of TDF evolution, which will be defined by how effectively managers integrate glidepath design, diversification – including alternatives – and implementation choices within a disciplined fee budget to generate better retirement outcomes for members. The central question is not whether one glidepath, strategic asset allocation or implementation style is inherently superior, but how these design choices work together to support retirement outcomes across the full member journey.

Achieving this balance requires deliberate trade-offs. Low-cost passive implementation can provide an efficient foundation for broad market exposure, while fees and active risk can be concentrated where manager skill and differentiated return sources offer the strongest potential value. Alternatives and private markets can improve diversification, income generation and portfolio resilience when their role is clear, their allocation is appropriately sized, and their liquidity profile can be managed within a daily valued structure.

TDFs should therefore be evaluated as retirement outcome vehicles, with attention to whether the glidepath, strategic asset allocation, implementation approach, liquidity and fees operate coherently across the full member journey. Every basis point of fee, allocation of active risk and portfolio choice should justify its contribution to long-term member outcomes. The strongest TDF designs will be those that make these choices intentionally and translate innovation into greater retirement readiness, resilience and income sustainability.



02 | Why it matters: A changing DC and retirement landscape

As CAPs assume a more prominent role in the Canadian retirement system, default investment design has become increasingly important in shaping member retirement outcomes.

TDFs have become the dominant investment solution for Defined Contribution (DC) members. In fact, 81% of plan sponsors designate TDFs as their default investment option, and among plans that offer TDFs, approximately 94% use them as the default.[1]

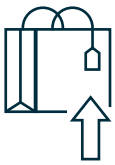
The significance of this choice is increasing as responsibility for retirement security continues to shift toward individuals, supported by workplace savings plans, public pensions and personal savings. According to Willis Towers Watson's Thinking Ahead Institute, DC assets now represent 63% of pension assets across the world's seven largest pension markets, and 44% in Canada.[2] As reliance on CAPs has grown, the quality of default investment design has become increasingly important to the effectiveness of the broader retirement system.

At the same time, the investment challenge facing members has become broader and more complex. While accumulating assets for retirement remains a core objective, members must also navigate a myriad of risks such as market volatility, inflation, sequence risk near and into retirement, increased longevity, and income sustainability. **Against this backdrop, a TDF framework focused primarily on reducing equity exposure over time may be too narrow to address the full range of risks members face across the retirement journey.** A TDF solution needs to balance growth, capital preservation, income and resilience across the full accumulation-to-retirement journey.

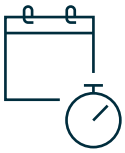
Risks facing members



Market risk
Volatile/falling markets



Inflation risk
Erosion of savings



Sequence risk
Drawdown near/ at retirement



Longevity risk
Outliving savings



Income sustainability risk
Insufficient income to meet spending needs

Fiduciary governance expectations have also evolved, reinforcing the need for a more deliberate approach to default plan design. CAPSA's updated Guideline No. 3 for CAPs, released in 2024, emphasizes the importance of documenting intended member outcomes and ensuring that fees achieve tangible benefits for members. For plan sponsors, this underscores the need to evaluate the default investment option with the same discipline applied to other material plan decisions. It also places greater emphasis on whether the investment rationale, glidepath, strategic asset allocation and fees can be clearly explained to fiduciaries.

These developments have broadened the TDF design discussion beyond just the shape of the glidepath. Strategic asset allocation, diversification, the use of active risk versus passive implementation, and access to alternatives and private asset classes all influence member outcomes across market environments and must be balanced within a disciplined fee budget.

As CAPs assume a more prominent role in the retirement system, TDFs should be evaluated as retirement outcome vehicles designed to support member readiness, resilience and income sustainability — not simply as convenient asset allocation solutions.

[1] Source: Sun Life, Designed for Savings 2025 Report

[2] Source: Global Pension Assets Study 2026, Willis Towers Watson Thinking Ahead Institute. The seven largest pension markets are Australia, Canada, Japan, the Netherlands, Switzerland, the U.K. and the U.S., which represent 91% of global pension assets. In Canada, DC assets include DCPP, RRSP, DPSP and TFSA assets.

03 | How TDF design has evolved: The growing role of alternatives in Canada

Moving beyond the traditional 60/40 framework

Default investment innovation moved plan members from static balanced funds toward age-based portfolios that gradually reduce risk over time. This marked a significant improvement over a one-size-fits-all balanced fund by recognizing that members at different career stages should not carry the same investment risk.

As plan members face increasing retirement risks, greater emphasis must be placed on the strategic asset allocation and an expanded opportunity set. Within an appropriate framework, broader diversification, alternatives and private market strategies can help improve retirement outcomes.

Moreover, regular strategic asset allocation reviews should consider an evolving opportunity set and reassess each exposure's contribution to return, diversification, resilience and member outcomes across the glidepath.

Capital market assumptions provide key inputs into TDFs' strategic asset allocation

Building robust portfolios that will generate strong retirement outcomes begins with establishing capital market assumptions (CMAs). CMAs provide three core quantitative building blocks—**expected returns, expected volatility, and asset class correlations**—that serve as the foundational inputs for designing a TDF's strategic asset allocation and glidepath.

To reflect the very long investment horizons that shape retirement outcomes, 10-year expected return assumptions are complemented by equilibrium-adjusted returns for years 11 and beyond. The equilibrium-adjusted assumptions provide a more normalized long-term outlook by reducing modelled valuation-driven biases. CMAs should also be periodically refreshed to reflect structural changes in markets and the evolving long-term investment environment.

From a total portfolio perspective, alternatives, private markets and other diversified strategies can play deliberate roles in TDFs. While some exposures may involve a trade-off in expected return, they can still improve risk-adjusted outcomes by reducing volatility, adding differentiated return drivers and strengthening downside resilience.

Asset class	10-year expected returns (%)	Equilibrium adjusted expected returns (%)	Expected volatility (%)	Correlations																		
				Canadian equity	U.S. equity	International equity	Emerging markets equity	Global developed REITs	Global listed infrastructure	Canadian bonds	Canadian commercial mortgages	Private fixed income (IG)*	U.S. bonds	U.S. high-yield bonds	Emerging markets debt	U.S. bank loans	Commodities	Global direct real estate	Global direct infrastructure	Liquid alternatives**	Cash	Inflation
Canadian equity	5.4	6.8	15.7	1.0																		
U.S. equity	5.4	8.1	13.3	0.7	1.0																	
International equity	7.2	7.8	15.0	0.7	0.8	1.0																
Emerging markets equity	8.1	8.8	17.6	0.8	0.6	0.8	1.0															
Global developed REITs	6.9	6.9	18.3	0.7	0.7	0.8	0.6	1.0														
Global listed infrastructure	6.0	6.0	13.2	0.7	0.7	0.8	0.7	0.8	1.0													
Canadian bonds	3.8	4.3	5.0	0.1	0.2	0.2	0.2	0.3	0.2	1.0												
Canadian commercial mortgages	4.7	4.7	3.3	0.0	0.1	0.1	0.1	0.3	0.2	0.9	1.0											
Private fixed income (IG)*	5.6	5.6	4.9	0.3	0.3	0.3	0.4	0.5	0.4	0.9	0.8	1.0										
U.S. bonds	3.9	4.4	4.6	0.0	0.0	0.1	0.1	0.3	0.2	0.9	0.8	0.8	1.0									
U.S. high-yield bonds	5.0	6.5	9.5	0.8	0.6	0.7	0.8	0.7	0.6	0.2	0.2	0.6	0.2	1.0								
Emerging markets debt	5.5	6.0	9.8	0.7	0.5	0.6	0.7	0.6	0.6	0.5	0.5	0.7	0.6	0.9	1.0							
U.S. bank loans	4.4	5.3	10.0	0.8	0.5	0.5	0.7	0.5	0.4	0.0	-0.1	0.3	-0.1	0.9	0.7	1.0						
Commodities	3.5	3.5	24.8	0.6	0.2	0.3	0.3	0.2	0.3	-0.4	-0.4	-0.2	-0.4	0.4	0.1	0.5	1.0					
Global direct real estate	5.8	5.8	7.7	-0.3	0.0	0.1	-0.1	0.1	0.1	0.0	0.0	-0.1	-0.1	-0.4	-0.3	-0.4	-0.1	1.0				
Global direct infrastructure	7.1	7.1	16.5	-0.1	0.1	0.1	0.0	0.3	0.2	0.4	0.4	0.4	0.4	0.0	0.2	-0.2	-0.3	0.4	1.0			
Liquid alternatives**	3.1	3.1	16.3	-0.4	-0.1	-0.2	-0.3	-0.3	-0.2	-0.1	-0.1	-0.3	-0.2	-0.6	-0.5	-0.5	-0.1	0.4	0.1	1.0		
Cash	2.7	2.7	0.8	-0.1	-0.1	0.0	0.0	-0.1	0.0	0.1	0.2	0.1	0.1	-0.2	0.0	-0.2	-0.1	0.0	0.1	0.0	1.0	
Inflation	2.2	2.2	1.7	0.2	-0.1	0.0	0.0	0.0	0.1	-0.4	-0.4	-0.2	-0.3	0.1	-0.1	0.3	0.6	0.0	-0.3	-0.1	-0.1	1.0

Source: SLGI Asset Management Inc. Data as of September 30, 2025. Expected return estimates are in Canadian dollars and subject to uncertainty and error. Expected returns for each asset class can be conditional on economic scenarios; in the event a particular scenario comes to pass, actual returns could be significantly higher or lower than forecasted. For information purposes only. The equilibrium-adjusted returns aim to provide a more accurate long-term return forecast for investment horizons beyond the strategic investment horizon of 10 years. It adjusts for bias in strategic expected returns caused by modelled valuation revision in asset prices. *IG=Investment Grade. ** Liquid alternatives represented by systematic trend following. For a listing of indices used in the asset classes above, please consult the CMAs found here.

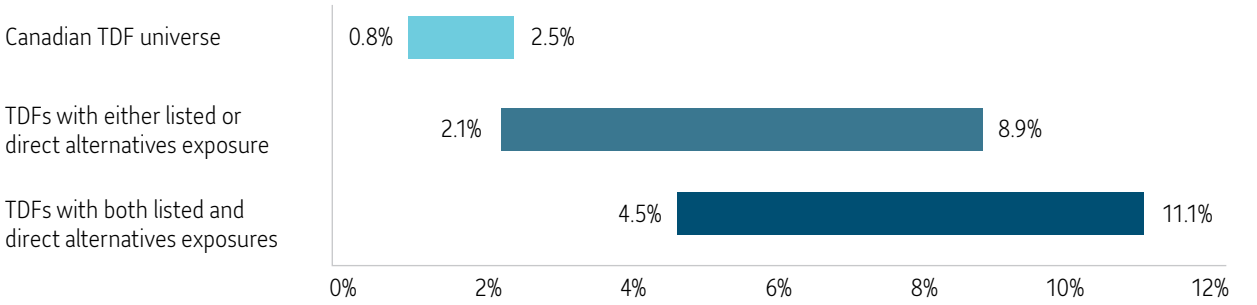
Alternatives as an extension of TDF design

The growing use of alternatives, including private markets, is one of the clearest indications that TDF design is becoming more "Defined Benefit (DB) plan-like" and moving beyond traditional stock-and-bond construction. Large DB plans have long used private markets and real assets to diversify returns, capture illiquidity premia and align assets with long-term obligations.

Canadian TDFs have steadily expanded their use of alternatives, with product suites allocating to the asset class through listed exposures, direct/private investments or both. As the chart below illustrates, both the level and composition of these allocations vary across TDF managers.[3] Overall, allocations remain well below those of Canadian DB plans,[4] reflecting the liquidity, fee, valuation and operational constraints of a daily valued DC fund.

Alternatives exposure across Canadian TDF managers

Range of median alternatives exposure (vintage years 2065 through 2025)



Source: Morningstar 2026 Canadian Target Date Landscape. Data as of December 31, 2025. Listed alternatives include mortgage-backed securities, liquid alternatives and commodities. Direct alternatives include direct real estate, direct infrastructure, direct real assets, private equity, direct diversified private markets, private credit, and Canadian mortgages. Total alternatives include both listed and direct alternatives.

Alternatives should be evaluated by the role they play, not simply by their expected return. While long-term expected returns may favour public equities, alternatives can broaden the tools available to manage member risks, strengthen risk-adjusted returns and improve retirement outcomes. A comprehensive alternatives allocation in a TDF can introduce differentiated return drivers with lower correlations to public markets, inflation sensitivity (particularly in an environment where inflation may remain structurally elevated), drawdown protection (especially at critical points in the member journey, such as near retirement), and, in certain asset classes, sustainable income.

Alternative asset class	Primary portfolio role	Key considerations
Private fixed income and commercial mortgages	Enhance income and diversify beyond traditional bonds	Liquidity/valuation, credit selection, manager skill in structuring
Commodities	Provide diversification and inflation protection	Volatility
Liquid alternatives	Improve downside resilience and reduce reliance on market beta	Manager skill, complexity, consistency of diversification benefits
Direct real estate and infrastructure	Provide income, diversification and inflation sensitivity	Liquidity/valuation, leverage, regulatory/ political risk, economic sensitivity
Private equity	Expand the long-term growth opportunity set	Liquidity/valuation, fees, manager dispersion, lifecycle stage suitability (longer time horizon)

* For the purposes of this paper, private fixed income and commercial mortgages are referred to as fixed income alternatives, while commodities, liquid alternatives, direct real estate, direct infrastructure, and private equity are referred to as growth alternatives.

[3] Source: Morningstar 2026 Canadian Target Date Landscape.

[4] Source: Pension Investment Association of Canada (PIAC) 2025 Defined Benefit Report. As of December 31, 2025, Canadian DB plans' median allocation to real assets was 20.40%, 7.41% to private equity, 6.60% to private fixed income, and 4.75% to diversifying strategies.

Alternatives may also help mitigate adverse member behaviour. During periods of market stress, members may de-risk, move to cash or reduce contributions, crystallizing losses and limiting participation in a recovery. Although most members stay invested, trading activity has historically risen during periods of acute market stress, such as COVID-19 and recent trade-policy-driven market volatility.[5] By providing broader diversification and a smoother return experience, alternatives can help members remain invested through volatility and improve their retirement outcomes.

At the same time, alternatives introduce trade-offs in cost, valuation, liquidity, implementation complexity and governance. **The decision to include alternatives in TDFs should therefore be tied to clear retirement outcomes and sized within an explicit liquidity and fee budget.**

"To" versus "Through" retirement: Important, but…

The choice between "To" and "Through" glidepaths remains important, but it should be guided by plan objectives, member behaviour, the role of public pensions, and the plan sponsor's retirement philosophy.

Plan member needs	"Through": Canadians are living longer and may benefit from greater equity allocation "To": Canada's mix of public pensions (OAS, CPP/QPP, and targeted GIS) and its healthcare system lessen the burden on DC savings and may justify a more moderate level of portfolio risk at retirement
Risk and income stability	"To": better supports capital preservation and provides greater retirement income stability by reducing equity exposure near the point of greatest sequence risk
Growth potential	"Through": supports higher growth potential, but increases exposure to equity market risk near and into retirement
Limited in-plan decumulation options	"To": most CAPs do not offer in-plan decumulation solutions, which means members typically leave their employer plan when they begin drawing retirement income
Canadian market practice	"Through": has gained some traction in Canada, although it remains largely the domain of U.S. asset managers "To": used by most major Canadian-domiciled TDF suites

While "Through" glidepaths may appear more attractive after a prolonged equity bull market, their higher equity allocations can increase sequence risk near and into retirement, which may heighten the risk of adverse member behaviour during market downturns. In the Canadian context, where public pensions provide an important foundation, most major Canadian-domiciled TDF suites continue to use a "To" approach. Ultimately, the "To" or "Through" label is not enough. The glidepath, strategic asset mix and risk management framework must work together to support the intended retirement outcomes.

Evolving TDF design beyond the glidepath

TDF design now extends beyond the glidepath to total portfolio construction. The return and income potential is balanced with resilience and diversification to improve member outcomes within the practical constraints of CAPs.

[5] Source: Sun Life, Designed for Savings 2026 Report

04 | The central trade-off: Where managers can add the most value

Successful TDF design: A question of intelligent trade-offs?

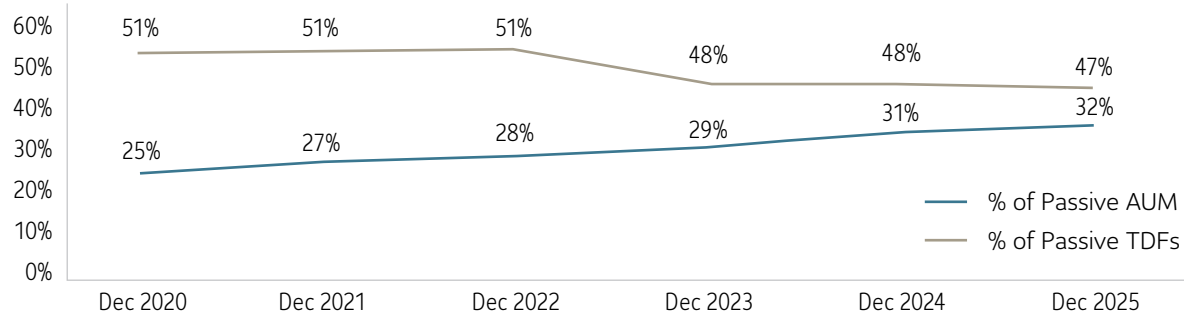
Every decision around diversifying exposures, the use of active risk versus passive implementation and incorporating alternatives and private asset classes competes for a defined fee budget. Trade-offs across active risk, illiquidity and fees must therefore be deliberate, directing exposures toward the opportunities with the greatest potential to improve retirement outcomes. These choices are interdependent and must be supported by the governance and implementation capabilities required to manage them effectively.

Recent institutional research likewise concludes that the strategic asset allocation is not the sole determinant of long-term performance; implementation decisions merit equal attention and scrutiny.[6]

Beyond active versus passive: Building the right blend

This trade-off exercise reframes active versus passive implementation as a value allocation decision. Lower-cost options represent around a third of the Canadian CAP industry assets and roughly half of Canadian TDF assets.

Increasing trend towards *passive* in the Canadian CAP industry



Source: Investor Economics - Group Retirement and Pensions Report Q4 2025 (group segregated funds)

However, plan sponsors evaluate TDFs primarily through a total-portfolio lens rather than through an active versus passive decision. Callan Institute's Defined Contribution Trends surveys have historically identified portfolio construction, performance, and fees as leading considerations in TDF selection and retention. This suggests that plan sponsors are primarily focused on whether the overall TDF design delivers strong risk-adjusted outcomes for the fees paid.

A thoughtful hybrid blend of active and passive approaches can be more effective than applying either approach uniformly. Passive strategies provide a cost-effective foundation for broad public market exposures, while active risk and fees are reserved for areas of higher-conviction, such as opportunities in less efficient markets, differentiated strategies, alternatives and private investments as well as model-informed tactical portfolio tilts that may complement the strategic asset allocation. Active risk should be used where the expected value-add justifies the cost.

U.S. large-cap equities provide a useful example. After-fee outperformance of the S&P 500 Index has become increasingly harder to sustain in an efficient and increasingly concentrated market.[7] By moving this exposure to fully passive implementation, managers can free up fee and active risk budgets for areas where conviction and expected value-add are stronger. Commodities is another asset class that provides diversification and inflation sensitivity without requiring active security selection.

Liquidity and illiquidity: Sizing private investments appropriately

Liquidity is an important design consideration in a daily valued TDF structure and becomes especially important when incorporating private investments. Contributions, withdrawals, rebalancing and plan transitions can all create liquidity needs, requiring TDFs to balance less liquid exposures with sufficient liquid assets.

A robust TDF design intentionally balances private investments with liquid assets, establishes clear allocation ranges, and implements governance processes that allow the manager to rebalance without becoming a forced seller. The appropriate allocation is not the maximum a TDF can hold, but the amount that can be managed consistently across market conditions, member cash-flow needs and the broader objective of improving retirement outcomes.

[6] Joanna Mejza and Ivol Krol, A new perspective on the importance of different investment decisions, PH&N Institutional Portfolio Solutions, RBC Global Asset Management Inc., 2025.
[7] Source: eVestment database. Universe: Mercer US Equity Large Cap Equity – Active. Rolling 3-year excess returns versus S&P 500 Index as at June 30, 2026.

Central trade-offs: Where managers can add the most value

Every choice competes within a fixed budget

Fee budget
Every basis point counts

Active risk budget
Allocate where conviction is highest

Liquidity budget
DC daily fund liquidity needs

Other
Governance and implementation capabilities

Private investments warrant active management when they offer diversification, income or risk management benefits that are difficult to replicate through public market indices. Asset classes such as private fixed income, commercial mortgages, direct real estate and infrastructure require manager skill, access and structuring, providing a clear rationale for active oversight.

Putting the trade-offs into practice

Index+ TDFs illustrate how TDF design can balance fee discipline, diversified exposures, active risk and liquidity. They respond well to a growing demand for strong portfolio construction, diversified exposures, including alternatives, at a competitive fee. By treating the fee budget as a design input, passive implementation is used where it is most efficient, while preserving fees and active risk for higher-conviction strategies.

In practice, this means Index+ TDFs' core exposures are implemented passively where markets are broad, liquid and can be replicated efficiently. These include Canadian, U.S., international and emerging-market equities, as well as core Canadian and U.S. bonds. Commodities are also passively implemented as they provide diversification and inflation sensitivity without requiring active security selection.

For active risk, private investments such as private fixed income, commercial mortgages and global direct real estate, remain actively managed because they represent the most efficient and beneficial use of the available fee budget.

Combining sufficient liquid core exposures with an approximately 10% allocation to private markets, can support diversification and risk-management objectives while maintaining the liquidity needed in a cost-effective, daily valued structure.



05 | Active risk: Where and how much?

Right-sizing exposure across the glidepath

Once trade-offs are made, the next step is determining how much exposure to hold and where it belongs along the glidepath. Each allocation should be meaningful enough to influence member outcomes, but not so large that its cost, liquidity profile or risk outweighs its intended benefit.

Stress-testing higher fee budget scenarios for plan sponsors that value a broader toolkit alongside lower fee budget scenarios for more fee-sensitive plan sponsors illustrates these trade-offs and right-sizing decisions. Using 5,000 Monte Carlo simulations, the analysis evaluates the following allocation scenarios:[8]

Scenarios	Exposure to alternatives (approx. longest to shortest vintage)	Investment fees*
Higher fee budget	Lower: 5% - 10% Moderate: 10% - 20% Higher: 20% - 25%	Passive fee + 10bps Passive fee + 15bps Passive fee + 20bps
Lower fee budget	Minimal: 3% Modest: 5% - 15%	Passive fee Passive fee[9]

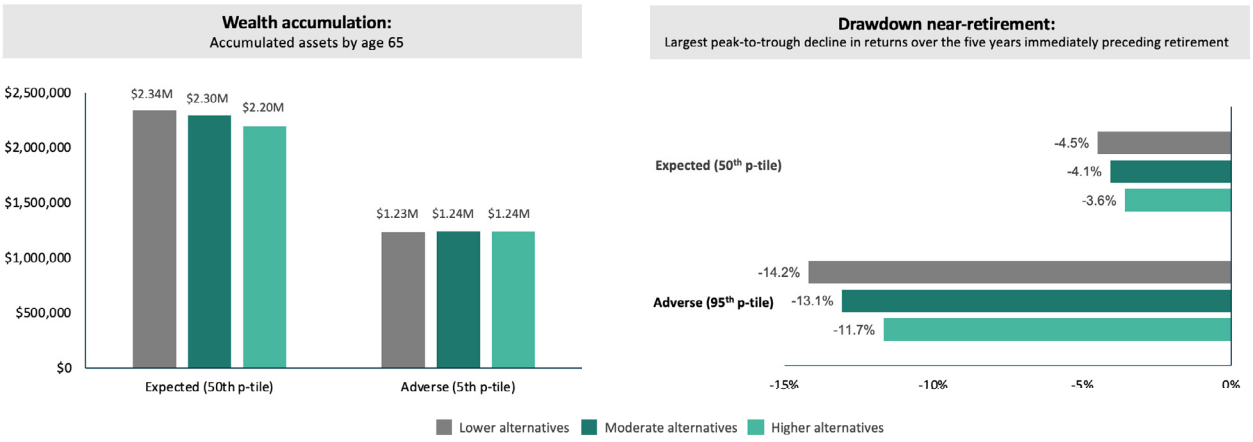
* For the analysis, passive fees are inclusive of record keeping fees and were set at 55bps. For illustrative purposes only.

Each fee budget scenario is evaluated against common measures of accumulation, downside risk and retirement income sustainability under expected and adverse outcomes.

- **Wealth accumulation:** the projected account balance at retirement, measuring the glidepath's overall wealth-building potential during a full accumulation period.
- **Near-retirement drawdown:** the largest peak-to-trough decline in the final five years to retirement, capturing intra-period loss severity and investor downside experience during downturns (sequence risk).
- **Retirement readiness:** the income replacement ratio, measuring the percentage of pre-retirement income that is replaced by retirement income. This metric assesses a plan member's ability to maintain their standard of living in retirement.
- **Probability of shortfall:** the proportion of simulations in which the portfolio cannot sustain the target income replacement ratio (60%, inflation-adjusted) at ages 89 and 94, which represent the blended male and female median (50th percentile) and conservative (75th percentile) life expectancy respectively.

The scenario results: Trade-offs between growth and protection

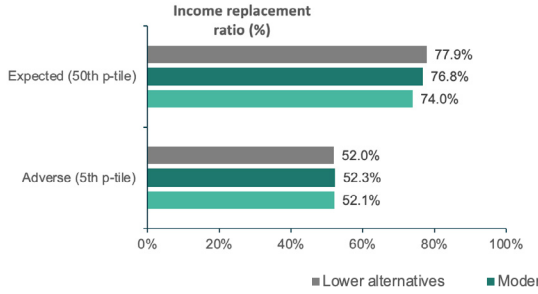
Higher fee budget scenarios:



[8] Stress testing assumptions included in the appendix.

[9] Since the Modest alternatives strategy (Index+) is relatively new to the TDF market, with few comparable solutions, the analysis applies the same fee assumptions as the Minimal alternatives strategy.

Retirement readiness:
Income replacement ratio as a percentage of final salary



Probability of shortfall:
Probability of being unable to sustain an inflation-adjusted 60% target income replacement ratio

Alternatives allocation	Probability of shortfall at life expectancy of 89	Probability of shortfall at life expectancy of 94
Lower	14.2%	21.3%
Moderate	14.3%	21.9%
Higher	15.9%	24.4%

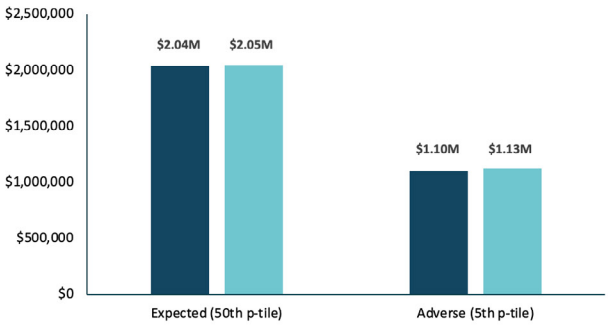


Source: SLGI Asset Management Inc. For illustrative purposes only. For stress testing assumptions, please see the Appendix.

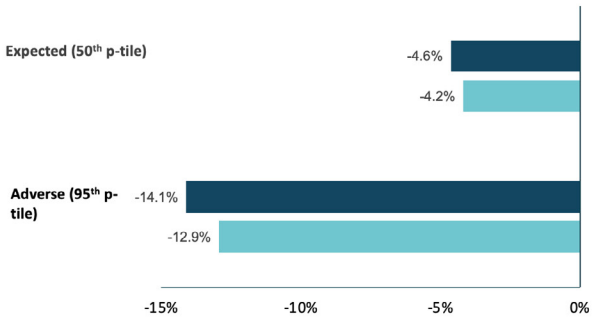
The **higher fee budget**, broader toolkit scenario analysis reveals trade-offs between growth and protection across different strategies. The *Lower alternatives* strategy demonstrates higher accumulation potential if public markets perform well, but leaves members more exposed to adverse outcomes, particularly in the five years preceding retirement when account balances are highest and recovery time is limited. By contrast, the *Higher alternatives* strategy provides greater downside protection but reduces the expected wealth available to fund retirement and the ability to sustain the targeted retirement income over a member's lifetime. The analysis indicates that alternatives do not inherently weaken retirement outcomes; rather, alternatives must deliver sufficient diversification, downside protection or other value-add to offset their opportunity cost, particularly when long-term assumptions favour public equities. Within the higher fee budget scenarios, the *Moderate alternatives* strategy reflects a middle-ground approach, offering exposure to both growth potential and downside resilience with corresponding implications for retirement income sustainability.

Lower fee budget scenarios:

Wealth accumulation:
Accumulated assets by age 65

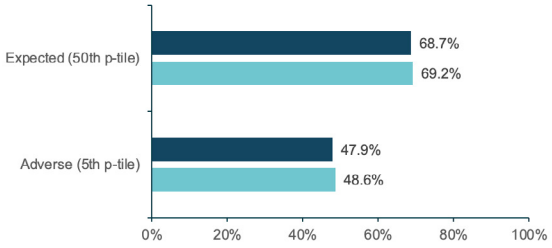


Drawdown near-retirement:
Largest peak-to-trough decline in returns over the five years immediately preceding retirement





Retirement readiness:
Income replacement ratio as a percentage of final salary



Probability of shortfall:
Probability of being unable to sustain an inflation-adjusted 60% target income replacement ratio

Alternatives allocation	Probability of shortfall at life expectancy of 89	Probability of shortfall at life expectancy of 94
Minimal	27.4%	37.0%
Modest	25.5%	35.5%

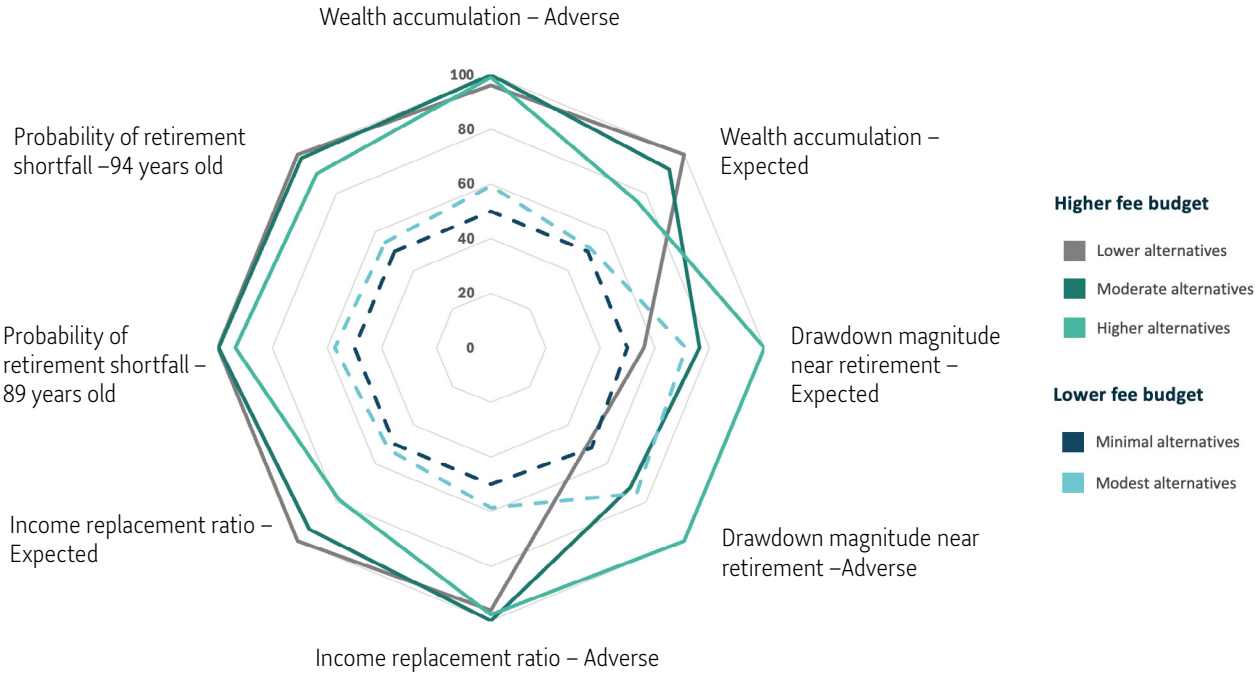


Source: SLGI Asset Management Inc. For illustrative purposes only. For stress testing assumptions, please see the Appendix.

The **lower fee budget** scenario analysis, within a more constrained toolkit, indicates that a *Modest alternatives* allocation, alongside lower cost public market exposures delivers stronger retirement outcomes across the metrics assessed than a *Minimal alternatives* allocation. Therefore, even within a fee-sensitive structure, appropriately sized alternatives can improve retirement outcomes.

The two sets of fee budget scenarios should be viewed as distinct plan design frameworks rather than competing recommendations. Each reflects different plan sponsor beliefs and preferences on fees and consequently, investment toolkits. A lower fee approach emphasizes cost certainty and efficient market exposure but limits the available return sources and risk-management tools. A broader active toolkit introduces higher fees but may support stronger retirement outcomes when sufficient value is created after fees. While the stress-testing points to less favourable outcomes under the lower-fee scenarios, even when lower future value-add assumptions are applied, this analysis is not intended to rank fee structures in isolation. Rather, its purpose is to identify the TDF that provides the most effective balance of retirement outcomes within the constraints of each fee budget.

TDF design is both art and science: It's a balancing act



How to read this chart: Each axis represents a retirement outcome, with higher scores (0–100) indicating more favourable results. The overall shape highlights trade-offs across outcomes.

Source: SLGI Asset Management Inc. For illustrative purposes only. For stress testing assumptions, please see the Appendix.

While no single strategy performs optimally across all measures, the *Moderate alternatives* strategy in the higher fee budget scenario and the *Modest alternatives* strategy in the lower fee budget scenario each provide a strong overall balance between wealth accumulation, downside resilience and retirement income sustainability. These findings suggest that alternatives and other design choices can be effective when thoughtfully positioned and appropriately scaled within a comprehensive retirement-outcomes framework.

Moreover, ongoing oversight is essential. Capital market assumptions, investment opportunity sets and member behaviours continue to evolve, and allocations that were once appropriate may no longer offer the same trade-off over time. Annual strategic asset allocation reviews, periodic glidepath stress-testing and explicit monitoring of fees, liquidity and value-add, provide direction and allow the TDF design to adapt without reacting to short-term market noise.

06 | Conclusion: Designing TDFs for better retirement outcomes

The experience of leading Canadian DB pension plans offers a useful precedent. Many began with simple, largely public-market portfolios and evolved toward broader diversification as their scale, governance and implementation capabilities grew. That progression was not complexity for its own sake but reflected a fiduciary commitment to deploying capital, fees and active risk where they could most materially strengthen long-term outcomes. The same principle can guide the continued evolution of DC investment solutions.

The next phase of TDF evolution will not simply be defined by any single design decision, but by the integration of glidepath design, strategic asset allocation and implementation choices within a disciplined fee budget, and a total portfolio framework focused on retirement outcomes. No single investment approach or exposure can address the full range of risks plan members face. Effective design must instead balance wealth accumulation, downside resilience, the management of sequence risk, and sustainable retirement income throughout the member journey.

Achieving this balance requires deliberate trade-offs and right-sizing. Every decision – from fee levels and active risk allocation to portfolio composition – should justify its contribution to long-term member outcomes.

Modern TDF design is about making more intentional choices and continually testing whether those choices remain appropriate as markets, member needs and retirement risks evolve.

Managers that combine disciplined glidepath design, broader strategic diversification, including alternatives, and thoughtful active risk vs. passive implementation, led by an experienced multi-asset solution team will be best positioned to translate TDF innovation into more resilient retirement outcomes for members.



Appendix

Stress testing assumptions

<table>
<tr><td>Starting age</td><td>25</td></tr>
<tr><td>Starting annual salary</td><td>$65,000</td></tr>
<tr><td>Annual YMPE adjustment</td><td>Annual rate of inflation + 0.75% for real economic growth and productivity gains (capped at 5%)</td></tr>
<tr><td>Annual salary adjustment</td><td>Annual rate of inflation + 0.75% for real economic growth and productivity gains (capped at 5%) plus annual merit and promotion rates:
<table><tr><th>Years of service</th><th>% increase</th></tr><tr><td>0 - <5</td><td>2.0%</td></tr><tr><td>5 - <10</td><td>1.5%</td></tr><tr><td>10 - <15</td><td>1.0%</td></tr><tr><td>15 - <20</td><td>0.5%</td></tr></table></td></tr>
<tr><td>Annual contribution</td><td>10% of annual salary</td></tr>
<tr><td>Retirement age</td><td>65</td></tr>
<tr><td>Median life expectancy at age 65</td><td>89*</td></tr>
<tr><td>Passive investment management fee</td><td>55bps (inclusive of record keeping fees) - for illustration purposes</td></tr>
<tr><td>CPP/QPP at retirement</td><td>25% of the average annual salary throughout the accumulation period, subject to the maximum of 25% of the average of the last 3 YMPEs, adjusted with inflation post-retirement (supplemental pension excluded for now)</td></tr>
</table>

* Source: Canadian Institute of Actuaries. Life expectancy values are based on the Canadian Pensioners' Mortality Table published in 2014, adjusted for expected mortality improvement to 2026 using the MI-2017 table. Blend of 50% male/50% female.

Glidepath	"To" retirement (representative of Canadian-domiciled TDFs)
Starting equity allocation (incl. growth alternatives)	93%
Equity allocation at retirement	41.5%

Scenarios tested

Scenarios	Exposure to alternatives (approx. longest to shortest vintage)	Investment fees
Higher fee budget	Lower: 5% - 10% Moderate: 10% - 20% Higher: 20% - 25%	Passive fee + 10bps Passive fee + 15bps Passive fee + 20bps
Lower fee budget	Minimal: 3% Modest: 5% - 15%	Passive fee Passive fee

Alternatives

Fixed income alternatives: Private fixed income, Canadian commercial mortgages
Growth alternatives: Commodities, liquid alternatives, global direct real estate and global direct infrastructure.

Scenarios	Exposure to alternatives	% Fixed income alternatives	% Growth alternatives
Higher fee budget	Lower: 5% - 10%	0.0% - 6.5%	1.5% - 3.9%
	Moderate: 10-20%	0.0% - 12.9%	2.9% - 7.9%
	Higher: 20-25%	0.0% - 12.9%	5.9% - 13.7%
Lower fee budget	Minimal: 3%	0%	2.2% - 3.1%
	Modest: 5-15%	2.2% - 13.2%	4.0% - 5.8%

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