Target-date CITs grew in 2018: Morningstar

By Editorial Staff *Fri, May 10, 2019*

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Assets in target-date mutual funds shrank in 2018 but the overall market grew, as providers gathered assets into low-cost alternatives like collective investment trusts (CITs), according to Morningstar's annual Target Date Fund Landscape Report.

The 2019 report evaluated more than 60 series of target date funds (TDFs) and found intensifying demand for low-fee options. Providers answered demand with inexpensive options like CITs or new lower-cost series that rely on passive funds.

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The report presents the latest developments in the target-date landscape, highlighting noteworthy considerations for target-date investors in five areas: Process, People, Performance, Price, and Parent.

In June, Morningstar intends to launch a new quarterly publication, "Target-Date Fund Series Reports," which will feature analyses of sub-asset-class glide paths and insights on a series' management. It will also introduce a revised methodology for performance attribution.

Key findings from Morningstar's annual TDF landscape report include:

- The demand for lower-cost options propelled growth in target-date series offered as CITs, which typically cost less than mutual funds. In 2018, assets in target-date CITs totaled approximately $660 billion, a roughly $30-billion increase in a year when returns were negative.
- Assets in target-date mutual funds receded slightly in 2018 for the first time since 2008. Even though assets in target-date mutual funds fell to $1.09 trillion at the end of 2018 from $1.11 trillion at year-end 2017, their estimated net inflows for the year were positive, at $55 billion.

- Price drove demand for TDFs in 2018. Nearly all the $55 billion estimated net flows in 2018 went to low-cost series that held more than 80% of assets in index funds. Assets moved to lower-cost share classes, reducing the average asset-weighted expense ratio to 0.62% in 2018 from 0.66% in 2017.
- Many TDF providers have launched less-expensive alternatives to their higher-priced legacy offerings or made their strategy available in lower-cost vehicles like CITs. However, returns of a target-date provider's newer, lower-cost series didn't always beat those of the legacy. Of the 10 target-date series that replicate a legacy offering but with lower fees, the since-inception returns for three failed to keep pace.
- "Passive target-date funds" do not exist. Even among series that invest only in index funds, there are significant differences in methods—differences that can't always be inferred from their equity glide paths.
- Only 16 of the roughly 140 target-date fund managers invested more than $1 million in their series as of year-end 2018. Of that 16, four of the six managers who run multiple series invest more in a higher-cost, legacy offering that relies predominantly on actively managed underlying holdings.

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