

Family Matters

Target Date Strategies by Fund Family

Not all target date funds are created equal. Besides differing by their associated “target-date”, target date funds (TDFs) differ by the strategies set forth by the mutual fund families that offer them. These strategies determine the underlying investments which the fund invests in, the glide path of how the asset allocation changes over time, and the risk/reward characteristics of the fund. All of these factors should be considered prior to selecting a target date series as an investment option in a Plan’s fund lineup or as a qualified default investment option (QDIA).

For an overview of Target Date Funds, read [Ekon Explains: Target Date Funds](#) on our website.

In “Family Matters”, we compare the target date series strategies of a few of the well-known mutual fund families. The list we are comparing is non-exhaustive, but is designed to illustrate that target date funds are not all the same. The strategies, underlying funds, asset allocations, and glide path can differ greatly from fund to fund. A summary is shown in the chart below.

	American Century	American Funds	Fidelity	PIMCO RealPath	PIMCO RealPath Blend	T. Rowe Price Retirement	T. Rowe Price Target	Vanguard
Management Strategy	Active	Active	Active & Passive	Active	Active & Passive	Active	Active	Passive
Glide Path Strategy	To Retirement	Through; 30 years	Through; 18 years	To Retirement	To Retirement	Through; 30 years	Through; 30 years	Through; 7 years
Stock % / Bond % *								
20 -Years Prior	65% / 35%	75% / 25%	90% / 10%	50% / 50%	50% / 50%	85% / 15%	70% / 30%	80% / 20%
10-Years Prior	55% / 45%	65% / 35%	70% / 30%	30% / 70%	30% / 70%	70% / 30%	60% / 40%	70% / 30%
At Retirement	45% / 55%	50% / 50%	60% / 40%	20% / 80%	20% / 80%	55% / 45%	40% / 60%	50% / 50%
10-Years After	45% / 55%	30% / 70%	40% / 60%	20% / 80%	20% / 80%	40% / 60%	35% / 65%	30% / 70%

*Approximations

Comparing Target Date Strategies by Fund Family

American Century Investments® One Choice Target Date Portfolios®

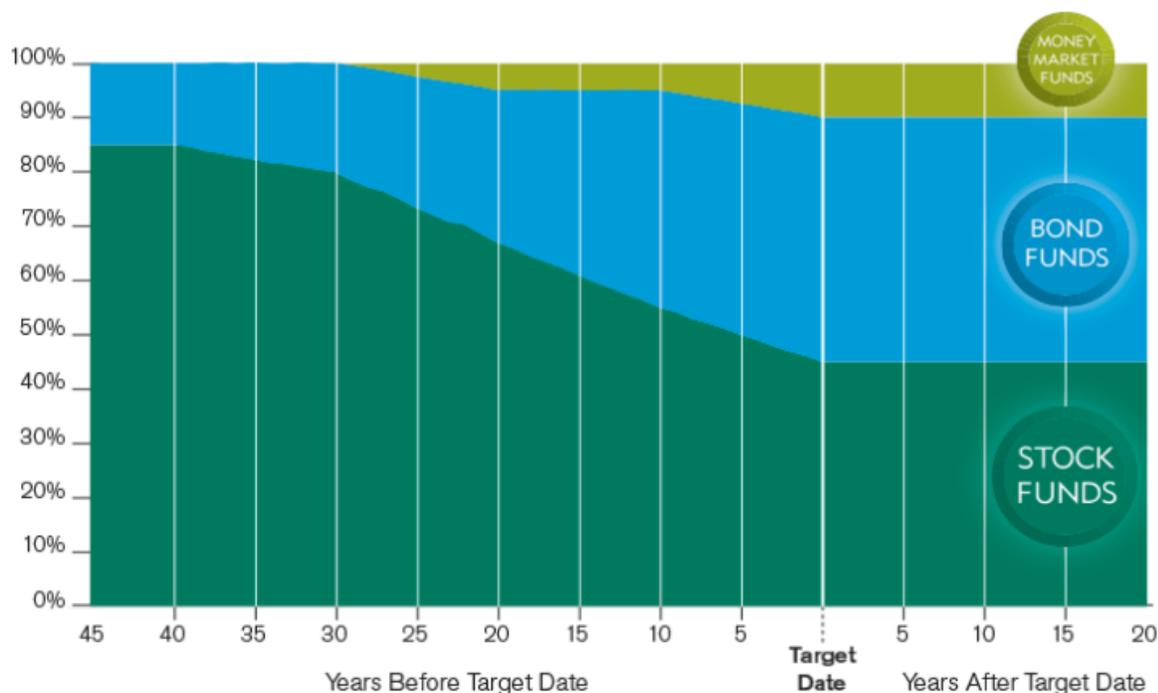
“Choose your Path. Invest for the Retirement you Envision.”

American Century aims to help investors stay on the track to retirement with their One Choice Target Date Portfolios. Each portfolio in the One Choice series seeks to strike a balance between providing income and maintaining growth potential to fund a long retirement.

The glide path for the American Century Investments® One Choice Target Date Portfolios® is shown below in Figure 5. It is important to note that American Century embraces a “to” strategy, rather than a “through” strategy, meaning that the asset

allocation of the underlying funds is adjusted until the target date is reached. After the retirement date, the asset allocation remains at approximately 50% stocks, 40% bonds, and 10% in money market funds. This is a much more aggressive strategy than most target date funds experience 10 to 20 years after the target date.

Figure 5



Source: American Century Investments

For more information on the One Choice® Target Date Portfolios offered by American Century Investments®, please read the [brochure](#) on their website.

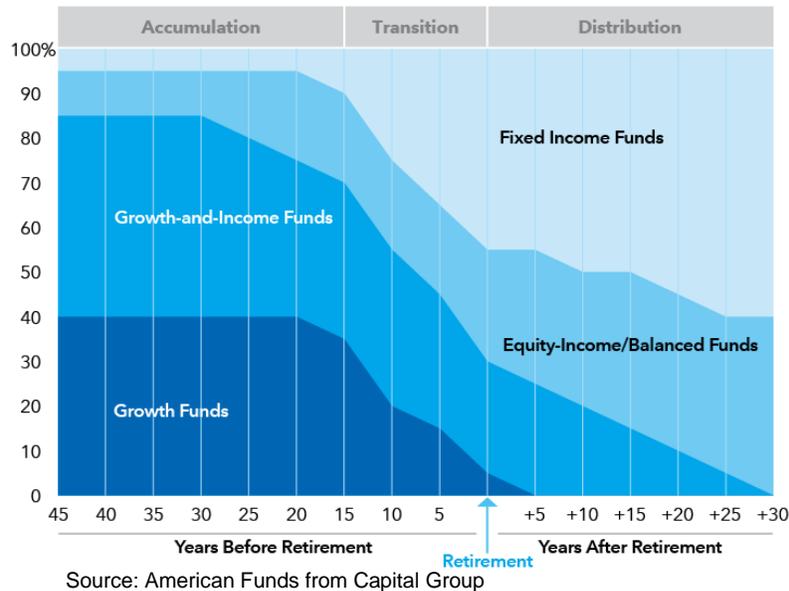
American Funds Target Date Retirement Series®

“A History of Above-Average Results and Below-Average Costs”

The American Funds Target Date Retirement Series¹ touts a focus on lower costs and lower volatility coupled with a history of strong performance. The underlying funds in American Funds Target Date Retirement Series are all actively managed. Depicted in American Funds’ TDF glide path (shown in Figure 1), the funds are managed for 30 years past their target date to allow participants to remain invested in a single fund for the majority of their lifetime. To provide equity exposure without increasing volatility, American Funds’ TDF strategy includes an emphasis on dividends.

¹ American Funds Target Date Retirement Series ®. American Funds from Capital Group. <https://www.americanfunds.com/advisor/products/target-date-retirement-series.html>.

Figure 1



Rounding out American Funds’ target date strategy is a commitment to offering experienced portfolio managers and exceptional underlying funds. An April 2015 Morningstar study found the average tenure of Portfolio Managers in the Target Date Fund industry was 5.8 years while the Portfolio Managers of the underlying funds in the American Funds Target Date Retirement Series had an average tenure of 9.5 years. Based on Class R-6 share results for 10-year rolling periods through December 31, 2015, the underlying funds in the American Fund TDF series outpaced their respective Lipper peer indexes 92% of the time. Eleven of the underlying funds landed on [Morningstar’s 2016 “Fantastic” Fund list](#), marking the fifth consecutive year that more than half of the underlying funds made the list.

To learn more about the [American Funds Target Date Retirement Series®](#) and its [underlying funds](#), please visit the American Funds website.

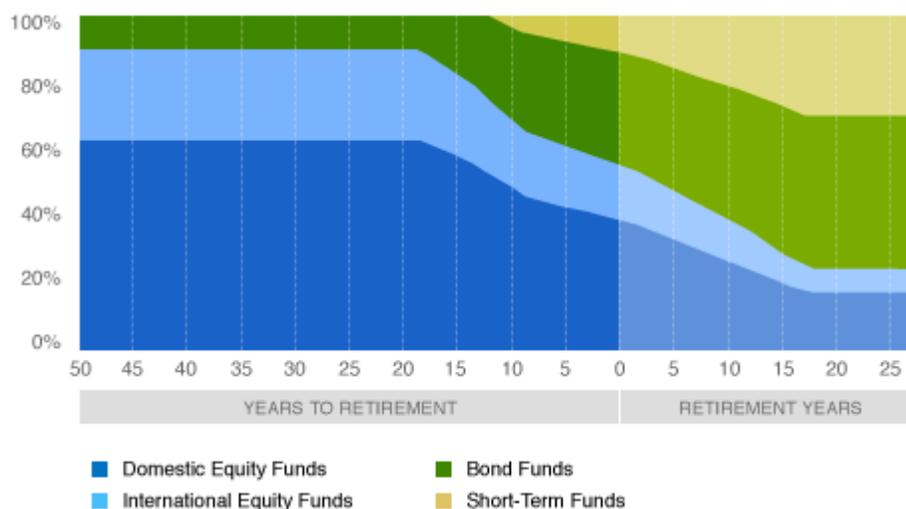
Fidelity Freedom® Funds

“Single-fund investment strategies that can help take the guesswork out of building and maintaining an age-based retirement portfolio.”

The Fidelity Freedom Funds² follow a glide path backed by Fidelity’s research on asset exposure before, at, and during retirement. They state that their strategy aims to “balance investment returns and risks while seeking to meet retirement income objectives”. Similar to American Funds, Fidelity emphasizes that their target date strategy continues well into retirement with the portfolios reaching their most conservative asset allocation 10-19 years after the target date. At this time, the asset allocation is approximately 24% equity funds, 46% bond funds, and 30% short-term funds. The glide path for Fidelity Freedom Funds is shown in Figure 3, below.

² How Fidelity Manages Freedom® Funds. Fidelity Investments. <https://www.fidelity.com/mutual-funds/fidelity-fund-portfolios/freedom-funds-manage>.

Figure 3



Source: Fidelity Investments

The Freedom Funds joined Fidelity’s product line in 1996 meaning that they have experienced market cycles for 20 years. Over this time, they have developed a strategy which includes a disciplined approach to fund management with experienced fund managers. “Although our fund managers take a long-term approach to key asset allocation decisions, they also review each portfolio on a daily basis and can make adjustments as needed.”

For more information about the management of Fidelity Freedom® Funds, please visit the [Fidelity Investments website](#).

PIMCO RealPath & RealPath Blend

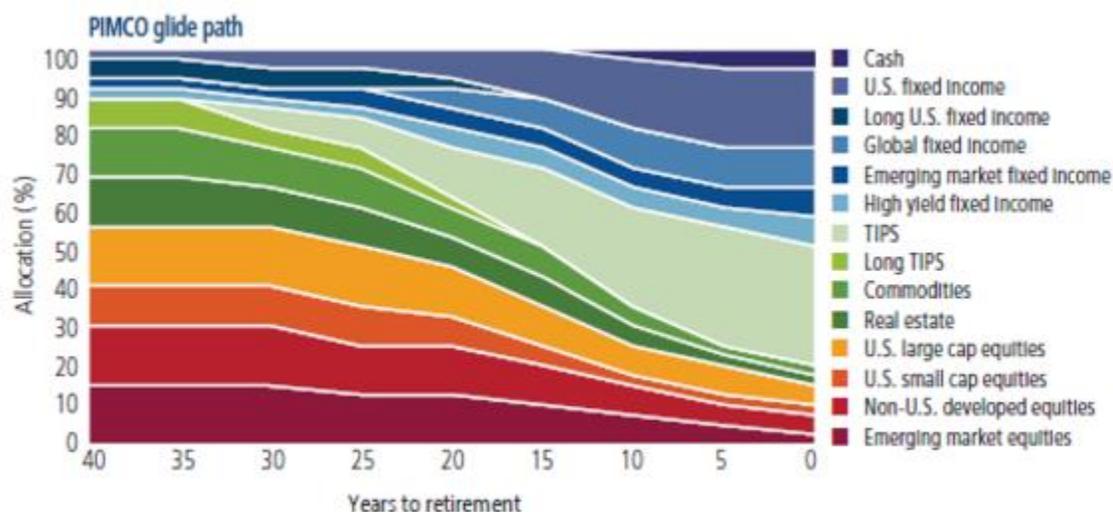
“A target-date fund designed to turn retirement into reality.”

PIMCO offers two target-date fund series, PIMCO RealPath and PIMCO RealPath Blend, and touts that both series were designed to “optimize the goals of retirement income, return maximization and diversification of investments in an effort to generate returns no matter the economic conditions over long investment horizons.”³

The main difference between the two series is that the RealPath series is actively managed while the RealPath Blend combines PIMCO active management with Vanguard passive equities. The two share the same glide path, shown in Figure 6 below. As depicted in the glide path illustration, PIMCO places extreme importance on diversification. They cite their main differentiators as a focus on a more diversified blend of return seeking assets, a core commitment to inflation protection throughout, and a focus on lower risk (i.e., loss potential) near retirement.

³ Worah, Mihir P. and Mattu, Ravi K. An Update to PIMCOs Glide Path for Target-Date Funds. PIMCO. April 2016.

Figure 6



Source: PIMCO, June 2012

Explore PIMCO RealPath and RealPath Blend on their [website](#).

T. Rowe Price Retirement Funds and Target Funds

“A convenient way to get a diversified portfolio that you can carry to and through retirement.”

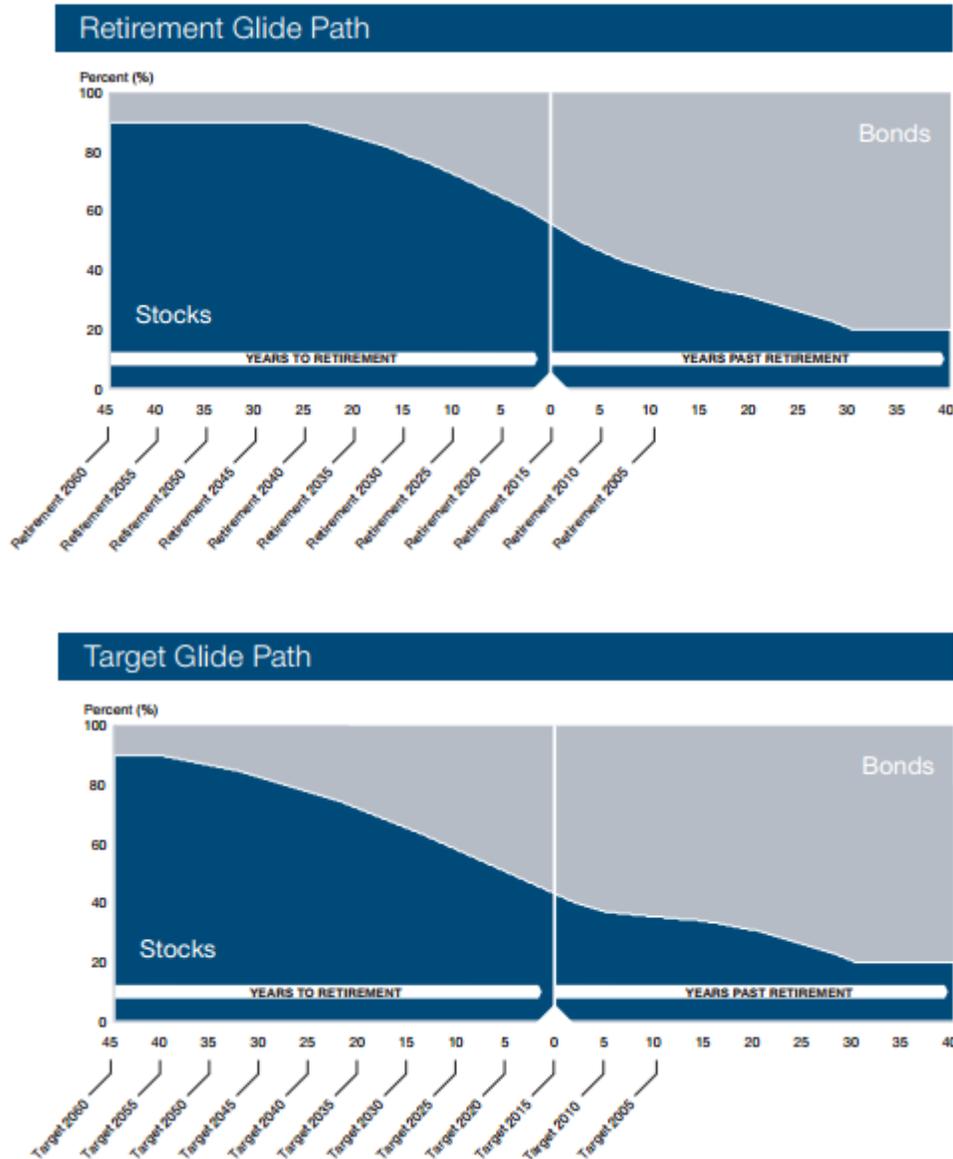
T. Rowe Price offers two options for investors seeking a target date fund arrangement - the T. Rowe Price Retirement Funds and T. Rowe Price Target Funds.⁴

The T. Rowe Price Retirement Funds offer a higher potential risk/reward balance to support withdrawals in retirement that could last 30+ years. The Retirement Fund Series maintains an emphasis on stocks before, at, and after the target retirement date. At retirement, the asset allocation is approximately 55% stocks to 45% bonds. Accolades for the T. Rowe Price Retirement Funds include a Silver Morningstar Analyst Rating and all of the Retirement Funds in the series beating their 10-year Lipper average, both as of September 30, 2016.

⁴ Target date funds. T. Rowe Price Associates, Inc. <https://www3.troweprice.com/usis/personal-investing/mutual-funds/target-date-funds.html>

Alternatively, the Target Funds seek to reduce volatility as the target retirement date nears. At retirement, the Target Funds have an asset allocation of approximately 40% stocks to 60% bonds. T. Rowe Price cites that this strategy may be better suited to support withdrawals over a shorter term, compared to the Retirement Funds. Figure 4 below compares the glide paths of both strategies.

Figure 4



Source: T. Rowe Price

For more information on the target date strategies offered by T. Rowe Price, please visit the [Target Date section](#) of their website or their [Glide Path Comparison](#).

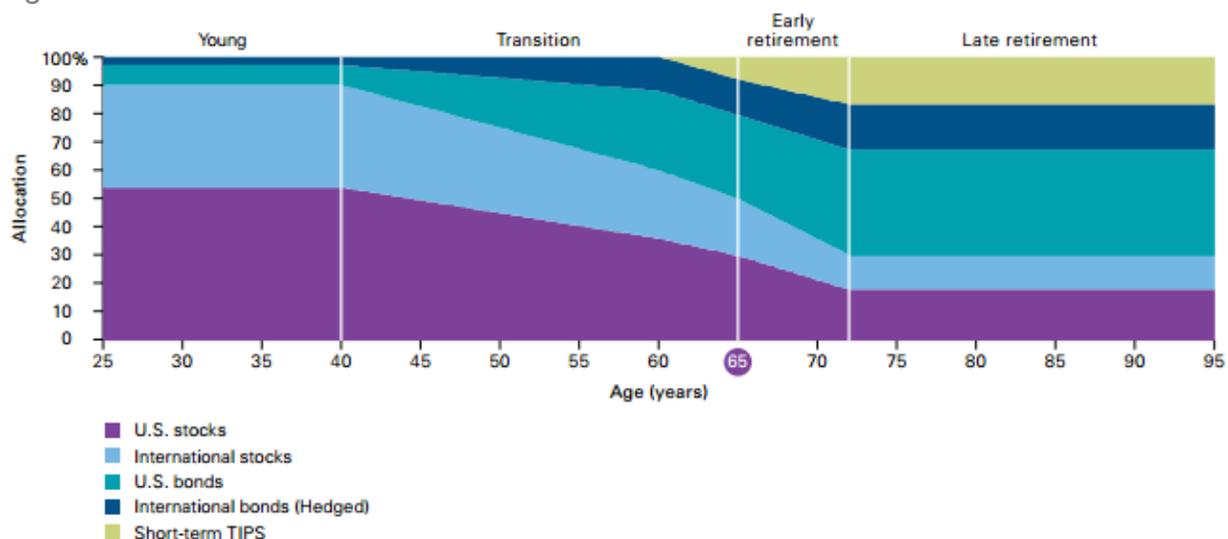
Vanguard Target Retirement Funds

*“You worked hard to save for retirement.
Now choose a fund that works just as hard for you.”*

Vanguard touts their Target Retirement Funds⁵ as a “straightforward approach to a sophisticated problem: how to invest successfully for retirement”. According to Vanguard, their Target Retirement Fund Series combines capital-markets and portfolio construction research with practical experience to offer the investor a diversified portfolio, professional portfolio management, and automatic rebalancing at a low cost.

Each target date fund in Vanguard’s Target Retirement Fund series is designed to manage risk while trying to grow retirement savings. Vanguard describes their TDF portfolio glide path, shown in Figure 2, as a representation of a strategic allocation to a broadly diversified set of asset classes - not a tactical asset-allocation philosophy. They designed their TDF glide path to help the “typical investor” described as a person who “maintains a reasonable savings rate to reach his or her retirement goals while bearing what we believe to be an appropriate level of risk at each stage of the life cycle.”⁶

Figure 2



Source: The Vanguard Group

Vanguard aims to lower risk through broader diversification within the major asset classes. First, the broad allocation among stocks, bonds, and cash is determined for the target date fund’s lifecycle. Next, Vanguard shifts focus to proper exposure in the sub-asset classes in the various types of stocks and bonds to allow the investor to reap the returns of sectors with strong performance while lessening the impact of those with negative performance. Furthering their emphasis on diversification, Vanguard

⁵ Vanguard Target Retirement Funds. The Vanguard Group. <https://investor.vanguard.com/mutual-funds/target-retirement/#/>.

⁶ Vanguard’s approach to target-date funds. Vanguard Research. May 2015. <http://www.vanguard.com/pdf/s167.pdf>.

announced an increase in the allocation for international equity and fixed income in February 2015.⁷

To learn more about the philosophy behind the Vanguard Target Retirement Funds, read this [guide](#) from Vanguard Research.

The Bottom Line

Not all target date funds are created equally. While these funds are seen as a “set it and forget it” strategy, it is extremely important to look past the fund’s associated target retirement date to truly understand what you are investing in.

Disclaimer: The opinions expressed herein have been garnered from the mutual fund families for informational purposes and are not necessarily representative of the opinions of Ekon Benefits.

Past performance is not indicative of future returns.

⁷ Vanguard enhances diversification for target date funds and other all-in-one funds. The Vanguard Group. 26 February 2015. <https://personal.vanguard.com/us/insights/article/fund-announcement-02262015>