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# The Silent Risk Shift:

**How the evolution of default funds is threatening retirement security**

February 20, 2026

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# I The Silent Risk Shift

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## **The Silent Shift:**

Default funds are becoming less diversified

2

## **From Markets to Members:**

Default funds need to cover a wide range

3

## **One Assumption, Multiple Truths:**

Higher equity risk does not always equal higher return

4

## **Takeaways:**

How can we protect members and sponsors while meeting objectives

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# The Silent Risk Shift



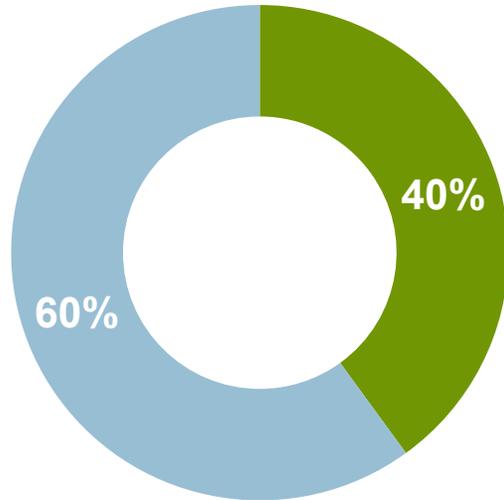
# Evolution of Default Funds Towards More Equity Risk

Late 1990s to Early 2000s



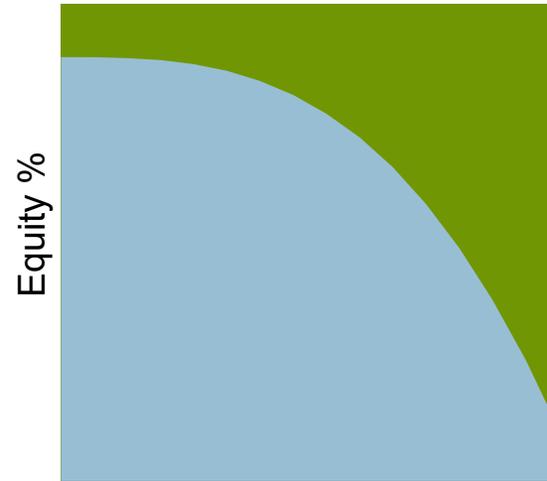
■ Cash Equivalents

2000s



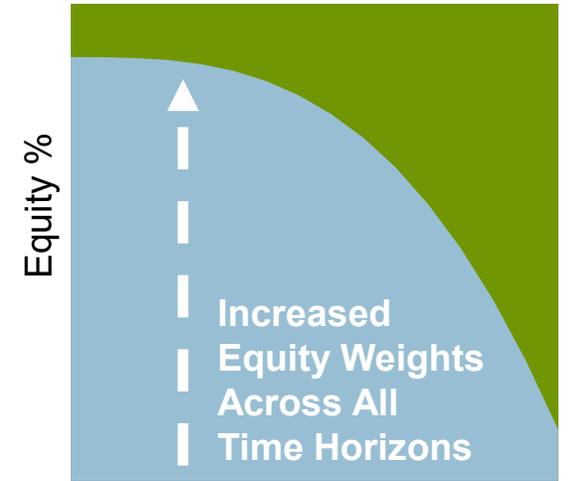
■ Bonds ■ Equities

2010s



■ Bonds ■ Equities

2020 and Beyond

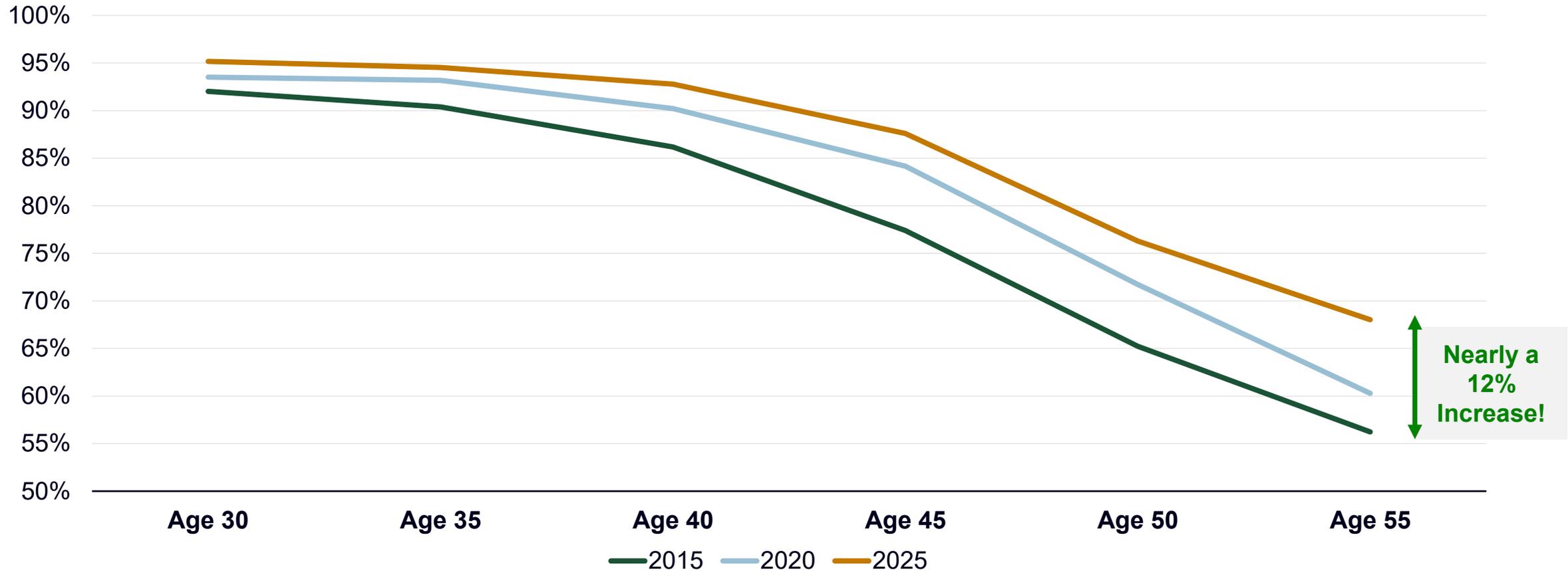


■ Bonds ■ Equities

Note: For illustrative purposes only. For details of funds used to access each asset class, please refer to the Appendix.  
Source: TD Asset Management Inc. As of Sep 30, 2025.

# This Has Led to the Industry Quietly Increasing Equity Weights Over the Past Decade

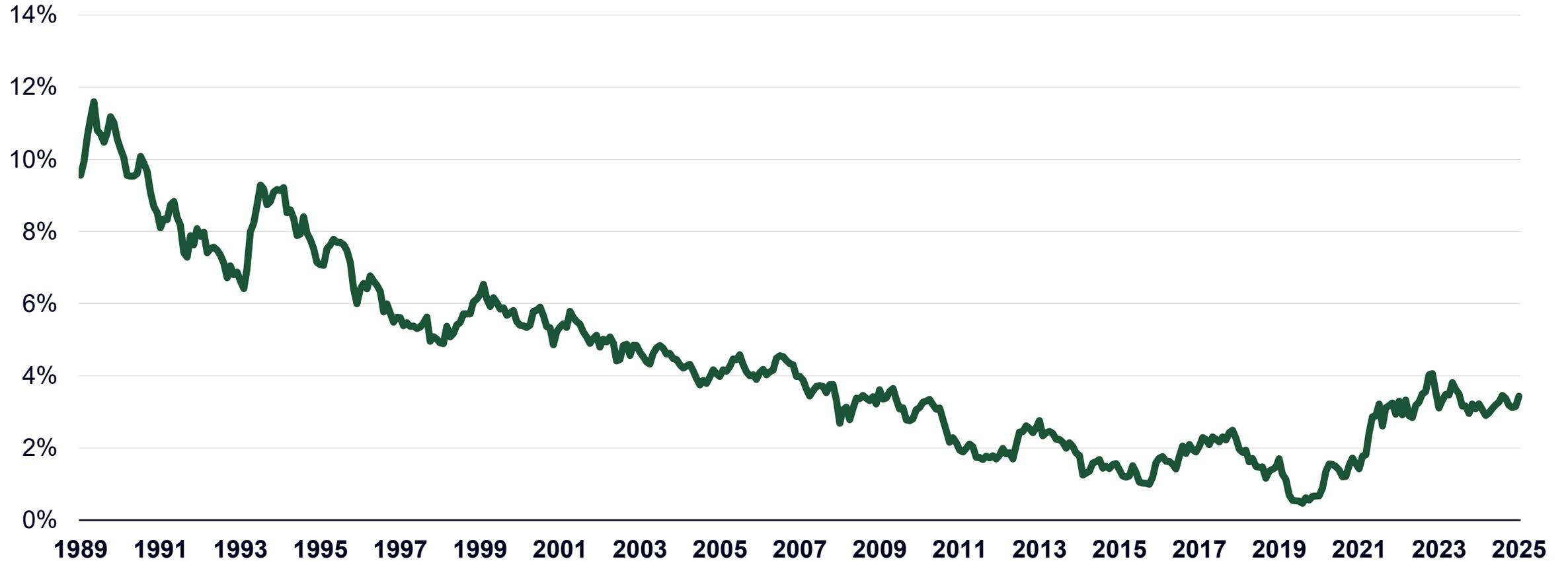
Industry Peer Average TDF Equity Weights Across Vintages



Note: TDF = Target Date Fund.  
Source: TD Asset Management Inc.

# Falling Interest Rates Drove DC Plans Away From Bonds

Government of Canada 10 Year Notes

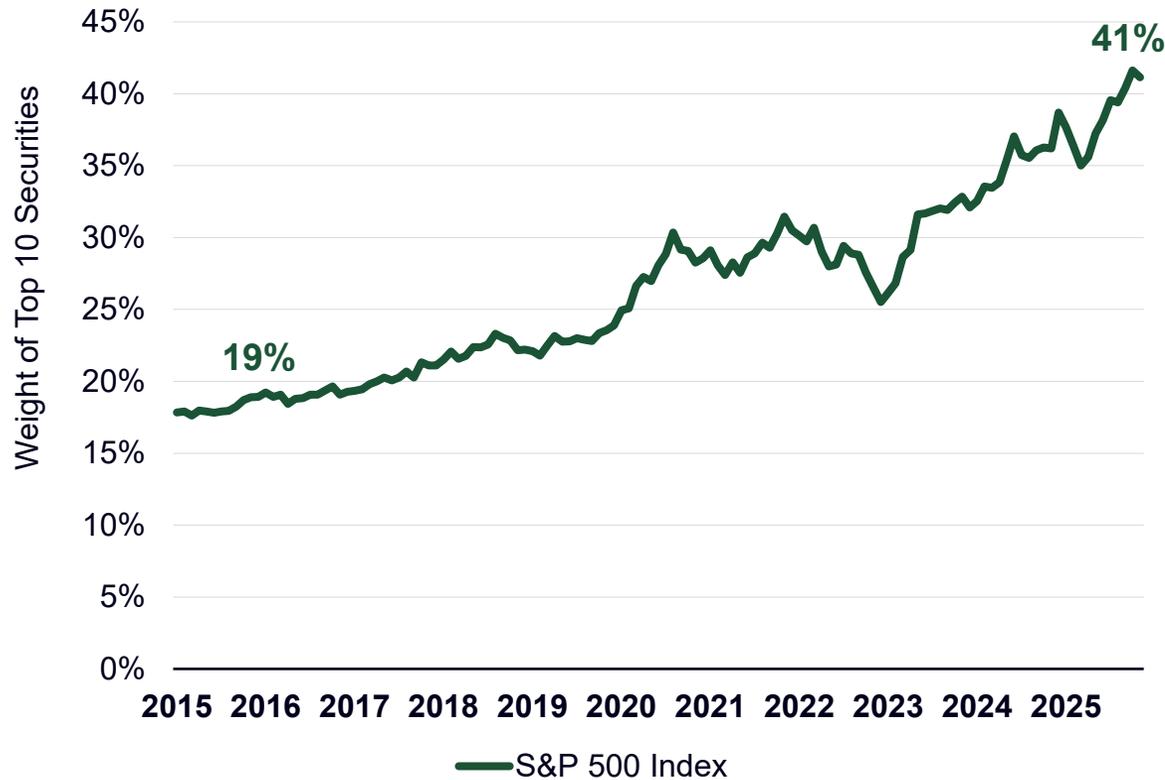


Note: DC = Defined Contribution.

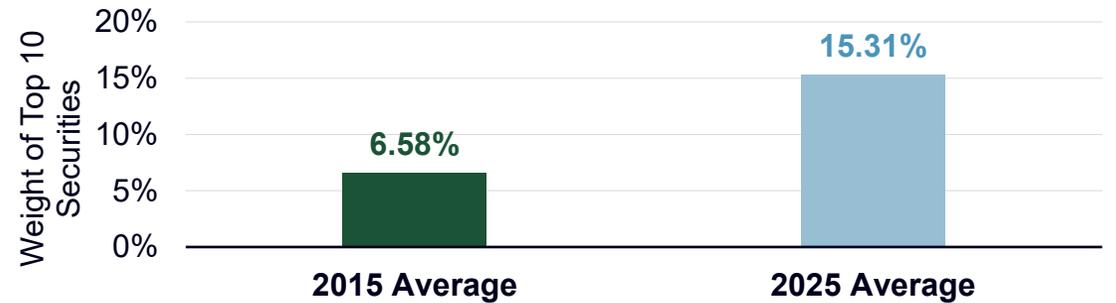
Source: Bloomberg Finance L.P. As of Dec 31, 2025.

# Market Benchmarks Are Also Increasing Single Stock And Country Concentration Risk

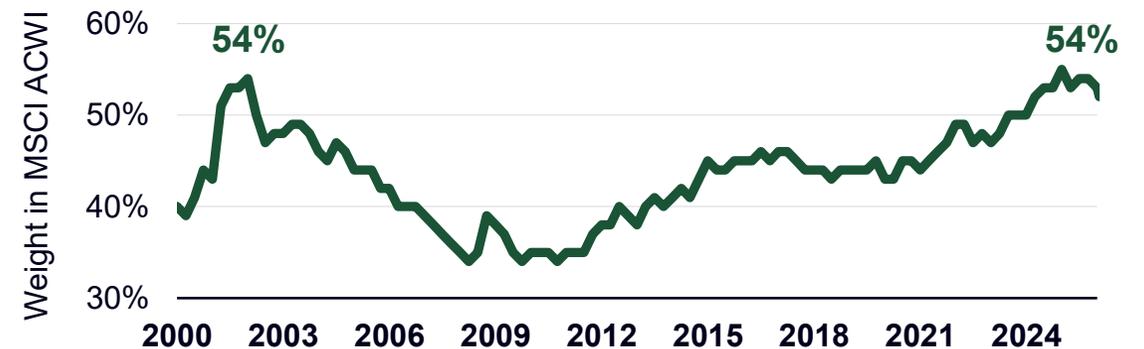
Market Concentration in the U.S. Has Doubled in the Past Decade



S&P 500 Top 10 Stock Concentration in Portfolio Using Average TDF Equity Weights<sup>1</sup>



U.S. Market Concentration Does Not Just Exist in U.S. Equities



<sup>1</sup> Assumption of U.S. Equity portion of portfolio is S&P 500 index.

Note: ACWI = All Country World Index. Source: TD Asset Management Inc., FactSet Research Systems Inc. As of Dec 31, 2025.

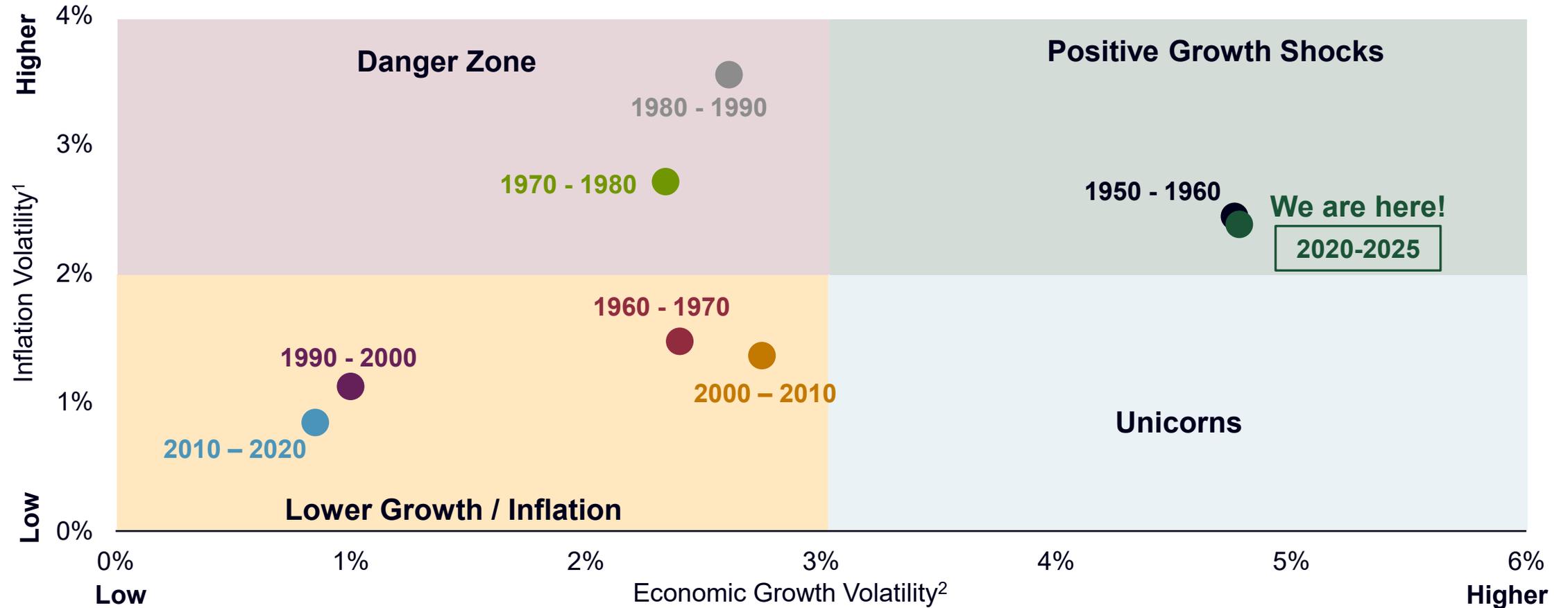
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# Markets To Members: Covering Wide Needs



# Back to the Future: The Future May Look Very Different

"The past doesn't repeat, but it often rhymes" – Mark Twain



<sup>1</sup>Headline Consumer Price Index Volatility. <sup>2</sup> Nominal Gross Domestic Product Volatility (%).  
Source: LSEG Datastream. As of Dec 31, 2025.

## I Market Shifts Are Difficult to Forecast

**" The Death of Equities: How Inflation Is Destroying the Stock Market"**

-Business Week, 1979

**" None of the forecasters are expecting a recession in 2000"**

- Federal Reserve Bank of Chicago, *Economic Outlook for Y2K is A-OK*

**"...the world economy still looks well set for continued robust growth in 2007 and 2008"**

-International Monetary Fund, *World Economic Outlook April 2007*.

**"Our central scenario is that the global recovery continue"**

-OECD, *OECD Economic Outlook December 2021*

# I There Is A Duty Towards Diversification

## CAPSA Guidelines

- **2.2.4 Policy Regarding Failure to Make Investment Choice**
  - Factors CAP sponsors should consider in establishing the default investment option (or default option):
    1. the purpose of the CAP and intended member outcomes;
    2. the level of risk associated with the default option;
    3. the competitiveness and reasonability of fees associated with the default option, and whether those fees provide value for CAP members
    4. the demographics and observed behavior of CAP members;
    5. the degree of diversification provided by the default option; and
    6. the liquidity of the default option

***Age is not the sole determinant for risk suitability***

Note: CAPSA = Canadian Association of Pension Supervisory Authorities. CAP = Capital Accumulation Plan.  
Source: CAPSA Guideline No.3: Guidelines for Capital Accumulation Plans.

# Canadian Perspective on Suitability

## CSA/CIRO/OSC

- **Suitability is one of the most fundamental obligations owed by registrants to clients**
  1. Risk Tolerance
  2. Concentration
  3. Security Characteristics
  4. Overall Portfolio Composition

***Age is not the sole determinant for risk suitability***

Note: CSA = Canadian Standards Association. CIRO = Canadian Investment Regulatory Organization. OSC = Ontario Securities Commission.

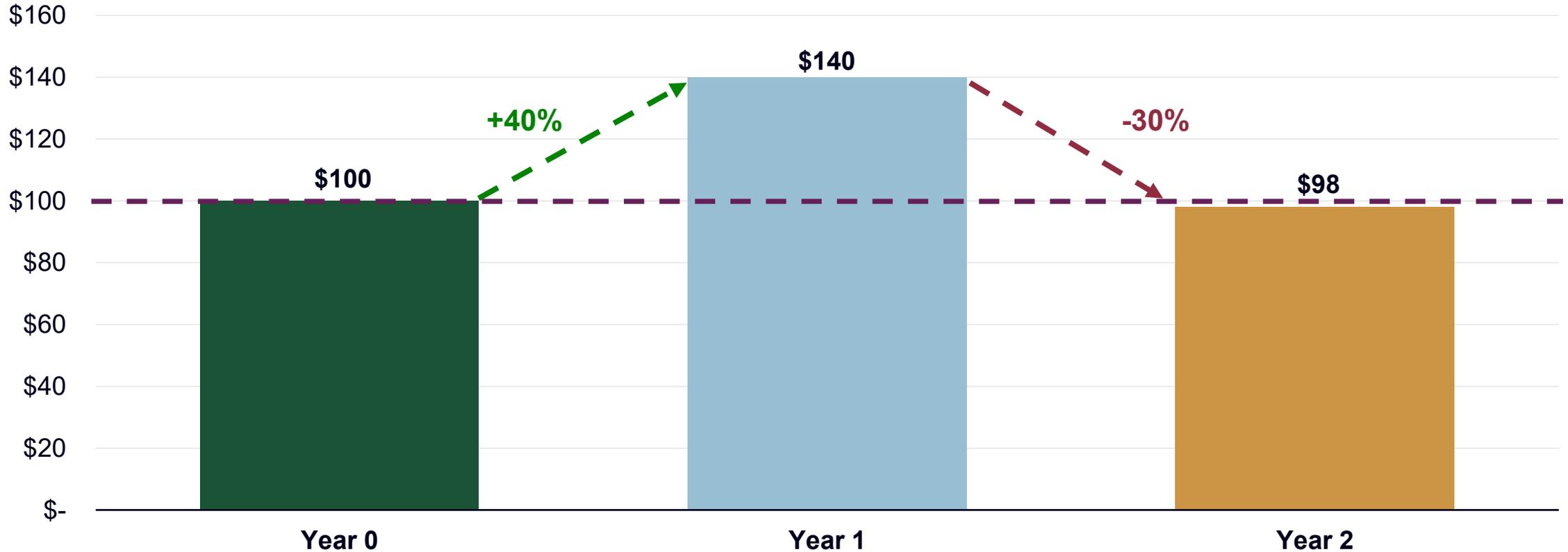
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# One Assumption Multiple Truths



# More Equities Are Not Always Better For Young Investors

Losses and gains are unequal

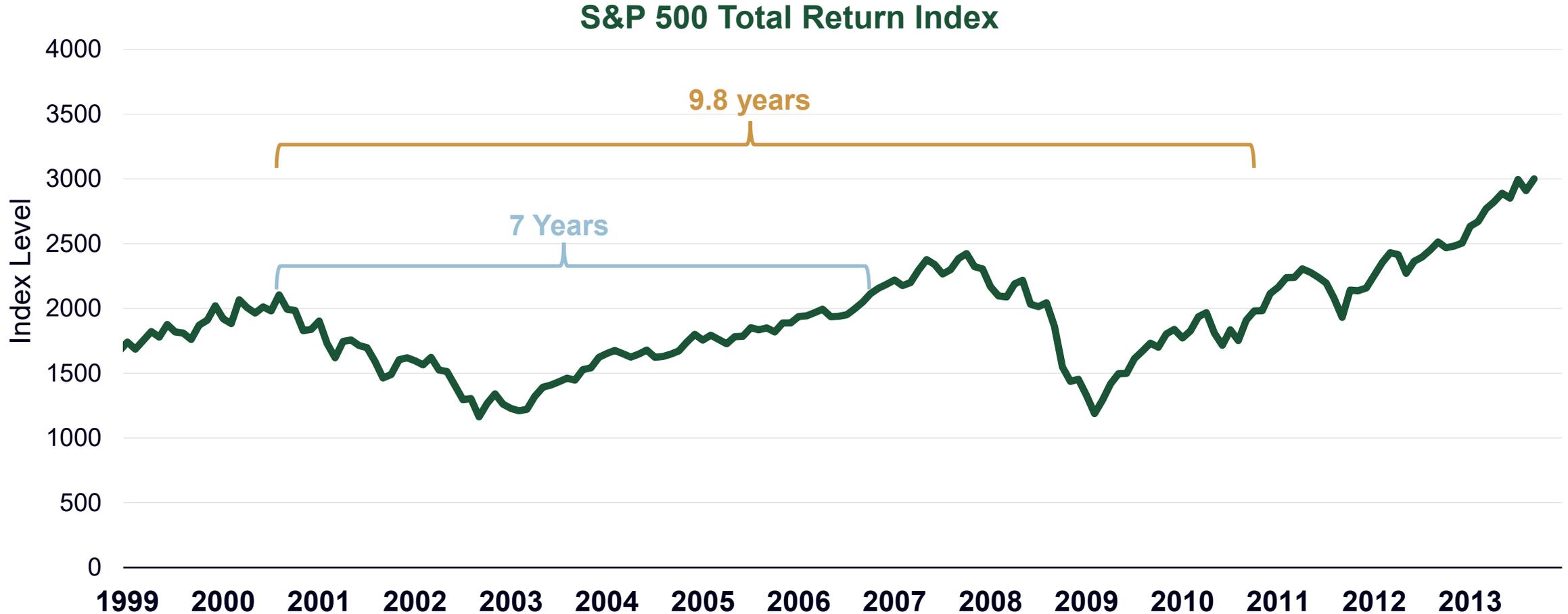


*The Higher The Downside Losses, The Greater The Difference*

For illustrative purposes only.

# It Can Take Years to Recover From Major Drawdowns

## Case in point: The Lost Decade



For illustrative purposes only.  
Source: Bloomberg Finance L.P.

# Historical Experience For A 25-year-old

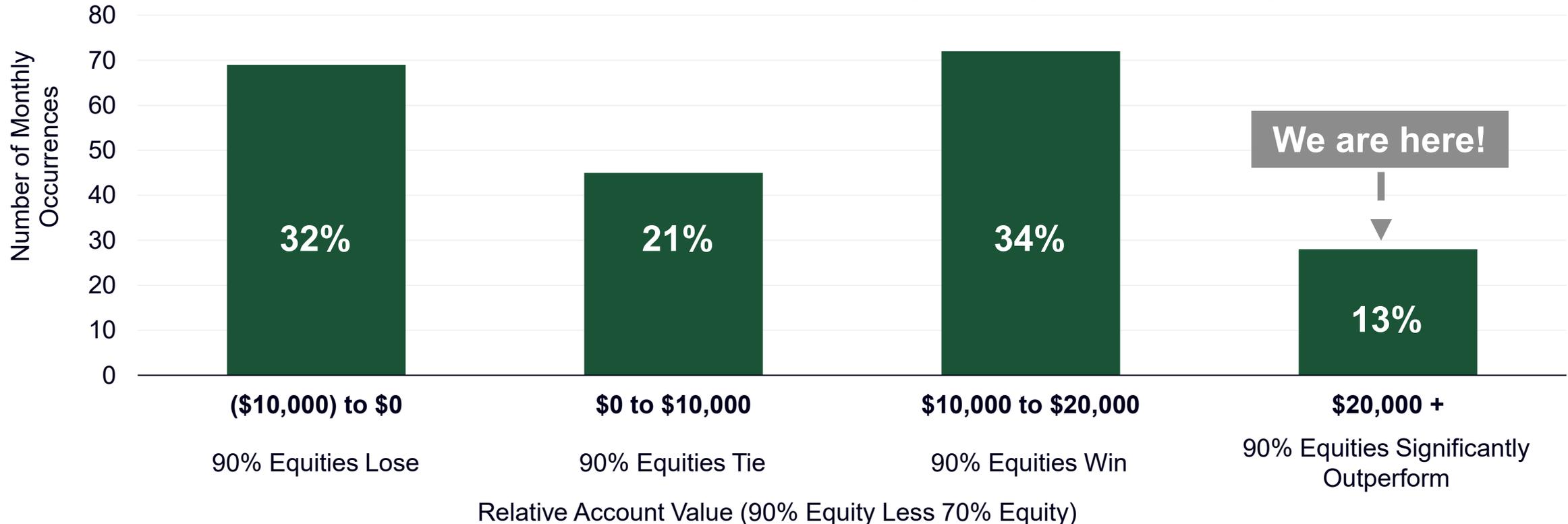
## An illustrative case study

1. Analyze experience of an average 25-year-old since 1998
2. Look at the difference in account value after 10 years for every single rolling month
3. Starting balance of zero with regular contributions
4. Compare a 70% and 90% equity weight



# Historical Experience For A 25-year-old

**90% Equity Vs 70% Equity Winning Percentage**  
Relative account balance for every single rolling month over 10 years

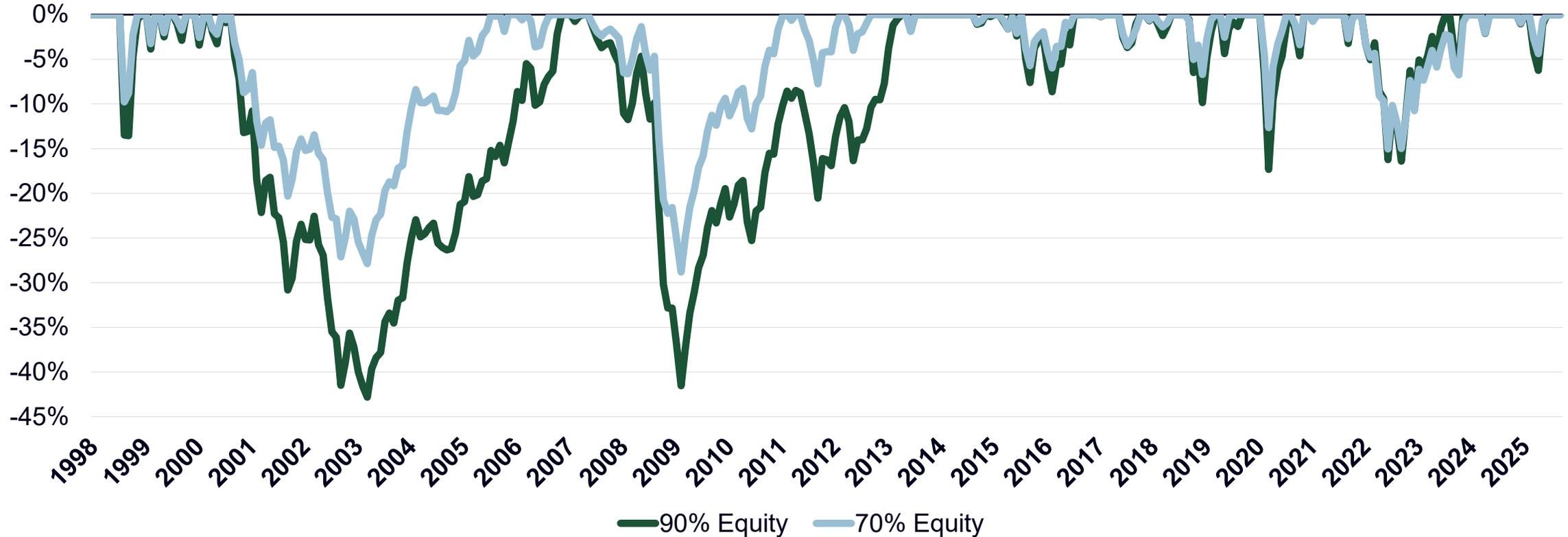


***The last 10 years are an outlier***

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. Source: TD Asset Management Inc. As of Sep 30, 2025

# Historical Experience For A 25-year-old

Risk Of Extreme Losses

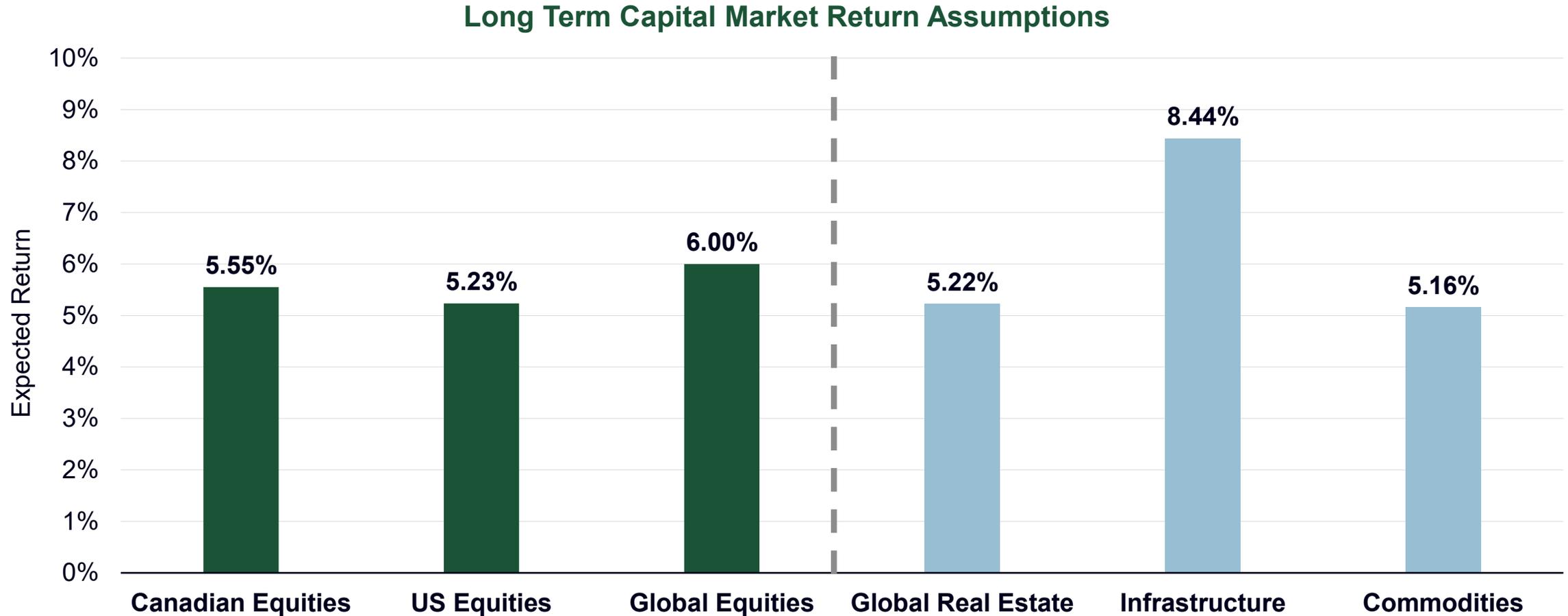


***Is the chance of a 40% loss acceptable to all members?***

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. Source: TD Asset Management Inc. As of Sep 30, 2025

# Are Equities the Only Way To Enhance Returns?

**NO! Alternatives have expected returns in-line with equities across the industry**

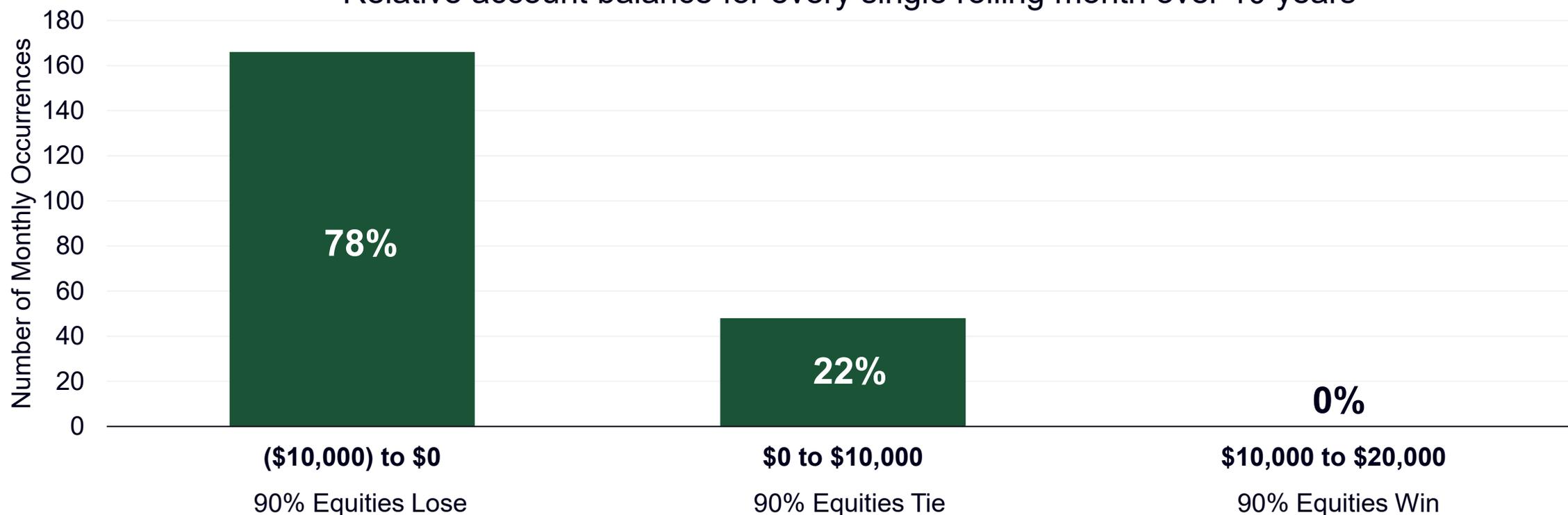


For illustrative purposes only. Source: TD Asset Management Inc. As of Sep 30, 2025.

# Historical Experience For A 25-year-old

## 90% Equity Vs Diversified Portfolio with Alts Winning Percentage

Relative account balance for every single rolling month over 10 years

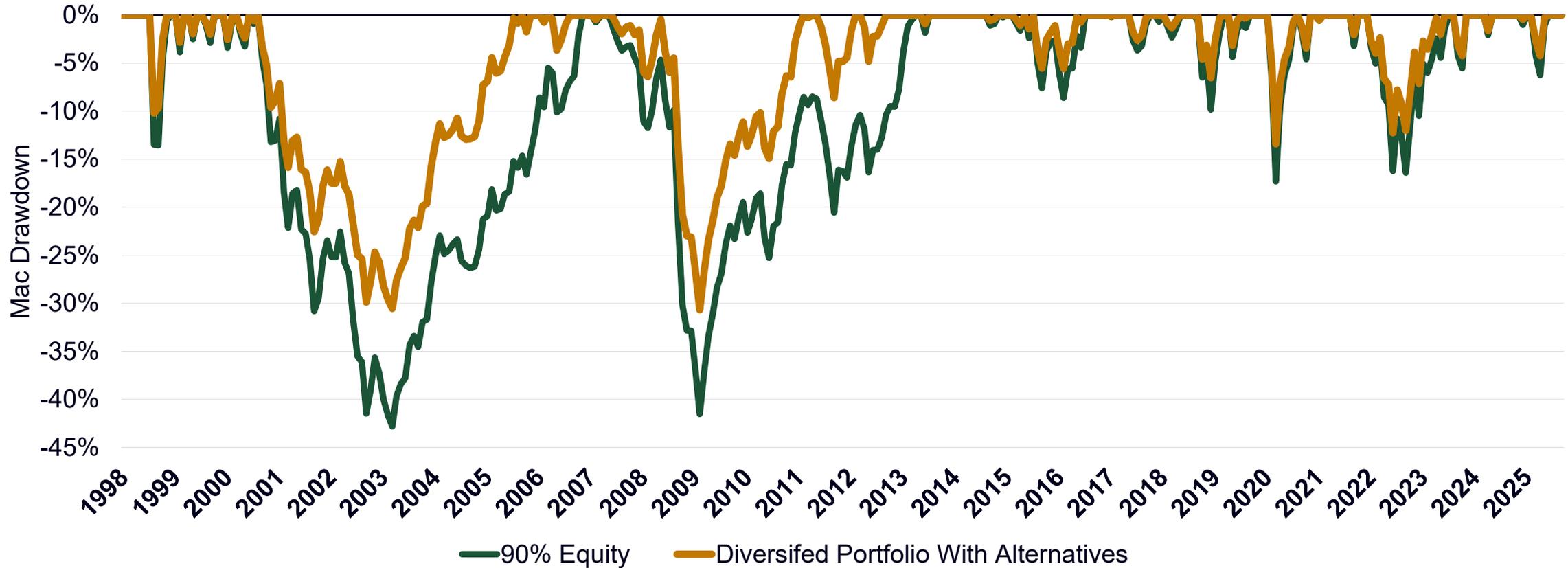


**90% equities lost 78% of the time**

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. For illustrative purposes only. Source: TD Asset Management Inc. As of Sep 30, 2025.

# Historical Experience For A 25-year-old

## Risk Of Extreme Losses



***Is the chance of a 40% loss acceptable to all members?***

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. Source: TD Asset Management Inc. As of Sep 30, 2025.

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# Takeaways



# I Takeaways

- 1 Market and default fund design have shifted risk in the last decade
- 2 Age may not be sufficient to justify extreme equity risk
- 3 We are in an extreme positive stock environment, but broader outcomes should be considered in DC compositions
- 4 Target Date Funds should be reviewed to align sponsor and member risk appetite



# Thank you!

If you have any questions or would like to learn more, please reach out to Paula Meier ([Paula.Meier@tdam.com](mailto:Paula.Meier@tdam.com)) or Mino Naderi ([Mino.Naderi@tdam.com](mailto:Mino.Naderi@tdam.com))



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