BrightScope Reveal Latest Trends in Target Date Funds

Fees are Down, Assets Under Management Up, New Series Enter Market, and Distribution Shifts

SAN DIEGO, Calif. (June 24, 2014) – BrightScope (www.brightscope.com), a leading provider of independent financial information and investment research, today announced recent trends in target date funds (TDFs) as a result of its examination of the lowest cost institutional share class for all target date funds through December 2013. This includes 52 target date series, composed of 479 distinct target date funds from 39 different asset managers.

“Last year target date asset growth was strong, fueled by a strong equity market and ongoing acknowledgement by plan sponsors and advisors that defined contribution participants prefer to have retirement accounts professionally managed,” said Brooks Herman, Head of Data & Research at BrightScope. “Target date funds continue to be the vehicle of choice to meet this need.”

BrightScope’s Findings and Observations on the TDF Market

Fees
Fees continue to fall: they are down to an average of 0.67 percent for the lowest cost institutional share class for all target date funds, a steady drop from 0.70 percent in 2012 and 0.72 percent.

Assets Under Management (AUM)
In 2013, target date fund assets increased 24 percent to nearly $625 billion in Investment Company Act of 1940 funds. BrightScope estimates total target date assets are actually closer to $900 billion when collective investment trusts and pooled separate accounts are added.

Three years ago, BrightScope predicted that target date assets would top $2 trillion by 2020, a prediction they continue to stand by today.

Entrants and Exits:
In 2012, the target date series market saw two exits and two entrances. This was the first time there was a reduction in target date series. In 2013, the trend reversed itself with the addition of the following new target date series:
- JHancock Retirement Living through II
- KP Retirement Path
- Strategic Advisers Multi-Manager
- T. Rowe Price Target Retirement

Glidepath and Landing Point
From 2012 to 2013, gildepath’s stability continued. Equity at the stated target date for funds was 41 percent, up from 40 percent the previous year. Meanwhile, equity at the landing point (the most conservative point of the glidepath) kept steady from 2012 at 30 percent.

**To/Through**

For 2014, 42 percent of fund families brought their glidepath down to its most conservative position at the target date (BrightScope’s definition of a “To” fund series), representing 22 of the 52 fund families. All four new fund series in the marketplace are “Through” funds, when a target date fund's glidepath continues to get more conservative after the target date.

Target Date Fund asset managers clearly favor “Through” funds this year, demonstrated by their overwhelming market share. “Though” fund represent 11 times more AUM than "To" Funds, further widening the gap from 2013.

**Distribution is King**

Distribution and channel management are still keys for success for many target date asset managers, although our findings show that changes are coming. BrightScope analyzed 2010-2012 data from a sample of 16,000 401k plans and observed a five-percent decrease in proprietary assets: from 57 percent in 2010 to 55 percent in 2011 to 52 percent in 2012.

This trend indicates plan sponsors are looking off-platform for the best target date funds for employees, therefore making the distribution channel more competitive. It also helps explain the proliferation of new target date funds series offered by recordkeepers and demonstrates they can provide TDF offerings that can vary in terms of glidepath, equity at the target date, or fees. Non-proprietary asset managers still must work to differentiate themselves on fees, risk management, or asset selection.

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**About BrightScope**

BrightScope is a financial information company that brings transparency to opaque markets through independent research and analysis. Delivered through web-based software, BrightScope data drives better decision-making for individual investors, corporate plan sponsors, asset managers, broker-dealers, and financial advisors. The BrightScope Rating™, developed in partnership with leading independent 401k fiduciaries, reviews more than 200 unique data inputs per plan and calculates a single numerical score which defines plan quality at the company level. In April 2011, the company launched BrightScope Advisor Pages™, the first comprehensive and publicly available directory of financial advisors designed to help consumers discover information and conduct due diligence on wealth management professionals. BrightScope also markets a suite of data analytics software products to Fortune 1000 companies, asset managers, broker-dealers, financial advisors, and other market participants. Public ratings for nearly 50,000 retirement plans as well as rating definitions, criteria and methodologies, and information on more than 680,000 financial advisors and nearly 33,000 active advisory firms are available for free at [www.brightscope.com](http://www.brightscope.com).