



## Target Retirement Date Funds in Q1 2020

May 2020

The first three months of 2020 saw a meaningful uptick in volatility as global equity markets fell sharply in reaction to the potential economic impact of COVID-19. Amid the sell-off, investors took this opportunity to focus on their investment portfolios. For most people, the biggest focus was placed on their retirement savings.

Target retirement date fund assets swelled to over \$2 trillion during 2019 and have become the primary recipient of investment contributions by participants, in large part due to their use as the Qualified Default Investment Alternative (QDIA) by most retirement plans. As multi-asset class portfolios, target date solutions were not immune to the market sell-off in the first quarter and experienced declines across all vintages during the period. However, most target date fund managers feel that portfolios held up as expected in the environment and performed better than during the Great Financial Crisis in 2008, as shown in the chart below from Morningstar:

Target Date	COVID-19	GFC	COVID-19	GFC	COVID-19	GFC	COVID-19	GFC
	2060	2050	2040	2030	2020	2010	Ret Inc	Ret Inc
Max*	-15.0	-38.0	-12.4	-32.3	-6.1	-13.3	-7.2	-6.2
Average*	-32.1	-42.4	-29.2	-39.8	-17.8	-27.2	-14.6	-20.5
Min*	-35.3	-46.1	-33.2	-45.4	-23.9	-42.8	-28.8	-36.6

Source: Morningstar, Target Date Performance During COVID-19, April 23, 2020

\*Average of all share classes of target-date mutual funds tracked by Morningstar, Inc.

While money managers and recordkeepers reported that there was an increase in participant exchanges during the period of high volatility, investors in managed solutions (target date funds and managed accounts) continued to make fewer exchanges than self-directed participants did, evidence that participants in managed solutions were staying the course and not “market timing.” According to Morningstar, “while only 5.6 percent of participants enrolled in a 401(k) plan as of December 31, 2019, changed their portfolio allocations during the quarter, there is significant variation based on how those participants were invested. Of participants self-directing their accounts, 10.8 percent made a change, compared with 2.4 percent of participants using a target-date fund, 1.8 percent of participants who opted into managed accounts, and 1.3 percent of participants who were defaulted into managed accounts.”<sup>1</sup>

Panel A		Equity Allocation (%)							Average
		< 10	10-25	25-45	45-55	55-75	75-90	>= 90	
% of Participants Changing Allocation by Initial Equity Level	Self-Directors	6.8	15.5	12.5	11.2	12.9	12.3	8.7	10.8
	Target-Date Fund	n/a	n/a	2.8	2.8	2.5	2.2	2.1	2.4
	Default Managed Accounts	1.1	0.7	1.5	1.9	1.6	1.0	1.0	1.3
	Opt-In Managed Accounts	2.7	3.4	2.1	2.5	2.0	1.7	1.3	1.8

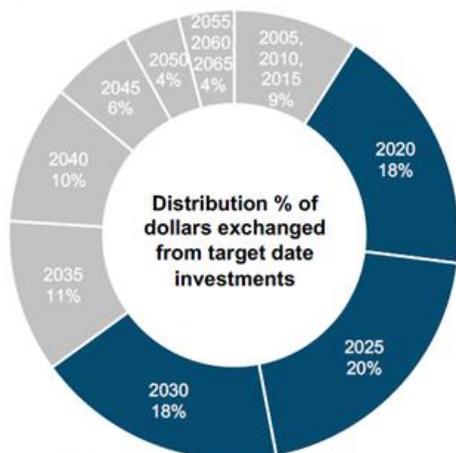
Source: Morningstar Keep Your Distance<sup>1</sup>

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Most exchanges done by target date investors during the first quarter were done by older participants in vintages closest to retirement. Many factors may be behind this behavior, including: investors closest to retirement have larger balances and are more concerned with sequencing risk, older investors have potentially greater experience with market selloffs, or simply those closest to retirement may be naturally “spooked” by volatility spikes.

During the market event period, target date investments had a low exchange rate of about 1%. Those investments with a target date within the next 10 years accounted for the majority of the exchange activity.



Plans with assets >\$25M only.  
February 24, 2020 – April 24, 2020.  
Source: T.Rowe Price

Morningstar Category	Q1 Flows (USD Bil)	1 Yr Flows (USD Bil)	Assets (USD Bil)
Target-Date Retirement	(905)	(1,602)	41,534
Target-Date 2000-2010	(607)	(1,367)	18,987
Target-Date 2015	(2,235)	(5,049)	48,199
Target-Date 2020	(6,631)	(13,074)	138,210
Target-Date 2025	(2,107)	3,246	180,282
Target-Date 2030	92	6,312	192,271
Target-Date 2035	1,858	8,662	152,094
Target-Date 2040	1,919	7,170	141,962
Target-Date 2045	2,861	9,616	104,097
Target-Date 2050	3,199	10,173	85,057
Target-Date 2055	2,883	9,557	44,040
Target-Date 2060+	2,274	6,565	16,466
<b>Total</b>	<b>2,601</b>	<b>40,208</b>	<b>1,163,197</b>

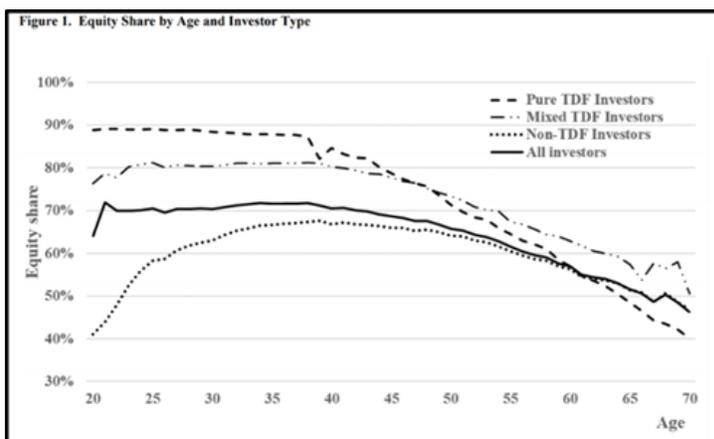
Source: Morningstar Keep Your Distance<sup>1</sup>

This participant behavior is worrisome to many market observers, as participants who deviated the most from their strategic allocations were those with the largest account balances and the shortest investment horizons. While the timing of individual trades is impossible to ascertain, the market’s sharp rally from the lows reached in March suggests that attempts at market timing may have been costly for investors. As shown in the charts below, self-directed investors generally maintain lower total equity allocations compared to those in managed solutions such as target date funds.

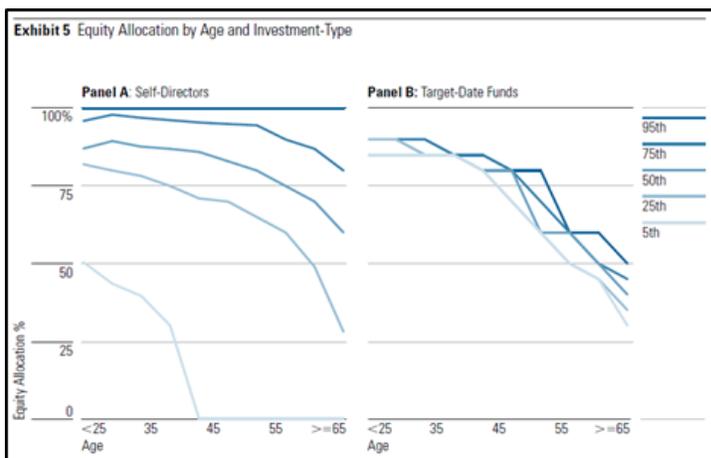
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# A P O L L O N



Source: Wharton Pension Research Council



Source: Morningstar Keep Your Distance<sup>1</sup>

Managed solutions such as target retirement date funds have demonstrated their value to the defined contribution landscape during the first quarter 2020 market decline. These solutions held up better than they did during the Great Financial Crisis and from a behavioral standpoint, target date fund investors deviated less from their strategic allocations. With their underlying investments encompassing an array of asset classes and a spectrum of time horizons, these funds can provide a meaningfully positive impact to investors over longer timeframes.

We have an experienced team conducting ongoing due diligence over the target date marketplace and their response to the current market environment.

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