Target-Date Strategy Landscape: 2023

Morningstar Manager Research
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Contents

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Executive Summary

Target-date investors largely stayed the course in 2022 despite the extreme market turbulence, highlighting how important these strategies have become to retirement savers. In this report, we look at the most popular target-date series in 2022, the ongoing adoption of collective investment trusts as the preferred vehicle for target dates, and the continued critical role fees play in selecting a series. The report also examines how target-date strategies navigated 2022's challenging market environment and shines a spotlight on the evolving legal battles plan sponsors face over fees, performance, and environmental, social, and governance risks.

Key Takeaways

- Target-date strategies raked in $153 billion in net assets in 2022; collective investment trusts led the way, absorbing $121 billion—or 79%—of the year's net inflows.
- CITs make up 47% of target-date strategy assets as of the end of 2022 and are projected to become the most popular target-date vehicle within the next two years.
- Plan sponsors continue to display a strong preference for lower-cost target-date strategies, exhibited by both inflows to lower-cost mutual fund series and the growing popularity of CITs.
- Industry titan Vanguard Target Retirement earned the top spot for total flows when accounting for both mutual fund and CIT flows; CITs accounted for about 82% of Vanguard's flows. At the end of 2022, 51% of Vanguard's target-date assets were in its CIT version, marking the first time it surpassed the mutual fund version in assets.
- American Funds Target Date Retirement garnered the most flows for target-date mutual funds. Its popularity is driven by its strong long-term performance and competitive fees even as other active-based target-date strategies have struggled to gain assets due to higher fees.
- Despite target-date strategies' broad diversification, they experienced losses across the glide path as typical defensive assets, such as investment-grade bonds and Treasury Inflation-Protected Securities, suffered losses, along with stocks, as persistent inflation stoked aggressive interest-rate hikes in the United States.
- Plan sponsors, already under fire due to lawsuits about excessive fees, faced litigation from a new front in 2022: performance.
- ESG target-date strategies have garnered more attention as the Department of Labor altered its guidance to allow ESG-focused strategies to serve as a qualified default investment option.

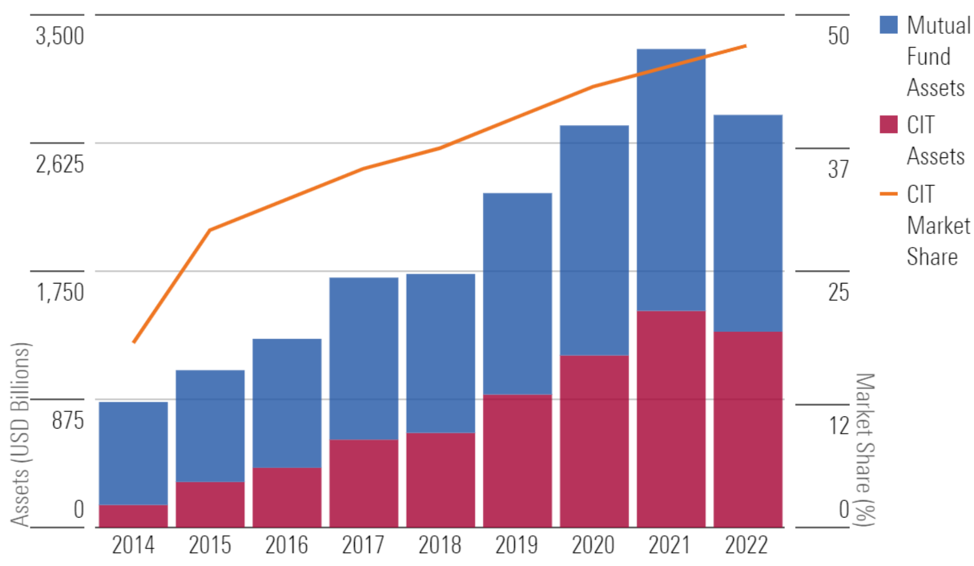
Assets, Flows, and Competitive Landscape

Target-date strategies remain the investment vehicle of choice for retirement savers. Despite 2022's market turbulence, they garnered $153.3 billion in net flows. But with no place to hide from the stock and bond market downturns, total target-date assets fell to $2.82 trillion in 2022 from its record high of $3.27 trillion in 2021. Market depreciation drove the roughly 14% drop.

Target-Date CITs Continue to Displace Mutual Funds

Collective investment trusts continue to attract most of the new target-date money. The last decade has seen a seismic shift, and CITs are becoming the most popular target-date vehicles. CITs now make up 47% of assets in target-date strategies, a 10-percentage-point market share jump in the five years since 2018 and a 2-percentage-point increase since 2021. As plan sponsors convert to CITs from mutual funds to lower fees, they could overtake target-date mutual fund assets in the coming year. Vanguard Target Retirement, for example, is the largest target-date strategy by a wide margin, and in 2022, its CIT assets surpassed its mutual fund assets. Exhibit 1 shows the growth of target-date mutual fund and CIT assets since 2014.

Exhibit 1 Total Target-Date Assets



Source: Morningstar Direct, author's calculations, and surveyed data. Data as of 12/31/2022.

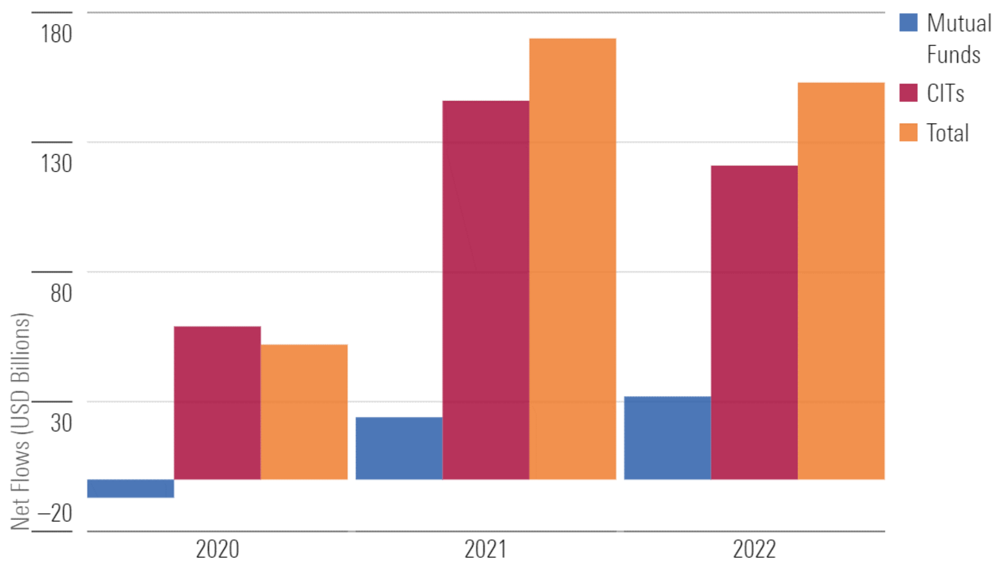
Target Dates Prove Their Worth

Investors continued contributing to target-date strategies as stocks and bonds suffered double-digit losses in 2022, showing that retirement savers are using these vehicles as they are intended: as long-term investments.

In 2022, investors deposited a net $153 billion into target-date strategies. That's down a bit from 2021's $170 billion haul, but much better than the broader universe of mutual funds and ETFs that saw $370 billion in net outflows 2022. It was the first year mutual funds and ETFs recorded net outflows since Morningstar began tracking the data in 1993.

Most of the net new target-date money flowed into CITs, which hauled in $121 billion compared with mutual fund's $32.3 billion. CITs are typically cheaper than mutual funds. Exhibit 2 shows the year-over-year change in net inflows into target-date mutual funds, CITs, and overall.

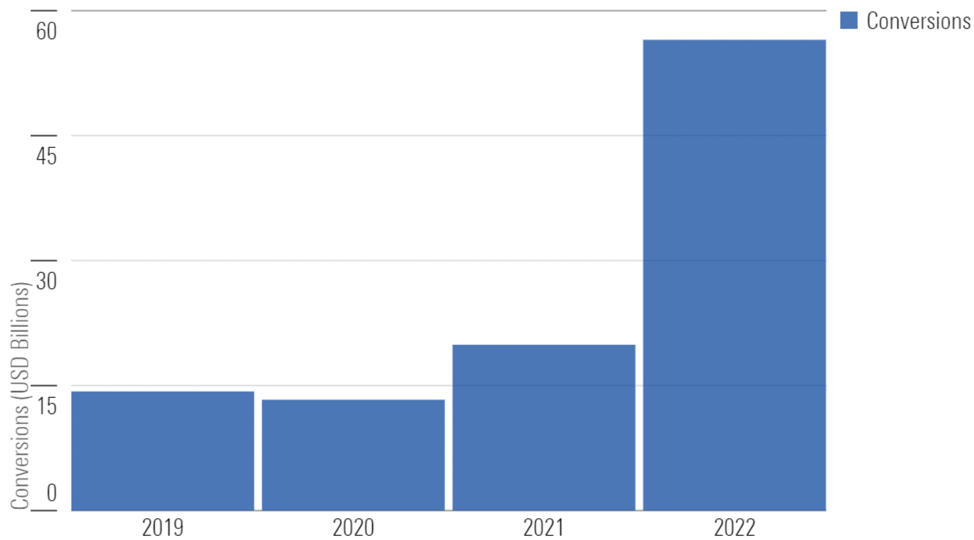
Exhibit 2 Year-Over-Year Change in Target-Date Net Flows



Source: Morningstar Direct and surveyed data. Data as of 12/31/2022.

In addition to garnering more new deposits, the conversion of target-date mutual fund assets to CITs has surged. Based on reported flow data, more than $56 billion in target-date mutual funds converted to CITs in 2022—nearly triple 2021's value. Plan sponsors typically stay with the same investment strategy but switch investment vehicles to lower fees when they convert.

Exhibit 3 Mutual Fund to CIT Conversions



Source: Morningstar Direct and surveyed data. Data as of 12/31/2022.

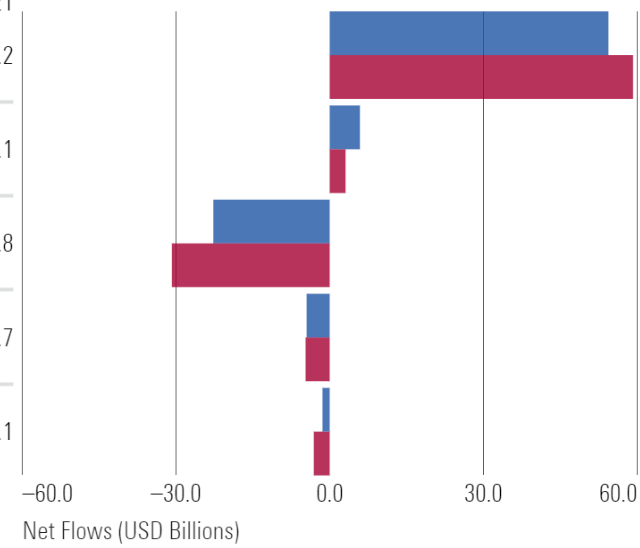
CITs' lower price tags have increased their popularity. The government regulates them differently. The Investment Company Act of 1940 governs mutual funds, while Department of Labor's Employment Retirement Income Security Act, or ERISA, covers CITs. The key differences are that CITs' investment managers can negotiate individual fee schedules with clients and don't have to disclose as much information as often as mutual funds. That lowers CITs' overall costs but reduces transparency. For example, CITs are not required to disclose portfolio manager names and often don't even regularly update their performance and holdings like mutual funds do.

Persistent Preference for Lower Fees

Plan sponsors that choose target dates for defined-contribution plans continue to prefer lower fees. Assets continue to pour into lower-cost target-date mutual funds and out of costlier offerings. A wave of excessive-fee lawsuits against plans, which show no sign of cresting, has helped drive the trend. In 2022, for example, there were more than 80 excessive-fee lawsuits filed against 401(k) plans, almost double the number filed in 2021, according to mutual fund industry news site Ignites. Exhibit 4 illustrates net flows by fee quintile for target-date mutual funds over the last two calendar years.

Exhibit 4 Target-Date Mutual Fund Flows by Fee Quintile

Fee Quintile	2022	2021
1st (Least Expensive)	54.4	59.2
2nd	5.9	3.1
3rd	–22.7	–30.8
4th	–4.5	–4.7
5th (Most Expensive)	–1.4	–3.1



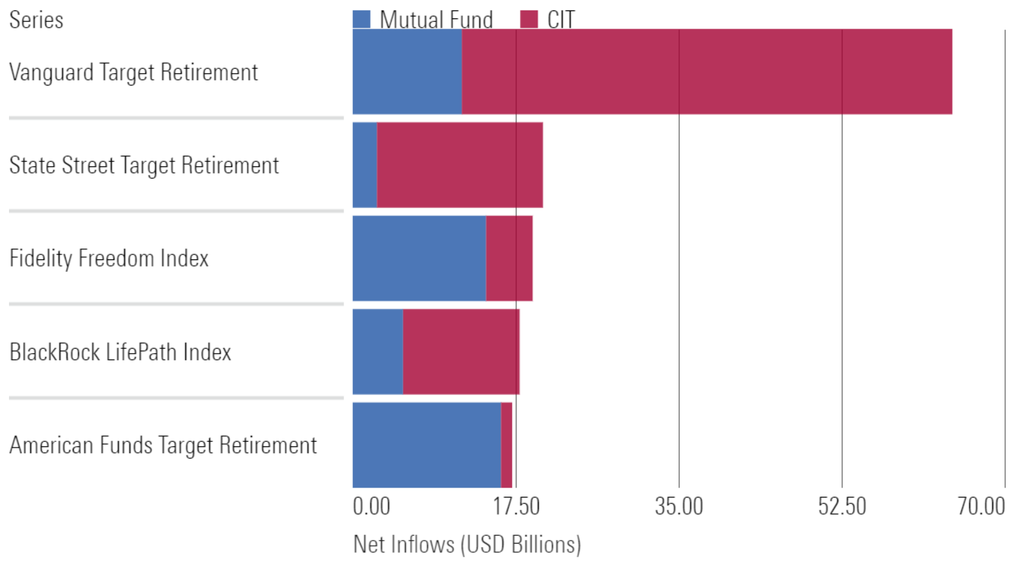
Source: Morningstar Direct and author's calculation. Data as of 12/31/2022. Excludes zero-fee share classes.

In 2022, target-date mutual funds in the cheapest quintile amassed over $54 billion in inflows, a bit less than the $59 billion it reaped in 2021. Fidelity Freedom Index and Vanguard's Target Retirement Series, two of the cheapest series available, took in $14.3 billion and $11.7 billion, respectively. The second-cheapest quintile tallied almost $6 billion in inflows during the year, up from $3 billion in 2021. The three most expensive quintiles posted a total of $28.5 billion in outflows for 2022, as investors continued to prefer lower-cost options.

Most Popular Target Dates in 2022

Vanguard Target Retirement amassed the most net inflows in 2022. The series, which has been in the top spot in all but one calendar year since 2008, took in more than $64 billion, nearly $44 billion more than the next highest series, State Street Target Retirement. Vanguard's CIT collected most of the assets, but its mutual fund version also gathered more flows than competitors. Exhibit 5 shows the top five series ranked by total net inflows into both mutual funds and CITs.

Exhibit 5 Top 5 Series by Net Inflows (Mutual Funds and CITs)



Source: Morningstar Direct, author's calculation, and surveyed data. Data as of 12/31/2022.

State Street Target Retirement, with $20.4 billion in net flows mostly into its CITs, jumped to second from fifth place the year prior. Fidelity Freedom Index slipped to third from second. BlackRock LifePath Index's stable net year-over-year inflows locked down fourth place. American Funds Target Retirement, the only series using actively managed underlying investments in the top five, fell from third to fifth place. Its competitive price tag and strong performance have helped it buck the trend against active options.

Only Vanguard and BlackRock LifePath Index made the top five for both CITs and mutual fund flows. The top five series by CIT flows include a mix of index-based, active-based, and blend series, as shown in Exhibit 6.

Exhibit 6 Top 5 Series by CIT Net Inflows

Series	Morningstar Analyst Rating (Cheapest Share Class)	2022 Net Flows (USD millions)
Vanguard Target Retirement	Silver	52,600
State Street Target Retirement	Silver	17,822
T. Rowe Price Retirement	Gold	13,907
BlackRock LifePath Index	Gold	12,500
Fidelity Freedom Blend	Bronze	7,000

Source: Morningstar Direct and surveyed data. Data as of 12/31/2022.

T. Rowe Price Retirement target-date mutual funds have been in outflows for years; however, its CIT version rakes in competitive net inflows. Over the past couple of years, the series experienced positive net flows overall due to its CIT series. Fidelity Freedom Blend's fifth-place CIT was launched as a CIT in 2007 and later as a mutual fund series in 2018.

The active American Funds Target Date Retirement Series gathered the most target-date mutual fund flows in 2022, but index-based series continue to dominate flows, as Exhibit 7 shows.

Exhibit 7 Top 5 Series by Mutual Fund Net Inflows

Strategy Name	Morningstar Analyst Rating (Cheapest Share Class)	2022 Net Flows (USD millions)
American Funds Target Date Retirement	Gold	15,889
Fidelity Freedom Index	Silver	14,330
Vanguard Target Retirement	Silver	11,700
BlackRock LifePath Index	Gold	5,405
TIAA-CREF Lifecycle Index	Bronze	4,241

Source: Morningstar Direct. Data as of 12/31/2022.

Below the Fold

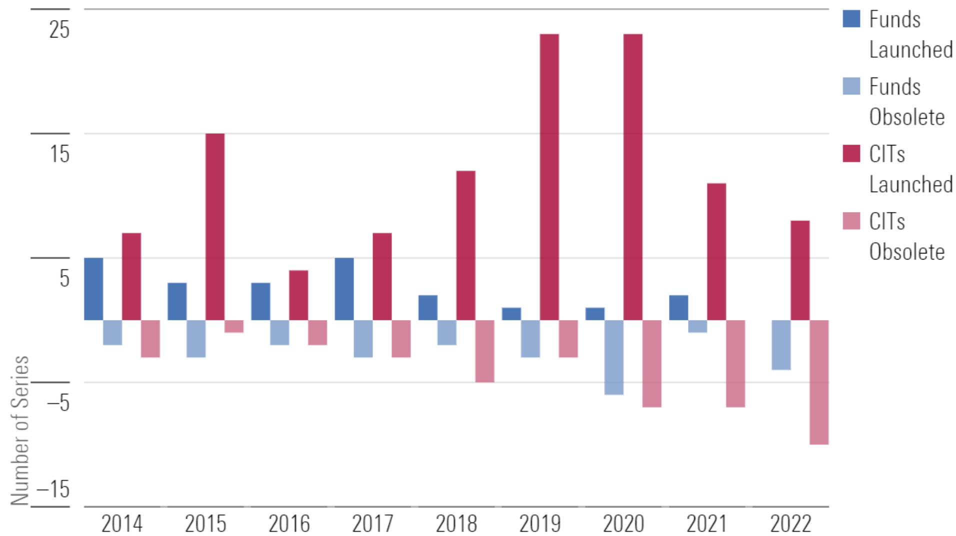
Beyond the top five series that tend to dominate asset flows, target-date strategies that mix active and passive funds continue to see positive inflows. This blend, or hybrid, approach isn't new but has gained traction in recent years as investors try to cut costs by indexing in more efficient asset classes and using active strategies in more inefficient areas where the odds of beating benchmarks are better.

In 2022, four blend series were among the top 10 in target-date mutual fund series net flows: Fidelity Freedom Blend, John Hancock Lifetime Blend Portfolio, Pimco RealPath Blend and Principal Lifetime Hybrid. They collected a combined $4.1 billion. Blend strategies also have gained a lot of traction among CITs. Three blend series snagged spots on the top 10 CIT flow list: Fidelity Freedom Blend, T. Rowe Price Retirement Blend, and Principal Lifetime Hybrid Target Series, which collectively gathered roughly $12.8 billion in net new asset flows.

Launches and Closes

The number of target-date options shrunk overall as both CITs and mutual funds experienced more closures than openings. No new mutual fund series launched in 2022, but there were eight new CITs, demonstrating asset managers' optimism for growth in the latter vehicle. Exhibit 8 illustrates target-date series launches and closures since 2014.

Exhibit 8 Target-Date Launches and Terminations, 2014-22



Source: Morningstar Direct. Data as of 12/31/2022.

In 2022, Fidelity launched the CIT version of its Fidelity Freedom target-date series, whose mutual fund version has been losing assets and has been the target of several excessive fee lawsuits. The CIT version makes the firm’s active series available at a lower cost.

The Asset Managers Running the Industry

A handful of asset managers still dominate the target-date market. The top five providers control about 80% of its market share; the top 10 claim roughly 93%. Those numbers have been growing and will likely continue.

Exhibit 9 The 10 Largest Target-Date Asset Managers

	Assets (USD in Billions)			**Market Share**	
Firm / Target-Date Series	Mutual Fund	CIT	Total TDF	2022	2021
Vanguard			**1,056**	**37.5%**	**36.4%**
Vanguard Target Retirement	522	534			
Fidelity			**399**	**14.2%**	**13.9%**
Fidelity Freedom	174	3			
Fidelity Freedom Index	102	43			
Fidelity Freedom Blend	10	50			
Fidelity Advisor Freedom	17	—			
Fidelity Flex Freedom Blend	<1	—			
Fideity Managed Retirement	<1	—			
T. Rowe Price			**321**	**11.4%**	**11.5%**
T. Rowe Price Retirement	143	154			
T. Rowe Price Target	3	2			
T. Rowe Price Retirement Hybrid	—	14			
T. Rowe Price Retirement Blend	<1	6			
BlackRock			**249**	**8.8%**	**9.5%**
BlackRock LifePath Index	55	192			
BlackRock LifePath Dynamic	1	1			
BlackRock LifePath ESG Index	<1	—			
American Funds			**224**	**8.0%**	**7.6%**
American Funds Target Date Retirement	216	9			
State Street			**120**	**4.3%**	**3.7%**
State Street Target Retirement	13	108			
JPMorgan			**88**	**3.1%**	**3.4%**
JPMorgan SmartRetirement Blend	12	33			
JPMorgan SmartRetirement	26	2			
JPMorgan SmartRetirement (Direct Real Estate)	—	12			
JPMorgan SmartRetirement Blend (DRE)	—	2			
Nuveen			**74**	**2.6%**	**2.7%**
TIAA-CREF Lifecycle Index	40	2			
TIAA-CREF Lifecycle	32	—			
Nuveen TIAA Lifecycle Blend	—	<1			
Principal			**73**	**2.6%**	**2.6%**
Principal LifeTime Hybrid	3	47			
Principal LifeTime	21	2			
Schwab			**26**	**0.9%**	**0.9%**
Schwab Target	4	10			
Schwab Target Index	4	8			

Source: Morningstar Direct, author's calculations, and surveyed data. Data as of 12/31/2022.

There were no big changes to the top 10 providers or their market shares in 2022. Vanguard sits at the top with over $1 trillion in target-date assets and 37.5% of the industry's market share. Its single cheap, straightforward series is compelling.

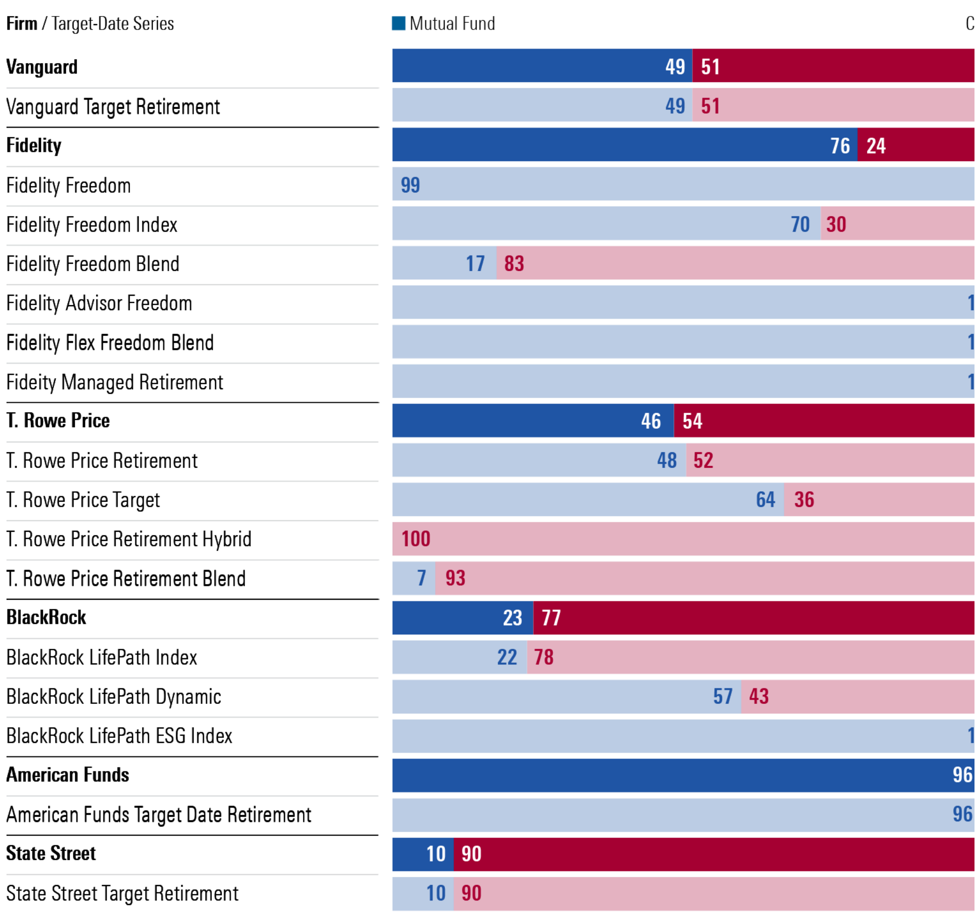
Second-place Fidelity's nearly $400 billion in assets across six series is less than half of Vanguard's. Fidelity Freedom Index's recent net inflows have more than offset the all-active Fidelity Freedom series' net outflows. The latter series saw its ninth-straight year of outflows in 2022, though the opening of a lower-cost CIT version could stem the tide.

T. Rowe Price, still in third place with over 11% market share, also has seen outflows from the mutual fund version of its T. Rowe Price Retirement series, but inflows into its CIT version have more than compensated.

Where the CIT Assets Are Located

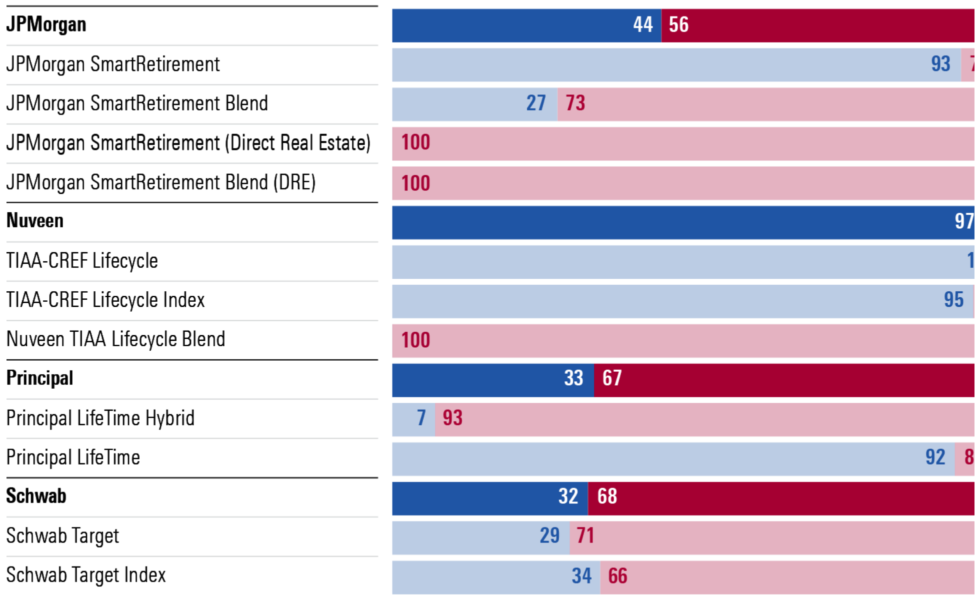
In 2022, Vanguard's target-date assets flipped—51% of its series' assets are now in CITs rather than mainly residing in mutual funds. Greater percentages of T. Rowe Price, BlackRock, State Street, JPMorgan, Principal, and Schwab's target-date assets are in CITs. State Street has the biggest share of its assets in CITs: 90%. Exhibit 10 illustrates the 10 largest providers' CIT and mutual fund split, as well as the division for each of their series.

Exhibit 10 The 10 Largest Target-Date Asset Managers Mutual Fund and CIT Splits (Continued)



Source: Morningstar Direct, author's calculations, and surveyed data. Data as of 12/31/2022.

Exhibit 10 The 10 Largest Target-Date Asset Managers Mutual Fund and CIT Splits (Continued)



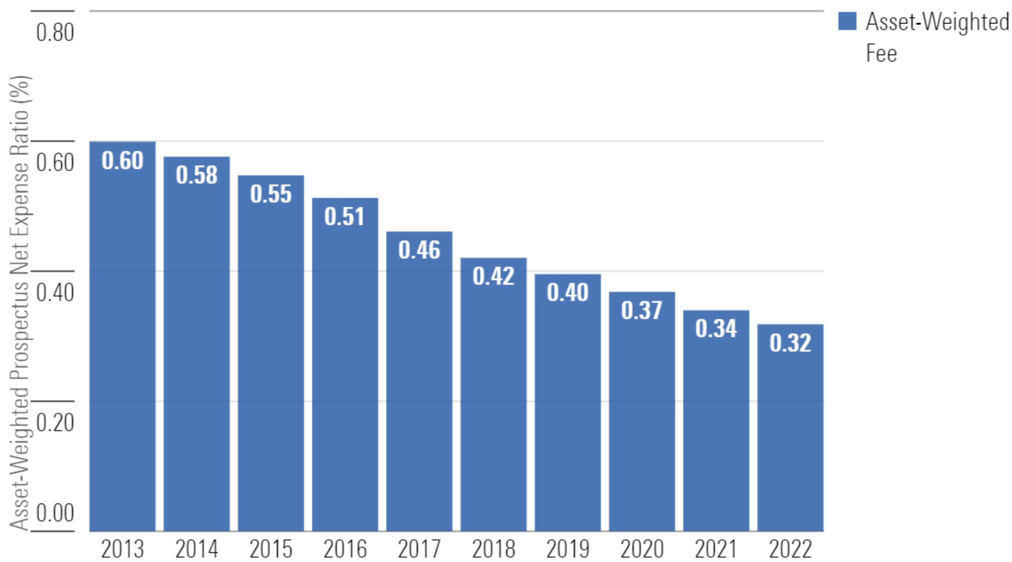
Source: Morningstar Direct, author's calculations, and surveyed data. Data as of 12/31/2022.

Most of Fidelity, American Funds, and Nuveen's assets are in mutual funds. Fidelity Freedom and Fidelity Freedom Index, the firm's two largest series, each have more assets in their mutual fund versions, and Fidelity Freedom Index has seen more mutual fund than CIT inflows, contrary to industry trends. Fidelity Freedom Blend, however, has 93% of its assets in its CIT vehicle, which it launched in 2007, 11 years before opening a mutual fund clone. American Funds has 96% of its target-date assets in mutual funds; flows into the CIT version of the series launched in 2019 have been slow.

Investors Push Costs Down

Flows to lower-cost options show investors are choosing to pay less. Exhibit 11 shows the asset-weighted average fee across all target-date mutual fund share classes over the past decade, including shuttered funds, based on their prospectus-adjusted expense ratio and year-end net assets. This metric provides the clearest view of what investors are paying for their target-date funds. CIT fee data are not as transparent and therefore are not included, but anecdotal evidence indicates CITs would lower the average asset-weighted fee.

Exhibit 11 Target-Date Funds' Year-End Asset-Weighted Expense Ratio, 2013-22



Source: Morningstar Direct and author's calculations. Data as of 12/31/2022. Excludes zero-fee share classes.

The asset-weighted fee has dropped almost 7% annually, on average, over the past decade. It shed roughly 6% in 2022, dropping to 32 basis points from 34 basis points. Since 2013, expenses have nearly halved—a significant improvement for retirement savers.

There also were some fee reductions. The five series below reduced their average prospectus-adjusted net expense ratios the most, on average, across all share classes from 2021 to 2022.

Exhibit 12 Average Target-Date Prospectus-Adjusted Expense Ratio

Series Name	2021 Avg Expense Ratio, %	2022 Avg Expense Ratio, %	Change
Vanguard Target Retirement Series	0.11	0.08	-30%
Voya Index Solution Series	0.57	0.46	-21%
Allspring Dynamic Target Series	0.68	0.60	-12%
Fidelity Freedom Blend Series	0.60	0.55	-8%
Natixis Sustainable Future Series	0.58	0.53	-8%

Source: Morningstar Direct and author's calculations. Data as of 12/31/2022.

Vanguard Target Retirement series saw the largest drop in average fees paid. Investors in its retail share class were the largest beneficiaries. They had paid an average of 0.14% but that dropped to 0.08% after the firms merged the series' institutional and retail shares into a single share class in late 2021 and early

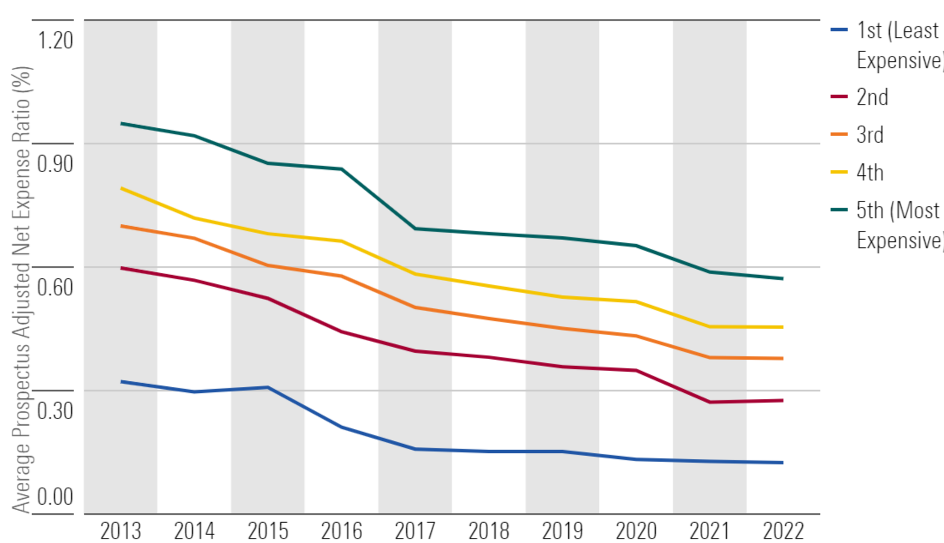
2022. Investors in institutional shares got a smaller fee cut of a 0.01 percentage point. The unusual fee reduction will benefit savers immediately and over the long run.

Fidelity Freedom Blend, one of the top 10 asset-gatherers among mutual fund target-date series in 2022, also cut fees. In April, it slashed the series' K6 and Premier share class fees by 0.05% and 0.04%, respectively.

Fees Continue to Move Down

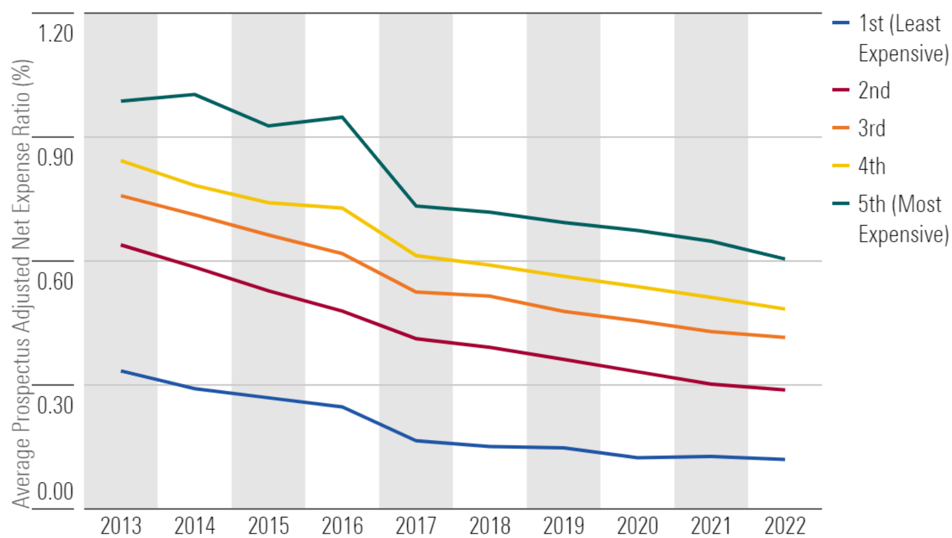
In 2022, target-date mutual fund fees continued to fall. Exhibits 13 and 14 depict the average year-end prospectus-adjusted net expense ratio for the cheapest share class of all 2025 and 2045 target-date funds, including shuttered funds, separated by fee quintile. The downward trend has gathered steam in the last decade.

Exhibit 13 Average Year-End Prospectus-Adjusted Net Expense Ratio by Fee Quintile for 2025 Funds



Source: Morningstar Direct and author's calculations. Data as of 12/31/2022.

Exhibit 14 Average Year-End Prospectus-Adjusted Net Expense Ratio by Fee Quintile for 2045 Funds



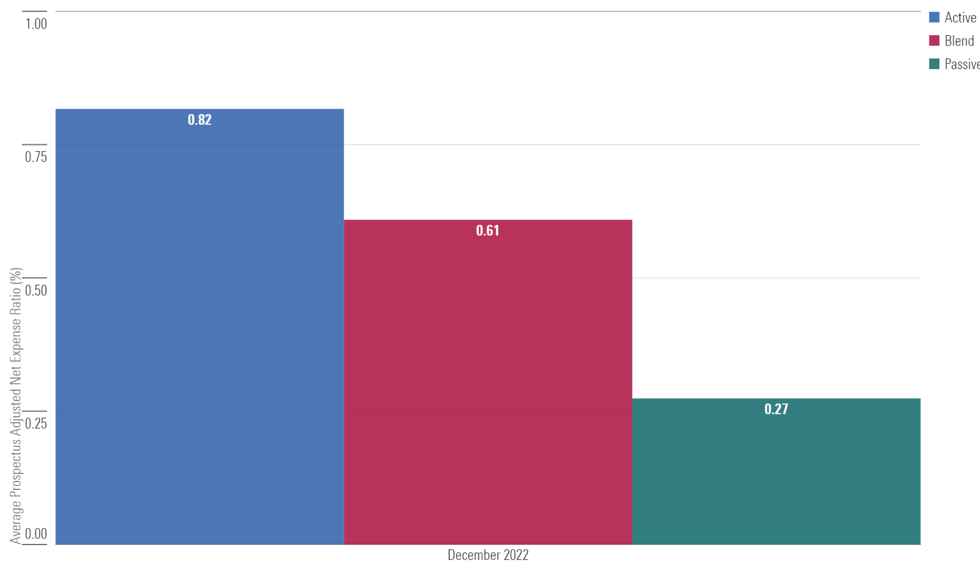
Source: Morningstar Direct and author's calculations. Data as of 12/31/2022.

Since 2013, the average fee of each quintile plunged. Fees for the 2025 and 2045 vintages fell by 49% through December 2022. On an absolute basis, the most expensive quintile for both vintages experienced an average drop of 38 basis points, the largest among the groups. The cheapest cohorts, which have less room to reduce fees, saw drops of 20 and 21 basis points, respectively.
As the cheapest target-date funds inch closer to their price floors, their cost advantage relative to the middle quintile has steadily narrowed. A decade ago, they held 38- and 42-basis-point leads, respectively, which has since been whittled down to 30 and 25 basis points, respectively.

Index-Based Series Have a Big Fee Advantage

Target-date mutual fund portfolios composed of mostly index funds are cheaper. To illustrate the fee advantage, we sorted target-date mutual fund series by their average index fund exposure across all vintages. We called series with greater than 75% index fund exposure passive, those with less than 25% of their assets in index funds active, and blend, for those in between. (Morningstar considers all target-date series actively managed since portfolio managers make asset-allocation and glide path decisions; these tags describe series' underlying holdings.) Exhibit 15 depicts the average prospectus-adjusted net expense ratio for each group as of December 2022.

Exhibit 15 Average Prospectus-Adjusted Net Expense Ratio by Series Construction



Source: Morningstar Direct and author's calculation. Data as of 12/31/2022.

Index-based series remain the low-cost leaders. Their average expense ratio of 0.27% is 55 and 34 basis points lower than the active and blend series' averages, respectively. This helps explain index target-date strategies' popularity.

Blend series have gained popularity in recent years among investors who don't view the active/passive debate as an either/or question. Blend series' 0.61% average fee is 21 basis points lower than the active series average. That's not as cheap as indexed series, but every basis point counts among competitively priced target dates.

Morningstar's Top Target-Date Strategies

Exhibit 16 shows ratings assigned to the cheapest share class of the target-date mutual fund series covered by Morningstar analysts, as of March 2023. It also highlights how the Morningstar Analyst Rating, and People, Process, and Parent Pillars changed between March 2022 and March 2023. One series earned an Analyst Rating upgrade, three received downgrades, and three were added to coverage.

Exhibit 16 Morningstar Analyst Ratings for Target-Date Mutual Funds

		Pillar Rating ↑Upgrades ↓Downgrades		
Strategy Name	Morningstar Analyst Rating	People	Process	Parent
American Funds Target Date Retirement	Gold	High	High	High
T. Rowe Price Retirement	Gold	High	High	High
T. Rowe Price Retirement Blend	Gold	High	High	High
BlackRock LifePath Index	Gold	High	Above Average	Above Average
Pimco RealPath Blend	Gold	High	Above Average	Above Average
MassMutual Select TRP Retirement	Silver ↓	High	High	Average
BlackRock LifePath Dynamic	Silver	High	Above Average	Above Average
Fidelity Advisor Freedom	Silver	High	Above Average	Above Average
Fidelity Freedom	Silver	High	Above Average	Above Average
Vanguard Target Retirement	Silver	Above Average	Above Average	High
Fidelity Freedom Index	Silver	Above Average	Above Average	Above Average
State Street Target Retirement	Silver	Above Average	Above Average	Above Average
Fidelity Freedom Blend	Bronze	Above Average	Above Average	Above Average
JPMorgan SmartRetirement	Bronze ↓	Above Average	Above Average ↓	Above Average
JPMorgan SmartRetirement Blend	Bronze ↓	Above Average	Above Average ↓	Above Average
MFS Lifetime	Bronze ↑	Above Average	Above Average ↑	Above Average
Schwab Target Index	Bronze	Above Average	Average	Above Average
TIAA-CREF Lifecycle Index	Bronze	Average	Above Average	Average
Voya Index Solution	Bronze	Average	Above Average	Average
Dimensional Target Date Retirement Income	Neutral	Average	Average	High
John Hancock Lifetime Blend Portfolio	Neutral	Average	Average	Above Average
John Hancock Multimanager Lifetime	Neutral	Average	Average	Above Average
Schwab Target	Neutral	Average	Average	Above Average
American Century One Choice	Neutral	Average	Average	Average
MassMutual RetireSMART by JPM	Neutral	Average	Average	Average
Principal LifeTime	Neutral	Average	Average	Average
Principal LifeTime Hybrid	Neutral	Average	Average	Average
TIAA-CREF Lifecycle	Neutral	Average	Average	Average
Voya Solution	Neutral	Average	Average	Average
John Hancock Preservation Blend Portfolio	Neutral	Average	Below Average	Above Average
Natixis Sustainable Future	Neutral	Below Average	Average	Average

Source: Morningstar Direct. Data as of 3/28/2023

MFS Lifetime's well-regarded fund lineup, management team, and solid long-term strategy give the series a competitive edge. The team's consistent execution of its well-reasoned investment approach supported a Process rating upgrade to Above Average from Average, driving its Analyst Rating to Bronze from Neutral.

JPMorgan SmartRetirement Blend series and JPMorgan SmartRetirement series' Process ratings were downgraded to Above Average from High due to an increasingly competitive landscape and waning confidence in their process. The team has seen turnover in recent years, and its tactical moves, which previously set them apart, have become inconsistent. As a result, the series' Analyst Ratings fell to Silver and Bronze, respectively.

T. Rowe Price Retirement Blend debuted with a Morningstar Analyst Rating of Gold. The CIT version, which has a longer track record, has earned the same rating since it was brought under coverage in 2021. The strong team mixes the firm's topnotch active funds with some indexed strategies to build portfolios and keep costs low. This combination should continue to serve investors well.

Morningstar picked up coverage of Fidelity Freedom Blend series in October 2022 with an inaugural Analyst Rating of Bronze for its cheapest share classes. Run by Fidelity's strong asset-allocation group, this series fills the middle ground between the firm's existing active-based and index-based Freedom series. The managers use active funds where they feel Fidelity has an edge, like growth stocks, and where they think markets are less efficient, such as emerging markets.

The Voya Index Solution series employs an active asset-allocation approach with appropriate risk controls. The series uses index funds and will make tactical moves. Morningstar brought it under coverage in late March 2022, and its cheapest share class earns a Morningstar Analyst Rating of Bronze.

Morningstar analysts currently cover 25 CIT target-date series, shown in Exhibit 17, which are mostly clones of their mutual fund counterparts. The target-date series from Manning & Napier and IndexSelect, however, are only available as CITs and receive unique Morningstar Analyst Ratings.

Exhibit 17 Morningstar Analyst Ratings for Target-Date CITs

Pillar Rating ↑Upgrades ↓Downgrades

Strategy Name	Morningstar Analyst Rating	People	Process	Parent
Capital Group Target Date Retirement	Gold	High	High	High
T. Rowe Price Retirement	Gold	High	High	High
T. Rowe Price Retirement Blend	Gold	High	High	High
BlackRock LifePath Index	Gold	High	Above Average	Above Average
BlackRock LifePath Index Non-Lendable	Gold	High	Above Average	Above Average
Pimco RealPath Blend	Gold	High	Above Average	Above Average
BlackRock LifePath Index, Wilmington Trust	Gold	High	Above Average	Average
BlackRock LifePath Index Non-Lendable, Wilmington Trust	Gold	High	Above Average	Average
Fidelity Freedom	Silver	High	Above Average	Above Average
Vanguard Target Retirement	Silver	Above Average	Above Average	High
Fidelity Freedom Index	Silver	Above Average	Above Average	Above Average
JPMorgan SmartRetirement Passive Blend	Silver ↓	Above Average	Above Average ↓	Above Average
State Street Target Retirement Non-Lending	Silver	Above Average	Above Average	Above Average
State Street Target Retirement Lending	Silver	Above Average	Above Average	Above Average
Fidelity Freedom Blend	Bronze	Above Average	Above Average	Above Average
JPMorgan SmartRetirement	Bronze ↓	Above Average	Above Average ↓	Above Average
Schwab Indexed Retirement	Bronze	Above Average	Average	Above Average
IndexSelect Aggressive Retirement	Bronze	Above Average	Average	Average
IndexSelect Conservative Retirement	Bronze	Above Average	Average	Average
IndexSelect Moderate Retirement	Bronze	Above Average	Average	Average
Schwab Managed Retirement Trust	Neutral	Average	Average	Above Average
American Century Target Date	Neutral	Average	Average	Average
Manning & Napier Retirement Target	Neutral	Average	Average	Average
Principal LifeTime Hybrid Target	Neutral	Average	Average	Average
Voya Target Solution Income Trust	Neutral	Average	Average	Average

Source: Morningstar Direct. Data as of 3/28/2023

Fidelity launched a CIT version of its flagship series, Fidelity Freedom, in 2022. Its debut Morningstar Rating of Silver matches that of its cheapest mutual fund share class. The same well-resourced asset-allocation team and tenured portfolio managers run this series. Their research-intensive approach has led to measured adjustments over time, primarily to improve diversification.

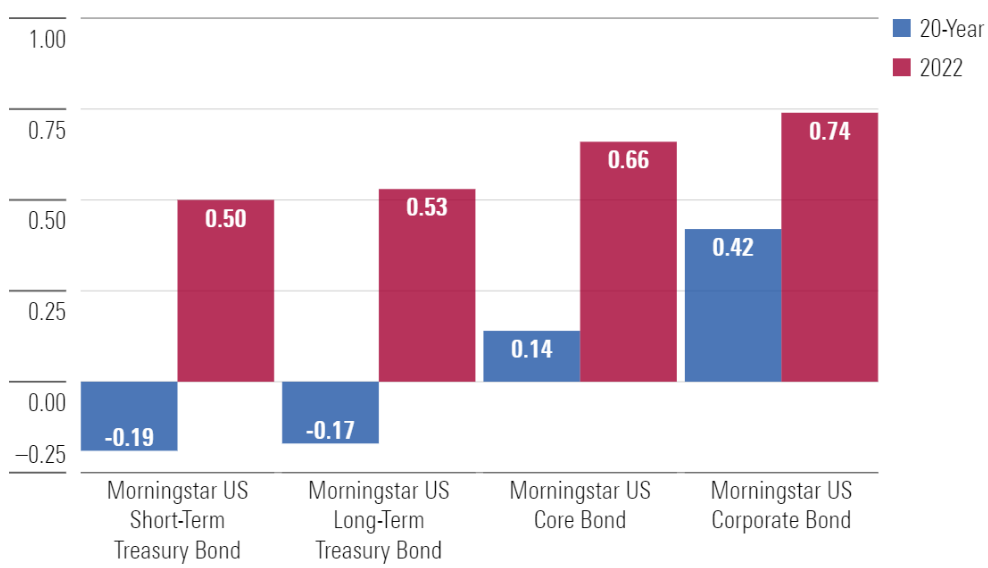
JPMorgan SmartRetirement and SmartRetirement Blend implement the same process as the mutual fund version. Both series' Process Pillars fell to Above Average from High due to concerns about the team's tactical approach, which dropped their Analyst Ratings to Bronze and Silver, respectively.

2022: The Year (Almost) Nothing Worked

Target-date strategies are designed to be hands-off all-in-one solutions for investors' retirement savings. Their diversified portfolios that gradually and systematically get less risky as retirement approaches appeal to those seeking to invest with a minimum of fuss. Still, market turbulence shows target-date strategies aren't immune to market shocks and aren't all built the same.

Diversification across stocks and bonds has usually helped during market turmoil and over the long term. Sometimes, however, correlations between major asset classes, such as stocks and bonds, spike and there's nowhere to hide. That happened in 2022 as stock and bond markets fell in tandem as the Federal Reserve reined in loose monetary policy with seven interest-rate hikes, Russia invaded Ukraine, a cryptocurrency exchange imploded, and investors grew wary of any kind of risk. Exhibit 18 illustrates the correlation between stocks and bonds over the past 20 years and in 2022.

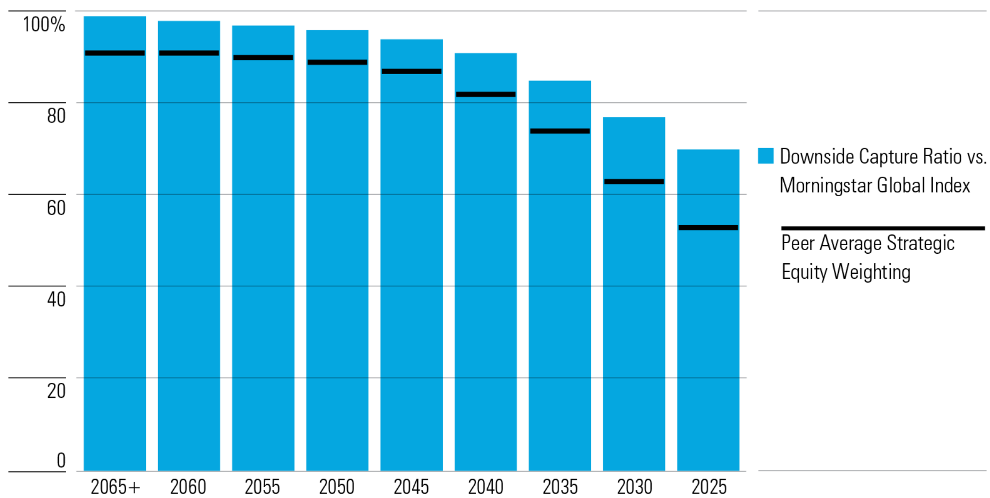
Exhibit 18 Correlations Between Stocks and Bonds



Source: Morningstar Direct. Data as of 12/31/2022.

Target-date portfolios constructed on the historical assumption that investment-grade bonds would serve as a ballast in rough markets suffered as their stock and bond holdings fell in 2022. Exhibit 19 shows that target-date funds captured more of the equity market's downside than expected based on their strategic equity weightings.

Exhibit 19 Downside Capture Ratio vs. Peer Average Strategic Equity Weighting



Source: Morningstar Direct. Data as of 12/31/2022.

Younger Investor Results

Losses hurt at any age, but younger investors tend to have smaller balances and longer time periods over which they can recover. A 20% loss on $10,000 amounts to $2,000, but the same drawdown on $1,000,000 is $200,000. A younger investor in the former scenario can make up the difference with future contributions and appreciation, but an investor closer to retirement in the latter situation has less time and opportunity to recoup losses. A retiree may even have to lock in losses to withdraw money on which to live, reducing principal and increasing the odds of running out of money.

Target-date strategies tend to start with similar equity allocations but diverge over time. Exhibit 20 shows the 2022 returns for some prominent or distinctive target-date series' 2055 vintages.

Exhibit 20 2055 Vintage's Equity Exposure and Returns

		2022		
Series	Ticker	Return, %	Average Equity Allocation, %	Average Value-Growth Score
Dimensional Target Date Retirement Income	DRIKX	-15.30	94	144
MFS Lifetime	LFIKX	-15.44	88	166
Pimco RealPath Blend	PRQZX	-17.12	92	157
Vanguard Target Retirement	VFFVX	-17.46	88	163
JPMorgan SmartRetirement Blend	JTYBX	-17.56	90	159
Fidelity Freedom	FCTKX	-18.07	88	169
BlackRock LifePath Index	LIVKX	-18.33	98	164
T. Rowe Price Retirement	TRPNX	-19.12	93	175
John Hancock Preservation Blend Portfolio	JRIWX	-19.30	80	155
American Funds Target Date Retirement	FCJTX	-19.47	84	201

Source: Morningstar Direct. Data as of 12/31/2022.

Dimensional Target Date Retirement Income, MFS LifeTime, and Pimco RealPath Blend experienced shallower losses compared with peers. All three have middling equity exposure and less growth stock exposure, according to Morningstar's value-growth score (the higher the number, the more growth exposure).

Fidelity Freedom and BlackRock LifePath Index fell to the middle of the pack, despite BlackRock's relatively high equity allocation at the start of its glide path. It captured more than 100% of the global equity markets' drawdown, but its performance on the upside gave it a boost.

American Funds Target Date Retirement suffered steep losses. Its equity allocation is on the lower end compared with peers, but its series tends to favor growth stocks early in the glide path and value later; that leaning hurt it in 2022 as value outperformed growth. Its results look better over the past decade when large-cap growth stocks rallied.

Near Retirement Results

As stated earlier, drawdowns hurt investors closer to or in retirement more because they should have bigger balances and plans to switch from contributions to withdrawals. Target dates designed for investors retiring in 2025, a good proxy for people near or in retirement, all lost money regardless of their glide paths or underlying exposures. Exhibit 21 shows the 2022 returns for the 2025 vintages of the same 10 series highlighted above.

Exhibit 21 2025 Vintage's Returns, Equity Exposure, and Effective Duration

			2022		
Series	Ticker	Glide Path Type	Return, %	Average Equity Allocation, %	Effective Duration (12/31/2022)
MFS Lifetime	LTTKX	To	-12.23	32.92	5.14
John Hancock Preservation Blend Portfolio	JRESX	To	-12.65	20.22	5.18
American Funds Target Date Retirement	FDDTX	Through	-12.73	49.61	5.4
JPMorgan SmartRetirement Blend	JBYSX	To	-15.24	47.18	5.59
T. Rowe Price Retirement	TRPHX	Through	-15.46	56.32	5.85
Vanguard Target Retirement	VTTVX	Through	-15.55	54.05	6.5
BlackRock LifePath Index	LIBKX	To	-15.77	45.57	7.1
Fidelity Freedom	FDTKX	Through	-16.54	54.74	8.38
Pimco RealPath Blend	PPZRX	To	-16.84	52.18	7.96
Dimensional Target Date Retirement Income	DRIUX	Through	-20.93	30.97	13.5

Source: Morningstar Direct. Data as of 12/31/2022.

MFS Lifetime and John Hancock Preservation Blend Portfolios lost the least. Both use “to” glide paths that stop lowering stock exposure at the target retirement date, rather than “through” glide paths that continue to lower stock exposure for 10 to 15 years after the retirement date. So, they have lower equity allocations than their “through” peers, which buoyed their results compared with more equity-heavy peers. MFS Lifetime’s diversified exposures and steep glide path have kept it competitive over longer periods that include equity rallies, but John Hancock Preservation Blend Portfolio’s conservative stance has caused it to lag over longer time periods.

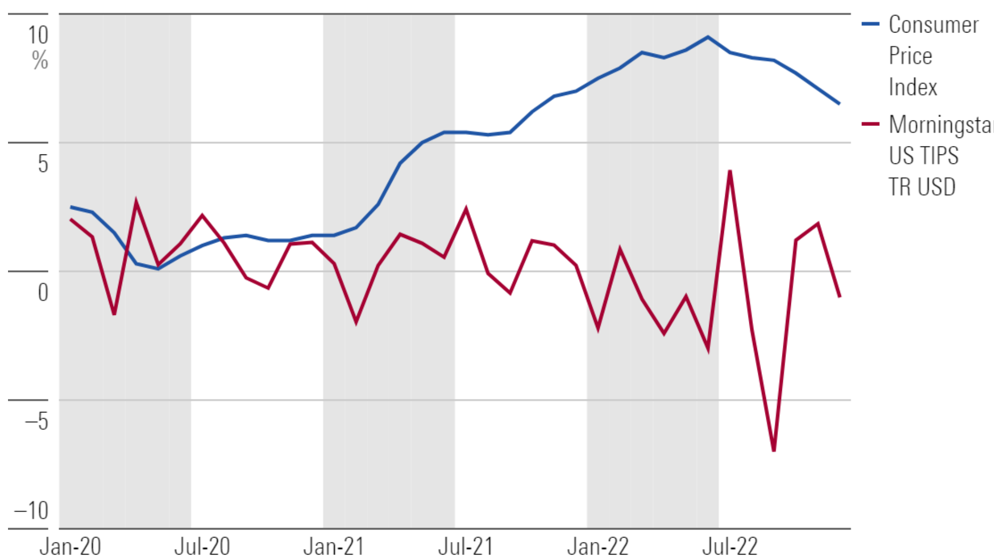
Despite their double-digit declines, T. Rowe Price Retirement and Fidelity Freedom’s managers still favor “through” glide paths because they think protecting investors against longevity risk, or the chance investors will outlive their savings, is important. T. Rowe Price Retirement delivered slightly shallower losses than Fidelity Freedom even with a higher equity allocation. The latter’s longer duration contributed to its larger drawdown.

Pimco RealPath Blend and Dimensional Target Date Retirement are at the bottom in part due to the longer duration, which left them more vulnerable to rising interest rates in 2022. Pimco RealPath Blend’s 2025, however, still has beaten 70% and 64% of its peers over the trailing three and five years, respectively, through December 2022. Dimensional 2025 Target Date Retirement results over the same time periods are more mixed, beating 42% and 26% of peers, respectively. Both series’ management teams still think a longer duration is better over the long term for retirees and do not plan to rein in their portfolios’ duration.

TIPS Didn't Keep Up With Inflation

Treasury Inflation-Protected Securities, or TIPS, which most target-date strategies layer into their portfolios as they approach retirement, were more of a hurt than an inflation hedge in 2022. TIPS adjust investor principal for inflation, but they also tend to be interest-rate sensitive, so rising rates swamped them like other bonds. While TIPS were the best-performing major bond market sector in 2021—the Morningstar U.S. TIPS Index rose 5.7% as the Morningstar U.S. Core Bond Index lost 1.6%—the tables turned in 2022. Yes, inflation spiked, but that forced the Fed to aggressively raise rates. TIPS lost nearly 12% as the Consumer Price Index posted a 6.5% increase for the 12 months ended in December, though it hit much higher trailing levels at points during the year. Target-date strategies count on TIPS for long-term inflation protection, but they still failed to fulfill their intended role in 2022. Exhibit 22 compares the two indexes.

Exhibit 22 Consumer Price Index and TIPS Performance



Source: Morningstar Direct and Bureau of Labor Statistics. Data as of 12/31/2022.

Shorter-duration TIPS exposure took some of the edge off the asset classes' dismal performance for target-date strategies. Exhibit 23 shows the five biggest target-date strategies by assets and their underlying TIPS fund.

Exhibit 23 TIPS Exposure—2025 Vintage

Series / Underlying TIPS Fund	Ticker	2022 Return, %	Average Allocation, %	Average Duration,Years
Vanguard Target Retirement		**-15.55**		
Vanguard Short-Term Inflation-Protected Securities Index	VTAPX	-2.83	3.05	2.53
T. Rowe Price Retirement		**-15.46**		
T. Rowe Price Limited Duration Inflation Focused Bond Fund	TRPZX	-4.62	7.42	2.77
BlackRock LifePath Index		**-15.77**		
iShares TIPS Bond ETF	TIP	-12.13	7.62	7.09
American Funds Target Date Retirement		**-12.74**		
American Funds Inflation Linked Bond	RILFX	-11.63	6.53	5.16
Fidelity Freedom		**-16.54**		
Fidelity Series 5+ Year Inflation-Protected Bond Index	FSTDX	-19.04	6.81	10.00

Source: Morningstar Direct. Data as of 12/31/2022.

Vanguard and T. Rowe Price's TIPS funds, both shorter-duration offerings, kept losses under 5%. TIPS funds with longer durations did worse. Fidelity Series 5+ Year Inflation-Protected Bond Index FSTDX, a component of both the Fidelity Freedom and Fidelity Freedom Index 2025 funds, lost about 19% in 2022 due to its 10-year average duration in 2022. Fidelity funds lost about 16.5% in 2022.

A Safe Haven

In a year in which most safe haven asset classes were anything but, there was one port in the storm: commodities. The Bloomberg Commodity Index gained 16% in 2022. Unfortunately, many target-date managers lost conviction in the asset class and flushed it from their portfolios prior to 2022 due to its lackluster performance. The Bloomberg Commodity lost nearly 4% annualized in the decade ending in December 2021. Even the target-date funds that still held some commodities didn't own enough to make much of a difference. In fact, Fidelity Freedom was the only top 10 mutual fund series that owned some commodities in 2022. It averaged 1.45% of assets in Fidelity® Series Commodity Strategy, which gained nearly 15% for the year. BlackRock LifePath Index includes a strategic position to commodities in its CIT version but not the mutual fund. The CIT averaged 1.42% of assets in the Commodity Index Daily Fund, which gained more than 15% in 2022.

Beyond the top 10 series, commodities remain a rarity. Bronze-rated MFS Lifetime owns MFS Commodity Strategy. Similar to BlackRock, State Street Target Retirement includes a commodity allocation in its CIT but not its mutual fund strategy.

Exhibit 24 shows these series' commodity exposure.

Exhibit 24 Commodity Exposure—2025 Vintage

Series / Underlying Commodity Exposure	Vehicle	2022 Return, %	Average Allocation, %
BlackRock LifePath Index	Collective Investment Trust	**-15.21**	
Commodity Index Daily Fund		15.41	1.42
State Street Target Retirement	Collective Investment Trust	**-14.80**	
Bloomberg Roll Select Commodity Index		14.98	1.77
Fidelity Freedom	Mutual Fund	**-16.45**	
Fidelity Series Commodity Strategy		14.98	1.45
MFS Lifetime	Mutual Fund	**-12.23**	
MFS Commodity Strategy		13.16	1.97

Source: Morningstar Direct. Data as of 12/31/2022.

Leaders and Laggards After 2022's Market Volatility

Last year's volatility shook up target-date series' short-term performance rankings but did little to alter the long-term ranks. Exhibit 25 shows the average category ranks for each series' cheapest share class based on total returns and its ranking's year-over-year change.

Exhibit 25 Trailing Average Category Ranks by Target-Date Mutual Fund—Cheapest Share Class

	1-Year			3-Year			5-Year			10-Year		
Series Name	12/31/22	12/31/21	Rank Change	12/31/22	12/31/21	Rank Change	12/31/22	12/31/21	Rank Change	12/31/22	12/31/21	Rank Change
American Funds Target Date Retirement	41	23	-18	6	20	14	2	9	7	1	2	1
TIAA-CREF Lifecycle Index	33	52	19	20	23	3	9	12	3	9	12	3
Mutual of America Retirement Series	12	13	1	18	45	27	22	58	37	9	20	11
T. Rowe Price Retirement	75	10	-65	15	8	-7	13	8	-5	10	6	-4
MFS Lifetime	9	22	13	7	31	24	5	28	23	14	30	16
TIAA-CREF Lifecycle	27	27	—	23	37	14	38	20	-18	14	8	-6
John Hancock Multimanager Lifetime	77	50	-27	18	9	-9	33	14	-19	20	13	-7
Vanguard Target Retirement	35	69	34	45	52	7	42	40	-2	24	31	7
Voya Index Solution	51	24	-27	33	31	-2	31	27	-4	28	27	-2
Great-West Lifetime	14	52	38	32	56	24	40	59	19	30	33	3
Fidelity Freedom	50	54	4	29	28	-1	37	20	-17	34	34	—
Voya Target Retirement	74	13	-61	23	15	-7	39	24	-15	38	—	—
BlackRock LifePath Index	53	33	-20	50	33	-17	32	29	-3	39	37	-2
Fidelity Advisor Freedom	52	65	13	44	27	-17	31	19	-12	40	42	2
BlackRock LifePath Dynamic	44	32	-12	43	29	-14	23	14	-9	43	42	-1
Voya Solution	91	32	-59	58	37	-21	71	44	-27	44	35	-9
Principal LifeTime	58	45	-13	43	26	-17	41	26	-16	47	35	-12
JPMorgan SmartRetirement	47	52	5	58	52	-6	72	53	-19	48	34	-14
Nationwide Destination	59	56	-3	77	58	-19	72	70	-2	48	42	-6
American Century One Choice	22	80	58	44	67	23	43	69	26	52	57	5

Legend: Positive / Negative

Source: Morningstar Direct and author's calculation. Data as of 12/31/2022.

Exhibit 25 (Cont.) Trailing Average Category Ranks by Target-Date Mutual Fund—Cheapest Share Class

	1-Year			3-Year			5-Year			10-Year		
Series Name	12/31/22	12/31/21	Rank Change	12/31/22	12/31/21	Rank Change	12/31/22	12/31/21	Rank Change	12/31/22	12/31/21	Rank Change
MassMutual RetireSmart by JPM	31	33	2	56	59	3	40	49	9	53	47	-6
JPMorgan SmartRetirement Blend	37	47	10	73	69	-4	73	64	-9	54	—	—
Fidelity Freedom Index	51	73	22	65	47	-18	42	35	-7	57	59	2
Schwab Target	88	43	-45	73	57	-16	81	61	-20	59	51	-8
Franklin LifeSmart	26	29	3	26	64	38	40	62	22	60	72	12
Putnam Sustainable Retirement	3	79	76	52	95	43	90	96	6	66	79	13
Guidestone Funds MyDestination	24	62	38	63	72	9	57	60	3	80	75	-5
USAA Target Retirement	11	39	28	65	88	23	83	89	6	88	88	-1
John Hancock Preservation Blend Portfolio	65	91	26	89	85	-4	93	84	-9	94	81	-13
Natixis Sustainable Future	61	35	-26	28	25	-4	10	—	—	—	—	—
Allspring Dynamic Target	41	11	-30	27	50	23	14	21	7	—	—	—
John Hancock Lifetime Blend Portfolio	41	17	-24	23	27	4	24	35	10	—	—	—
T. Rowe Price Target	46	55	9	27	41	14	25	31	7	—	—	—
Prudential Day One Target Date	7	3	-4	7	64	57	25	66	41	—	—	—
State Street Target Retirement	64	70	5	39	26	-13	30	19	-12	—	—	—
Schwab Target Index	36	40	4	47	55	8	35	48	13	—	—	—
Dimensional Target Date	42	9	-33	25	26	2	35	33	-2	—	—	—
Pimco RealPath Blend	49	17	-32	39	40	1	37	40	3	—	—	—
Principal Lifetime Hybrid	51	17	-34	19	22	3	37	38	1	—	—	—
Columbia Adaptive Retirement	14	88	74	67	59	-7	38	—	—	—	—	—
Transamerica ClearTrack	72	33	-39	59	40	-18	60	58	-2	—	—	—
1290 Retirement	6	46	40	88	94	6	62	—	—	—	—	—
Invesco Peak Retirement	47	60	13	90	88	-2	89	—	—	—	—	—
MassMutual Select TRP Retirement	74	25	-49	16	4	—	—	—	—	—	—	—
Putnam Retirement Advantage	23	30	8	25	—	—	—	—	—	—	—	—
Fidelity Freedom Blend Series	73	67	-6	53	31	-22	—	—	—	—	—	—
American Century One Choice Blend+	13	—	—	—	—	—	—	—	—	—	—	—
T. Rowe Price Retirement Blend	48	—	—	—	—	—	—	—	—	—	—	—
BlackRock LifePath ESG Index	56	20	-36	—	—	—	—	—	—	—	—	—

Legend: Positive / Negative

Source: Morningstar Direct and author's calculations. Data as of 12/31/2022

The American Funds Target Date Retirement series has been the top-performing series, based on total returns, over the last decade, surpassing TIAA-CREF, whose index series ranks second, and T. Rowe Price Retirement. American Fund's series lets the underlying managers' drive asset-allocation tilts, which plays to the firm's strengths: a large, experienced, globe-spanning roster of managers and analysts plying sober strategies that have earned Morningstar Medals for funds comprising 90% of the series' assets—a remarkable feat for an active series.

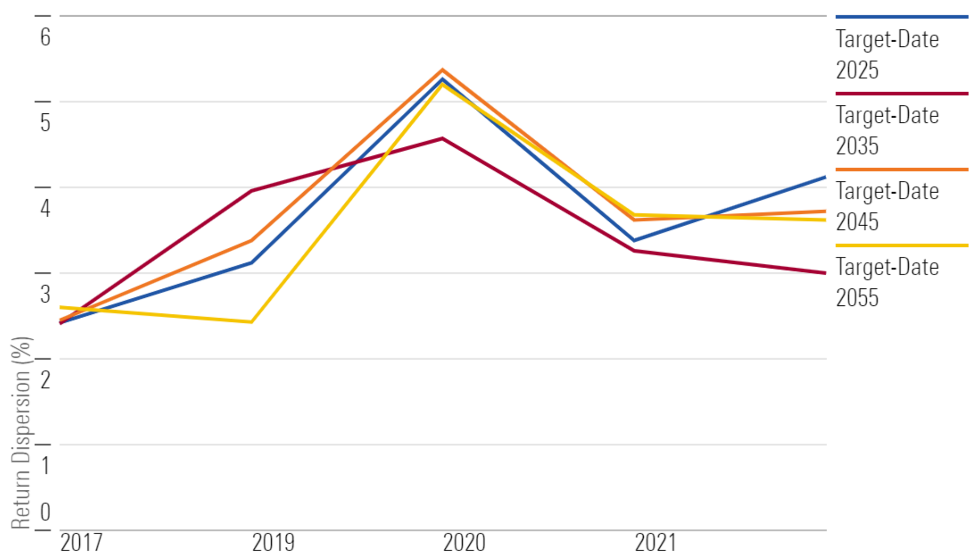
T. Rowe Price Retirement rankings tumbled in 2022 due to its higher-than-average equity allocation and poor security selection in some of its key underlying funds. Over the past decade its underlying active managers and its equity tilt have been plusses.

MFS Lifetime series' 10-year average ranking rose significantly in 2022 due to its strong underlying funds and diversification. Over the past decade ending in December 2022, the institutional shares of every vintage with a 10-year track record topped their respective category index and average peer group on an absolute and risk-adjusted basis.

Narrowing Return Dispersions

Target-date funds continue to have a low dispersion of returns. These narrow performance differences may make it seem like it doesn't matter which series an investor has, but during periods of heightened stock and bond market volatility, the seemingly small differences can become magnified. Exhibit 26 illustrates the range of returns of the cheapest share class returns over the past five years, excluding major outliers for various target-date categories.

Exhibit 26 Calendar-Year Return Dispersion

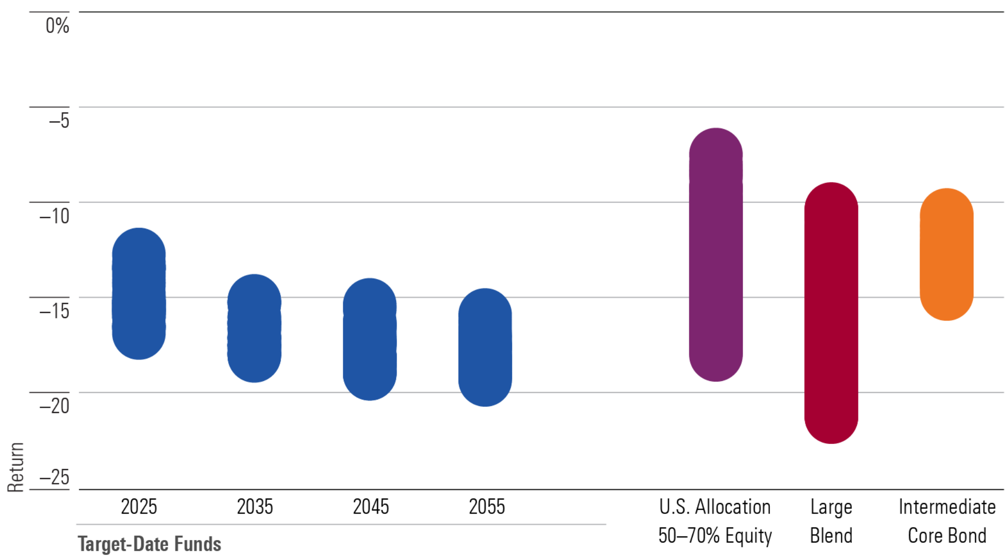


Source: Morningstar Direct and author's calculations. Data as of 12/31/2022.

In 2022, dispersions were higher than they were in 2018. For example, in 2022 across the 2025 vintage, the range of returns, excluding major outliers, was slightly over 4% whereas it was 2.4% in 2018. Notably, across all categories, the dispersions were the widest in 2020 before coming down slightly in 2021, and they remained relatively consistent in 2022.

Despite some vintages' higher equity allocations, their return dispersions tend to be more closely aligned with intermediate core bonds rather than the large-blend category and the 50% to 70% equity allocation category. Exhibit 27 shows the 2022 dispersions of target-date series' cheapest share class within selected target-date fund Morningstar Categories versus other selected categories, excluding outliers. It also shows that the dispersion doesn't shrink within target-date fund categories that hold more in bonds, even though bond categories have tighter return dispersions than equity categories. In 2022, the 2055 vintage's dispersion of returns of 3.6% was narrower than the intermediate core bond's 4.6%

Exhibit 27 Dispersion of Returns Within Target-Date Categories (Cheapest Share Class), 2022



Source: Morningstar Direct and author's calculations. Data as of 12/31/2022.

Even though returns are somewhat similar, investors should still choose a target-date strategy that offers the best odds of replacing their income in retirement or a strategy that allows them to comfortably remain invested during tough periods like 2022.

Target-Date Legal Battles

Defined-contribution plan sponsors are no strangers to litigation. In recent years, numerous lawsuits have accused them of using target-date strategies that charge excessive fees. In 2022, there were 82 excessive-fee lawsuits against 401(k) plans. That's an 86% surge from 2021, but lower than 2020's record high of nearly 100, according to mutual fund industry news site Ignites. These lawsuits have encouraged some plan sponsors to select cheaper target-date series to limit litigation risk, which helped drive the $54 billion of inflows to the cheapest quintile of target-date mutual funds in 2022.

A new flurry of lawsuits in 2022, however, focused on performance. These lawsuits also cherry-picked a small peer group to compare results against. Limiting the peer group to only a select few of the best-performing series sets an unrealistically high bar for sponsors choosing investment options for their plans. This poses a different set of considerations for plan sponsors trying to mitigate lawsuit risk, which can potentially lead to performance-chasing and premature swapping out of the target-date strategies.

There are many considerations when assessing a target-date strategy. For example, one of the biggest differentiators of target-date funds is whether they use a "to" glide path, which stops lowering stock exposure at the target retirement date, or a "through" glide path, which continues to lower stock exposure for 10 to 15 years after the retirement date. This decision can significantly impact relative performance closer to retirement.

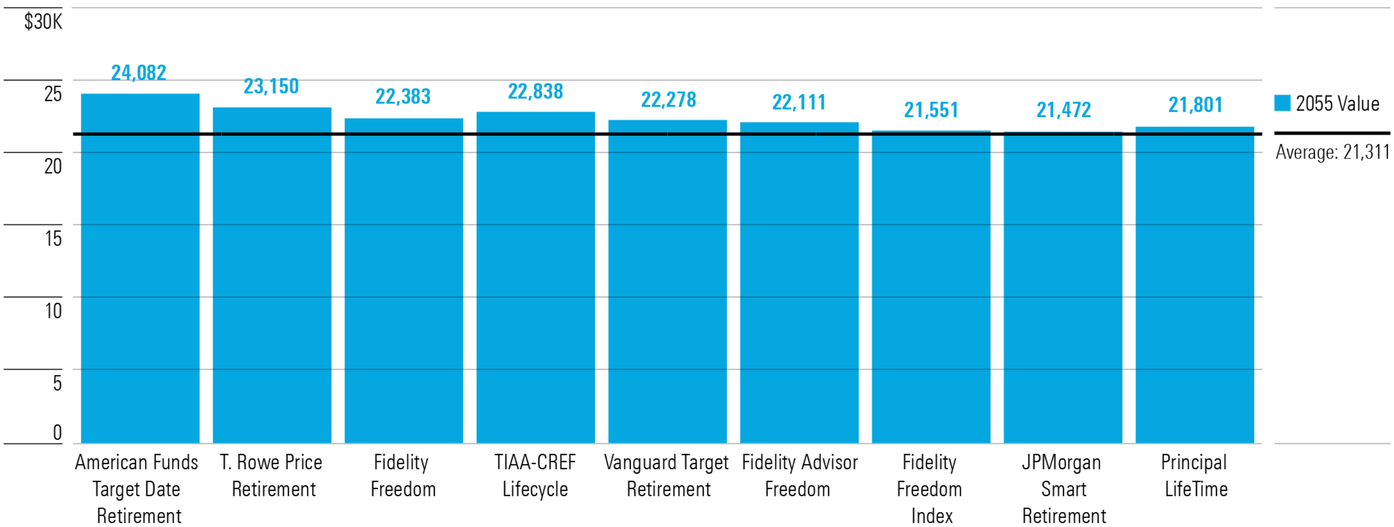
Also, past performance is not an accurate indicator of future performance. Today's target-date funds are different than the original offerings and tomorrow's will be different from today's as providers continue to evolve their strategies. For example, in 2014, BlackRock was one of the first firms to increase its equity allocation early in the glide path. Its current strategic equity allocation for younger savers, such as those currently in the 2060 and 2055 funds, is 99%. Similarly, T. Rowe Price Retirement boosted its equity allocation across its glide path in 2020. As part of the changes, the series' equity allocation jumped to 98% at the beginning of the glide path, up from 90%. These changes can dramatically alter a series' risk and return profile, making historical comparisons difficult. Also, given the changing allocations across the glide path, one vintage might outperform its peers while another may lag.

Putting it in a Dollar Perspective

As a case study, we looked at how $10,000 would have grown in the 10 largest series at the end of 2012 over the next 10 years. Though this study does not account for sequencing of returns, it demonstrates the potential dollar difference an investor could earn depending on which target-date strategy they select. To emphasize how selecting a narrow peer group with a backward-looking perspective is not best practice, we chose the 10 largest series at the end of 2012, which are not the same as at the end of 2022, demonstrating how cherry-picked peer groups modify over the years. One of 2012's top 10 series, Allspring Target funds, liquidated in 2022, and only four others—T. Rowe Price Retirement, American Funds Target Date Retirement, Fidelity Freedom, and Fidelity Freedom Index—are still in the top 10 today (when including both mutual fund and CIT assets).

Starting with the 2055 vintage, American Funds Target Retirement earned the most for investors over the past 10 years despite its challenging 2022 performance. Investors in T. Rowe Price Retirement series gained almost $1,000 less over that time horizon. Both outpaced the average. Exhibit 28 compares the ending balances of the nine existing series' 2055 vintages with the category average's balance.

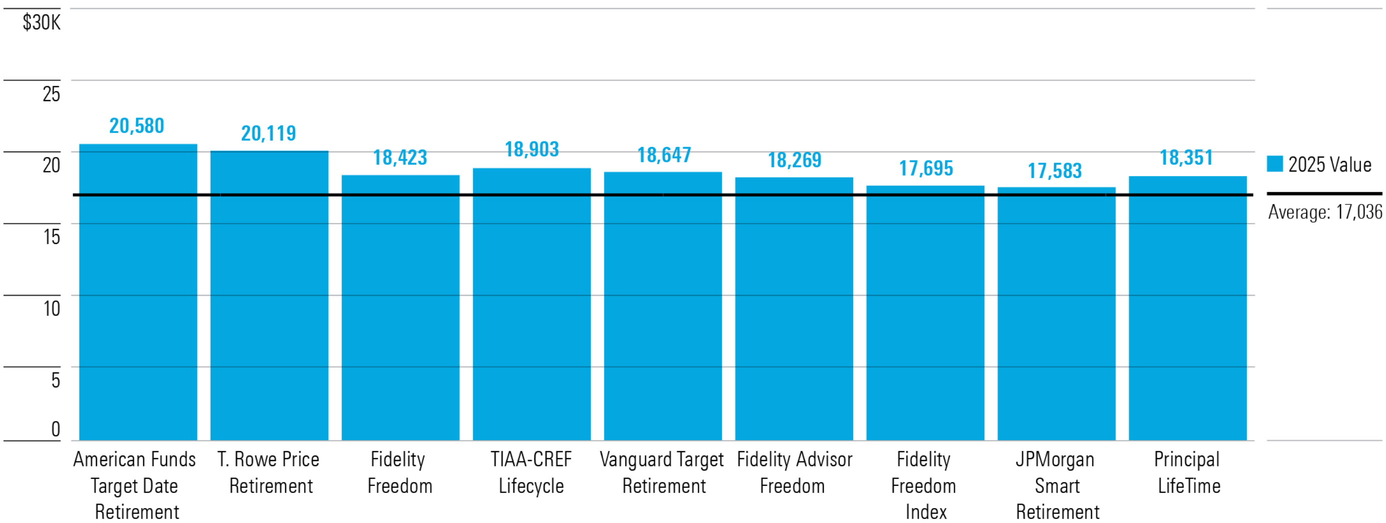
Exhibit 28 2055 Vintage Growth of $10,000



Source: Morningstar Direct. Data as of 12/31/2022.

Looking at the other end of the glide path, near retirement, the target-date funds rank in the same order; however, that is not always consistent across the industry. American Funds and T. Rowe Price still took the top two spots, but the spread between best and worst was tighter. About $3,000 separated American Funds Target Date Retirement from the last place JPMorgan SmartRetirement.

Exhibit 29 2025 Vintage Growth of $10,000



Source: Morningstar Direct. Data as of 12/31/2022.

Narrowing a peer group to those that are the largest isn't best practice. Though plan sponsors could've chosen any of these 10 at the end of 2012, there were a plethora of other series they might've chosen, some that were worse off. As the industry continues to evolve, so has the largest series, measured by assets. For example, JPMorgan SmartRetirement, Principal Lifetime, and Fidelity Advisor Freedom no longer sit in the top-10-largest series. Instead, BlackRock LifePath Index, State Street Target Retirement, JPMorgan SmartRetirement Blend, and Principal Lifetime Hybrid round out the top 10 at the end of 2022.

Historically, performance hasn't always determined which series garners the most flows. For example, Vanguard Target Retirement and Fidelity Freedom Index never top the performance charts here but continue to garner flows for their low price tags and sensible broad market exposure. And the last decade's top performer, American Funds Target Date Retirement, is the fourth-largest series by assets. As previous excessive-fee lawsuits continue to play a major role when plan sponsors select a target-date series, the ramifications of this recent litigation can lead to performance-chasing and swapping out target-date strategies more often than they should.

Will Sustainable Investing Make Waves in Target Dates?

Despite a dramatic slowdown in flows in 2022, sustainable funds and ESG investing continue to capture investor interest and positive net flows. They have faced higher hurdles and lower adoption among target dates, though. The evolving regulatory environment remains among their biggest challenges. In 2020, the Department of Labor's ruling prevented intentional ESG strategies from serving as the qualified default investment alternative, or QDIA, in defined-contribution plans. Plans typically use target-date strategies to fill this QDIA role, so the ruling deterred providers from launching ESG-focused target-date options. However, a 2022 DOL ruling superseded the 2020 changes, allowing ESG options to be used as the QDIA and, in turn, broadening the opportunity for ESG target-date strategies. The debate is far from over, and in March 2023, President Joe Biden vetoed a bill that would have effectively reinstated the previous administration's ban on plan sponsors from considering ESG factors in retirement plans.

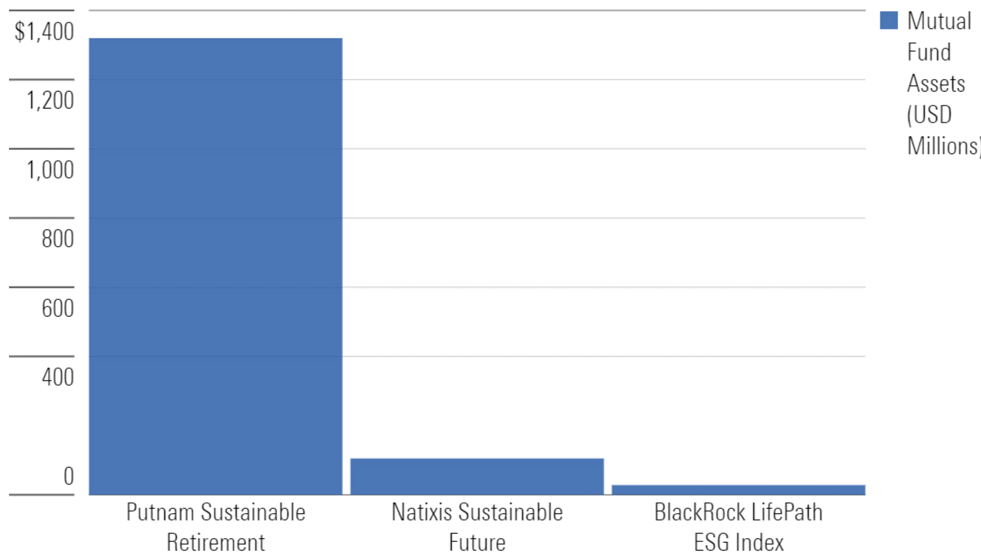
The number of sustainable fixed-income funds has more than doubled since 2018, but many firms still lack sufficient ESG-focused options with reasonable asset bases and track records to build out well-diversified target-date strategies. The ESG criteria used to evaluate important fixed-income sectors, such as U.S. and other government bonds and asset-backed securities, isn't as robust or standardized as the criteria used to evaluate corporate stocks and bonds.

Some providers have tried to address the market, though. Natixis launched the first ESG target-date strategy, Natixis Sustainable Future, in early 2017, and BlackRock opened BlackRock LifePath ESG Index in 2020. So far, neither series has gained much traction. At the end of 2022, they had $105.5 million and $28 million in assets, respectively.

Since the last DOL ruling, more providers have said they would launch sustainable target dates. In May 2022, Putnam announced it would convert its RetirementReady series to a sustainable-focused series in February 2023. In anticipation of the series' conversion, the firm launched five sustainable funds it planned to use as the series' underlying holdings. Fidelity also filed a preliminary registration for a sustainable target-date series in February 2023, along with four sustainable funds that will likely be held by the series. Including recently launched funds with no track records in a target-date series is not a best practice.

Putnam has a head start in garnering assets for its ESG series because it was a conversion rather than a new launch, so its assets look inflated compared with the other two series, which have a longer track record as ESG series. Exhibit 30 shows the three series' assets as of the end of 2022. Note, at the time the Putnam series had not converted to its sustainable mandate yet, but its head start made it the largest ESG target-date series when it restructured.

Exhibit 30 ESG Target-Date Funds' Assets



Source: Morningstar Direct. Data as of 12/31/2022.

Regulatory changes and investor demand have spurred providers to consider launching more ESG-friendly target-date options, but it remains to be seen if plan sponsors will adopt strategies.

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