Taking Advantage of Active Fixed Income in Core Lineups and Target Date Funds

How DC plan sponsors can provide the benefits of active management to participants in a cost-effective manner

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Introduction

Active management continues to play an important role in defined contribution (DC) plan investment lineups. Plan sponsors and the DC Intermediaries they work with are using an active approach—especially active fixed income—where they feel it can deliver higher net-of-fee returns than passive management and contribute to improved participant outcomes.

In fact, a March 2026 report from ICI/BrightScope found that more than half (54%) of 401(k) assets are invested in active or blend (*i.e.*, a mix of active and passive) strategies. According to Cerulli's 2025 Plan Sponsor Survey, three-quarters of plan sponsors have an investment menu in which at least half of the investment options are active, and just 3% have an all-passive menu. Even among larger plans, active strategies continue to play a role: approximately 70% of sponsors in the $250 million to $1 billion and $1 billion plus asset segments tell Cerulli at least half of the options in their investment menus are active strategies.

The recently proposed Department of Labor (DOL) rule on alternative investments may also give plan sponsors greater confidence when selecting active or blend target date funds as their qualified default investment alternative (QDIA).

How Market Inefficiencies Create Opportunities for Active Fixed Income

The inherent complexity of fixed income investing, coupled with changing market conditions, makes it relatively more difficult to create effective indexed fixed income strategies than to create many types of indexed equity strategies. Fixed income managers need to weigh credit, duration, and interest rate risks when making investments, while navigating a market that is larger, less transparent, and less liquid, with fewer homogeneous securities than the equity market. Moreover, active fixed income managers tend to have strong trading capabilities, allowing them to potentially differentiate and add value based on their ability to navigate the over-the-counter markets that fixed income securities trade on. Meanwhile, the transparency and liquidity of the equity market allow for passive strategies that provide low-cost, diversified exposure for investors.

A best-of-breed active fixed-income manager can exploit opportunities and inefficiencies created by market complexity in ways that do not exist in segments of equity markets, such as large-cap strategies. In fact, 64% of active fixed income funds outperform their benchmark compared to 42% of active equity funds and generate meaningful performance for investors.

Exhibit 1 | PIMCO: Percentage of 10-Year Active Outperformance vs. Passive (net-of-fee)

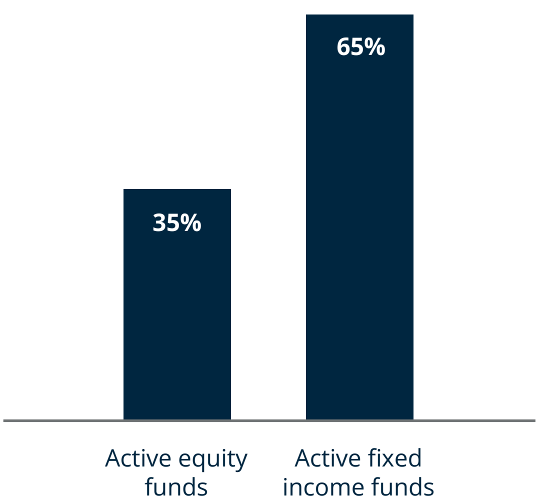
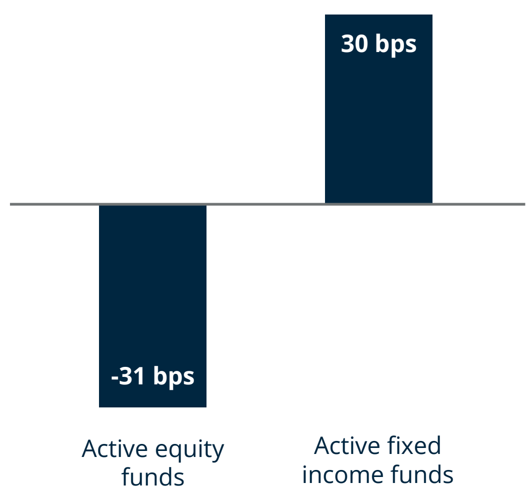


Exhibit 2 | PIMCO: Average 10-Year Active Outperformance vs. Passive, bps (net-of-fee)



Sources: PIMCO and Morningstar as of 30 June 2026 | Analyst Note: ***For illustrative purposes only. Past performance is not a guarantee or a reliable indicator of future results.*** *Active outperformance compares the performance of actively managed funds (net of fee) versus the median passive peer (net of fees) over 10 year periods. The average magnitude of outperformance over the 10 year periods is annualized. "Active Fixed Income Funds" represents actively managed mutual funds and ETFs in the Morningstar U.S. Taxable Bond and Municipal Bond Categories. "Active Equity Funds" represents actively managed mutual funds and ETFs in the Morningstar U.S. category groups of U.S. Equity, International Equity, Sector Equity, and Nontraditional Equity. Active outperformance compares the performance of actively managed funds (net-of-fee) versus the median passive peer (net-of-fees) in each 10-year rolling period between 6/30/2006 and 6/30/2026 when both the funds being analyzed and the passive peers were present.*

Exhibit 3 | Percentage of Active Funds that Outperformed their Median Passive Peers (net-of-fee)

Bond Category	3-Year	5-Year	10-Year
Intermediate Core Bond	78%	75%	81%
High Yield Bond	34%	62%	60%
Global Bond	61%	49%	74%
All Bond Categories	**66%**	**67%**	**65%**

Equity Category	3-Year	5-Year	10-Year
Large-Cap Blend	34%	32%	22%
Mid-Cap Blend	44%	47%	15%
Small-Cap Blend	49%	68%	36%
Foreign Large-Cap Blend	48%	40%	33%
All Equity Categories	**40%**	**39%**	**35%**

Sources: PIMCO and Morningstar as of June 30, 2026 | Analyst Note: ***For illustrative purposes only. Past performance is not a guarantee or a reliable indicator of future results.*** *Funds were compared against the median net returns of passive peers. Passive peers are mutual funds and ETFs classified as an "index fund" or an "enhanced index fund" in the same Morningstar category as the funds being analyzed. Specific bond and equity categories are select samples of the full range of categories that underlie the aggregated Morningstar analysis in Exhibits 1 & 2. Institutional share class net returns are used for analysis. Results would vary if a different share class was selected. Different fund types (e.g., ETFs, open-end investment companies) and fund share classes are subject to different fees and expenses, which may affect performance, have different investment objectives, may have different minimum investment requirements, and may be entitled to different services.*

A closer comparison of fixed income strategies shows active intermediate core bond funds outperformed 75% or more of their passive peers across three-, five-, and 10-year periods. High yield bond funds often beat their passive peers over longer durations, with 62% and 60% outperforming them over five-year and 10-year periods, respectively.

Active equity funds do not fare as well against their passive peers compared to fixed income. Fewer than 35% of large-cap blend funds (*i.e.*, a fund that invests in both value and growth equities) outperformed their passive peers across three-, five-, and 10-year periods. Meanwhile, when compared to their passive peers, active mid-cap blend and small-cap blend have fared relatively better than large-cap blend over three-year and five-year periods, highlighting the potential benefits of active management in these categories. These benefits erode over a longer period, as the 10-year figure for small-cap blend is just 36%, while mid-cap blend falls to 15%.

DOL's Proposed Safe Harbor Extends to Active and Alternatives

While much has been made of the private markets aspect of the recently proposed Department of Labor (DOL) rule, the safe harbor would apply for all designated investment alternative (DIA) options a sponsor may consider. This may provide plan sponsors with sufficient fiduciary coverage to choose active and blend (*i.e.*, a mix of active and passive) target date strategies over lower-cost, fully passive options. Plan sponsors would be granted a safe harbor provided they follow a prudent process that considers and makes determinations on six factors: performance, fees, liquidity, valuation, performance benchmark, and complexity. This proposed safe harbor applies to any DIAs a sponsor may consider, including active and blend target date strategies, as well as those that incorporate retirement income or allocate to alternative assets.

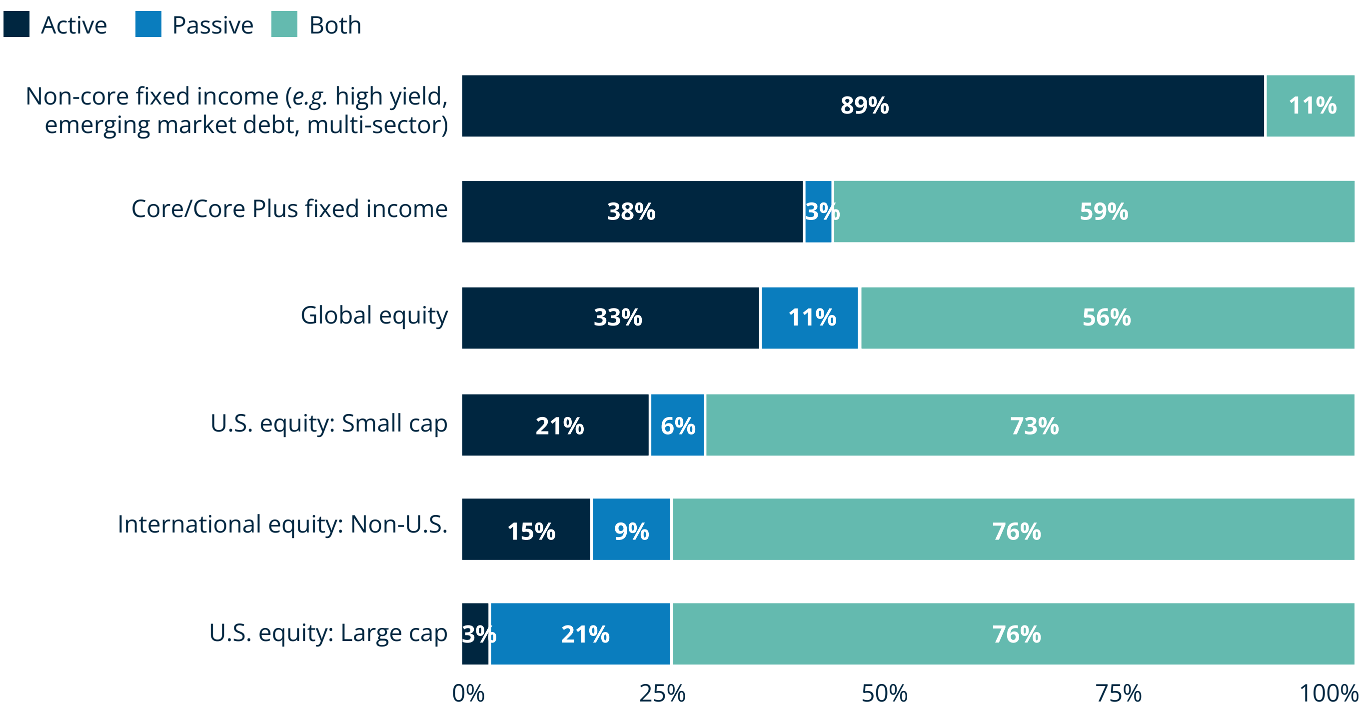
How Active Fixed Income Is Being Used in DC Plans

Plans and their DC Intermediaries are deliberate when adding actively-managed options to their investment menus and target dates. While the DOL's proposed safe harbor may alleviate this moving forward, concerns about litigation and fees may still run high among plan committees. Therefore, it is important that the active strategies included in both the core menu and QDIA provide tangible benefits to participants when compared to a passive one. When it comes to fixed income, there is a strong preference for active core menu options and an increasing interest in providing participants with exposure through blend target date options.

Core Menu

DC Intermediaries have a strong preference for active fixed-income strategies when making core menu recommendations to their plan sponsor clients, according to PIMCO's DC Consulting Study 2026. Across all DC Intermediaries, 89% recommend that plan sponsors only use an active strategy for non-core fixed-income options such as high yield, emerging market debt, and multi-sector, with 100% of Institutional Consultants recommending this active approach. Meanwhile, relatively few DC Intermediaries recommend active-only equities for the core menu. Global equity has the highest proportion of DC Intermediaries only recommending active management, at just 33%.

Exhibit 4 | DC Intermediaries: Strategies Recommended by Asset Class and Management Approach (Core Menu)

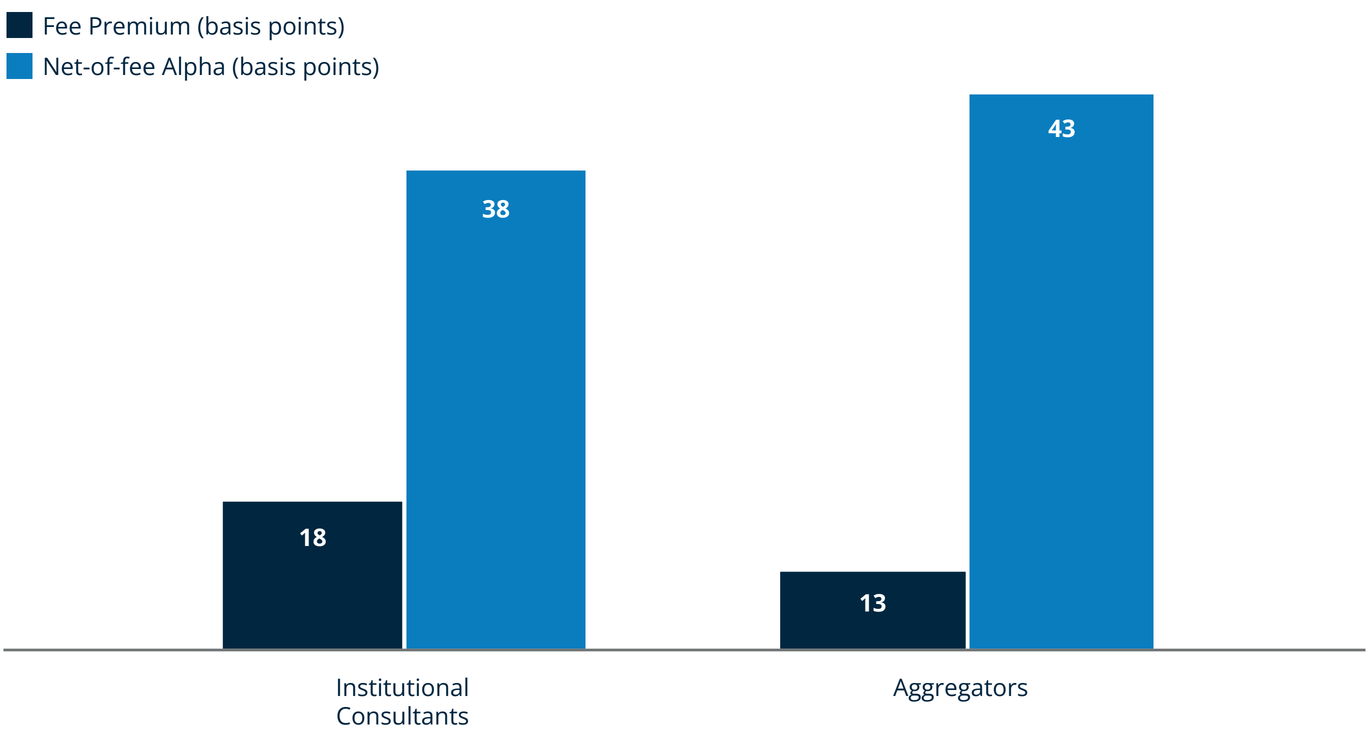


Source: PIMCO DC Consulting Study 2026 | Analyst Note: Respondents were asked: How many investment options do you typically recommend on DC plan core menus across the following investment strategies, both active and passive? For each investment option below, please fill in the respective number of active and/or passive options recommended (one or more). If you don't recommend a particular investment strategy on the core menu, select N/A.

Plan sponsors are willing to pay more for active fixed income if there is meaningful net-of-fee alpha, according to DC Intermediaries. For instance, in the case of an active core/core-plus fixed income strategy, Institutional Consultants report their clients may be willing to pay, on average, an 18 basis point premium over a passive strategy, while Aggregator clients are around 13 basis points, provided the strategy can produce 40 basis points of net-of-fee alpha. While that increase in performance seems modest, small amounts can translate into improved outcomes for participants over the course of their careers.

DC Intermediaries are willing to pay up for active fixed income, but expect to get roughly 40 bps of net-of-fee alpha.

Exhibit 5 | DC Intermediaries: Average Fee Premium and Net-of-Fee Alpha Expectations for Plan Sponsors to Switch from Passive to Active Core/Core Plus Fixed Income Option



Source: PIMCO DC Consulting Survey, 2026 | Analyst Note: Respondents were asked: Considering your average DC plan sponsor client (currently) using passive investment options on the core menu, what is the fee premium they would be willing to pay and the expected increase in net-of-fee alpha they would require if they were to consider switching to active investment options? Analyst Note: Basis point fees premium and net-of-fee alpha presented in this analysis represent an estimated weighted average for "core/core plus". The estimate was calculated by asset-weighting the midpoints of the basis-point ranges selected by survey respondents. For example, if a respondent selected "10-15 bps" then the assumed value would be 12.5 bps.

Blend Target Date Funds in the QDIA

Blend target date funds, which combine both active and passive strategies, are a relatively new option for plan sponsors to consider in order to maximize an asset class' strength while maintaining overall value. With many plan investment menus already including active and passive options, blend target date funds allow them to choose a QDIA that better reflects their other investment decisions.

While a relatively small proportion (12%) of target date assets today, interest in and use of blend target date funds are growing among DC Intermediaries and their clients. According to Cerulli, DC assets in blend target date funds increased 82% to $81 billion over five years (2019 to 2024). And over the next three years, 71% of DC Intermediaries (100% of Aggregators and 54% of Institutional Consultants) in PIMCO's DC Consulting Study 2026 cite increased implementation of blend target date funds as the most common expected change to plan QDIAs. Survey data also reveals they are likely to source blend target date exposure from existing all-active target date funds. Approximately 80% of DC Intermediaries say their plan sponsor clients are willing to shift from an all-active to a blend target date fund, while just 27% say the same about a move from an all-passive to a blend target date fund.

Blend target date funds' ability to leverage market inefficiencies in a cost-effective manner is driving DC Intermediaries to recommend them more frequently. Investment managers determine which asset classes, such as fixed income, would benefit from an active strategy, based on their potential to generate excess returns within the target date.

By opting for a blend target date that uses passive management to reduce total fees and active to potentially provide net-of-fee alpha, sponsors can provide participants with a cost-effective target date while still delivering the benefits of active management where it can have the greatest impact on their retirement savings. 90% of all DC Intermediaries cite this cost-effective strategy benefit as one of the top-three factors driving their recommendations to clients in 2025. Optimized performance (63%) and the ability to leverage market inefficiencies (53%) were also cited as top benefits driving their recommendations.

Exhibit 6 | DC Intermediaries: Top Benefits of Blend Target Date Funds Driving Increased Recommendations to Sponsors

Factor	Top-3	Rank 1
Cost-effective strategy: Combining both approaches allows for a balance of costs, leveraging the low fees of passive investments while selectively using active management.	90%	37%
Optimized performance: The combination of both strategies can lead to superior overall portfolio performance by leveraging the strengths of each.	63%	10%
Ability to leverage market inefficiencies: Active managers can identify and capitalize on opportunities that passive strategies might miss.	53%	40%
Improved risk management: Blending strategies provides the TDF PM greater control over risk factor exposures at the vintage level.	37%	10%
Enhanced diversification: Blending strategies reduces overall portfolio risk by diversifying across investment styles and return sources.	27%	3%
Consistent long-term growth: Passive investments offer reliable strategic exposure to efficient markets, while active investments can offer more tactical opportunities.	23%	0%

Source: PIMCO DC Consulting Survey, 2025 | Analyst Note: Respondents were asked: Over the past several years of this study, DC Consultants' recommendations of blended TDFs (active/passive mix) to DC plans have risen. Which of the following benefits of blended TDFs are driving the increase in recommendations? Please rank the following list in order of importance, with 1 being the most important factor. Please rank "Question is not applicable" as 1 if true and leave the other boxes blank.

Next Steps for Plan Sponsors and DC Intermediaries

As investment menus and QDIA options continue to evolve, plan sponsors have an opportunity to take a disciplined, goals-based approach to evaluating where active management may add value. In fixed income, where active strategies have historically more often outpaced passive peers than in some other asset classes, sponsors and DC Intermediaries can use the questions and action steps below to guide ongoing core menu and QDIA reviews.

Questions to Consider

Evaluating the Existing Lineup

- Where are participants most exposed to fixed income across the core menu and QDIA?
- Are active and passive options evaluated based on net-of-fee, risk-adjusted outcomes, and not on cost alone?
- Does each option have a clear rationale for its fees, performance potential, liquidity, valuation, benchmark, and complexity?

Identifying Opportunities

- Where has active management shown a stronger ability to add value relative to passive peers?
- Are passive exposures used where markets are more efficient and are active exposures used where inefficiencies may create opportunity?
- What level of expected net-of-fee alpha would justify any active fee premium?

Potential Action Steps

- Which fixed income exposures are best served by active, passive, or blend approaches?
- Does the QDIA glide path use active management where it can improve participant outcomes?
- Is there documentation of a prudent process for why each option belongs in the lineup?
- What changes, if any, would better align the core menu and QDIA with participant needs?

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PIMCO is a global leader in active fixed income with deep expertise across public and private markets. Our extensive resources, global presence and time-tested investment process managing $2.33 trillion in assets[1] are designed to help give our clients an edge as they pursue their long-term goals.

As a trusted Defined Contribution (DC) partner to corporate, public and non-profit plans, our wide range of retirement solutions–across target date funds, retirement income, fixed income, equities and real assets/alternatives–are designed to meet the challenges of changing markets and help active participants reach their retirement goals. That's why ~70,000 plans currently include a PIMCO strategy.[2]

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1. PIMCO manages $2.33 trillion in assets, including $1.92 trillion in third-party client assets as of 30 June 2026.
2. PIMCO BrightScope as of 30 June 2026.

Methodology

About PIMCO's DC Consulting Study:

PIMCO's Defined Contribution (DC) Consulting Study seeks to help consultants, advisors and plan sponsors understand the breadth of views and consulting services available within the DC marketplace.

- Marking its 20th year, the **2026 study** captures data, trends and opinions from 38 Consulting and Advisory firms, serving nearly 53,000 DC plan clients, with DC assets (aggregate) exceeding $10.2 trillion. Responses were collected from January 5, 2026, through February 16, 2026.
- The **2025 study** reflected 35 Consulting and Advisory firms, serving over 27,000 DC plan clients, with DC assets (aggregate) exceeding $8.85 trillion. Responses were collected from January 14, 2025, through March 10, 2025.

For more information, or access to the full study results, reach out to your PIMCO representative or email **pimcodcpractice@pimco.com.**

Cerulli 2025 401(k) Plan Sponsor Survey:

This report includes the results of Cerulli's 4Q 2024 proprietary survey of 745 401(k) plan sponsors. This survey, now in its 11th iteration, addresses topics such as financial wellness, pooled employer plans (PEPs), service provider relationships, and investment selection.

For more information, email **info@cerulli.com**.

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Past performance is not a guarantee or a reliable indicator of future results

All investments contain risk and may lose value. Investing in the bond market is subject to risks, including market, interest rate, issuer, credit, inflation risk, and liquidity risk. The value of most bonds and bond strategies are impacted by changes in interest rates. Bonds and bond strategies with longer durations tend to be more sensitive and volatile than those with shorter durations; bond prices generally fall as interest rates rise, and low interest rate environments increase this risk. Reductions in bond counterparty capacity may contribute to decreased market liquidity and increased price volatility. Bond investments may be worth more or less than the original cost when redeemed. **Equities** may decline in value due to both real and perceived general market, economic and industry conditions. **Management risk** is the risk that the investment techniques and risk analyses applied by an investment manager will not produce the desired results, and that certain policies or developments may affect the investment techniques available to the manager in connection with managing a strategy. Annuity guarantees are backed by the claims-paying ability of the issuing insurance company. **PIMCO does not offer insurance guaranteed products or products that offer investments containing both securities and insurance features. Diversification** does not ensure against loss.

Glidepath is the asset allocation within a Target Date Strategy (also known as a Lifecycle or Target Maturity strategy) that adjusts over time as the participant's age increases and their time horizon to retirement shortens. The basis of the Glidepath is to reduce the portfolio risk as the participant's time horizon decreases. Typically, younger participants with a longer time horizon to retirement have sufficient time to recover from market losses, their investment risk level is higher, and they are able to make larger contributions (depending on various factors such as salary, savings, account balance, etc.). Generally, older participants and eligible retirees have shorter time horizons to retirement and their investment risk level declines as preserving income wealth becomes more important.
De-risking strategy is based on a function of plan funded status. As plan funded status improves, clients may be interested in reducing their plan funded status volatility by shifting out of risk assets and into liability-hedging fixed income.

Target Date Funds are designed to provide investors with a retirement solution tailored to the time when they expect to retire or plan to start withdrawing money (the "target date"). Target Date Funds will gradually shift their emphasis from more aggressive investments to more conservative ones based on their target dates. Target Date Funds invest in other funds and instruments based on a long-term asset allocation glidepath, and performance is subject to underlying investment weightings, which will change over time. An investment in a Target Date Fund does not eliminate the need for an investor to determine whether a Fund is appropriate for his or her financial situation. An investment in a Fund is not guaranteed. Investors may experience losses, including losses near, at, or after the target date, and there is no guarantee that a Fund will provide adequate income at and through retirement.

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