Protecting growth in uncertain markets

How protected equities can support member outcomes in volatile markets without abandoning growth

The sharp market swings of early April 2025 were a timely reminder of how quickly volatility can return and reinforces the importance of pension schemes managing downside risk without sacrificing long-term return potential. Global equities dropped by more than 10 per cent within days following the announcement of sweeping US tariffs, with volatility spiking to levels not seen since the Covid pandemic. Markets then rebounded sharply following news of a 90-day pause in the tariff roll-out.

Events like these highlight a key question for DC schemes: How can trustees help members remain invested through turbulent markets without exposing them to unnecessary risk? This is particularly relevant in DC schemes, where members are directly impacted by market fluctuations, especially in the years approaching or following retirement.

Protected equities in lifecycle glidepaths

In DC default strategies, the mid-to-late accumulation phase (typically the 10 to 15 years before retirement) presents a unique challenge. Members still need meaningful growth to build up sufficient pension pots, but they also become more exposed to market timing risk as their retirement horizon shortens.

Traditionally, this phase has involved a gradual shift away from equities into diversified growth funds (DGFs) or bonds. However, in recent years, DGFs have struggled to deliver consistent risk-adjusted returns and typically at higher fees compared to passive alternatives.

The use of long-duration bonds as a derisking tool has also shown limitations. During the 2022 UK gilt crisis, long-dated bonds saw sharp price declines at the same time as equities – a correlation that also occurred with US Treasuries in April 2025 as a result of a rapid change in monetary policy expectations. These instances show that bonds may not always deliver the diversification benefits assumed in traditional glide paths.

Protected equities offer an alternative. By maintaining equity exposure with built-in downside protection, schemes can reduce the need for early de-risking, support more stable outcomes and better align with members' long-term retirement goals. Furthermore, in a modern lifecycle glidepath, protected equities could complement investments in private markets – protected equities focus on reducing losses during sharp market downturns, providing liquidity, defensiveness and cost efficiency, which help balance the illiquidity and return potential of investments in private markets.

Protected equities in decumulation

The relevance of protected equities extends beyond the accumulation phase. As more members access flexible drawdown, they remain exposed to sequence risk – the danger of withdrawing income during a market downturn, which can permanently affect retirement outcomes.

While cash-heavy or capital-guaranteed strategies can offer members safety, they may fall short in delivering the long-term returns needed to address inflation and longevity risks. Protected equities provide a middle ground, offering growth potential with embedded downside risk management. This may support improved income withdrawals, helping members balance income needs with capital preservation.

Structural considerations

The Berenberg Protected Equity strategy was designed specifically for DC platforms with daily liquidity and pricing. Listed options over broad-based equity exposure offer transparency and the protection is embedded at the fund level, ensuring all members share the same exposure. Unlike tactical hedging, the strategy is systematic and forward-looking, with pre-defined protection.

Conclusion

With market uncertainty likely to persist, DC schemes need strategies that support growth while managing the risks that matter most to members. Protected equities offer a compelling option. Whether incorporated into life-cycle defaults and/or as a decumulation solution, they provide trustees with a way to address market volatility without compromising member outcomes. In today's environment, that balance has never been more important.

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