Defined Contribution Institutional Investment Association
RETIREMENT RESEARCH CENTER

Custom Target Date Fund (cTDF) Survey

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INTRODUCTION

As the Pension Protection Act of 2006 provided a mechanism for employers to default American workers into long-term savings plans, it concurrently afforded target date strategies an unprecedented growth opportunity. Now, less than two decades later, 85% of institutional defined contribution (DC) plans use target date strategies as the default investment.[1] The legal structure (or "vehicle") and the customization of target date fund strategies--two indicators of institutional approaches--have traditionally been dependent on a plan's resources, by measure of assets and investment expertise. Notably, DCIIA's custom target date fund (TDF) research demonstrates a widespread and growing adoption of these institutional approaches to target date strategies. Despite their prevalence, however, publicly available information on these institutional strategies, specifically on custom TDFs, has been limited. With roughly half of the $2 trillion of target date assets resulting in institutional vehicles, DCIIA is uniquely positioned to promote transparency in these default investment options.

This summary report highlights some of the key findings from DCIIA's custom TDF research initiative--the retirement industry's first asset allocation analysis of custom target date strategies. The report is primarily intended to aid plan sponsors and asset allocators during custom glide path discussions. For plan sponsors new to custom target date consideration, DCIIA's Resource Library on Investment Options and Best Practices is available for primer reading.

Sample

Nine leading asset allocators participated in the inaugural custom TDF data collection effort. The sample used for asset allocation statistics within this report encompassed 65 plans and 673 unique funds. Custom TDF assets represented in the sample exceeded $340 billion, while plan assets exceeded $990 billion.

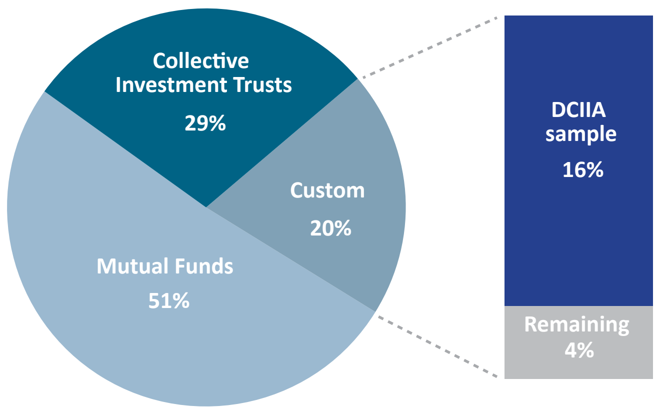
Based on the DCIIA sample of those that provided both custom TDF and plan assets, custom TDF strategies accounted for 43% of total plan assets for the year-end 2017. On average, the number of individual funds, or vintages, per custom TDF was ten.

Overall, DCIIA estimates that the sum of all TDF strategies—including those that were not represented in DCIIA's research initiative--totaled $2.1 trillion as of year-end 2017. Mutual funds accounted for $1.1 trillion,[2] or 51%, of these TDF assets. Institutional vehicles, including collective investment trusts (CITs) and custom TDFs, represented nearly half of all target date fund assets at year-end 2017. CITs accounted for approximately $622 billion[3] (29%), while custom TDFs represented an estimated $430 billion (20%). Notably, the DCIIA custom TDF sample in this report accounted for approximately 16% of total target date fund assets and 80% of custom TDF assets, as of year-end 2017. **(Exhibit 2)**

To give these figures some historical context, in 2015 the total TDF market accounted for an estimated $1.3 trillion across vehicles.[4] Improved reporting, auto-enrollment, and a bull market over the period contribute to the significant increase over the three-year period.

Exhibit 2

Target Date Strategies by Vehicle, YE 2017 ≈$2.1T



Note: year-end 2017 Estimate. custom TDFs include only unitized funds, not model portfolios, etc.
Sources: DCIIA, Morningstar, Strategic Insight Simfund MF. ETFs and Variable Annuity Products excluded.

[2]Strategic Insight Simfund MF.
[3]Morningstar. 2018 Target-Date Fund Landscape. May 2018.
[4]Strategic Insight. DC Market Sizing. 2015.

DETAILED FINDINGS

This section provides glide path illustrations and descriptive statistics from the asset allocation study. The findings are grouped by investment objective, asset category, and asset classification.

Investment Objective

Exhibit 3

Average Custom TDF Glide Path by Investment Objective

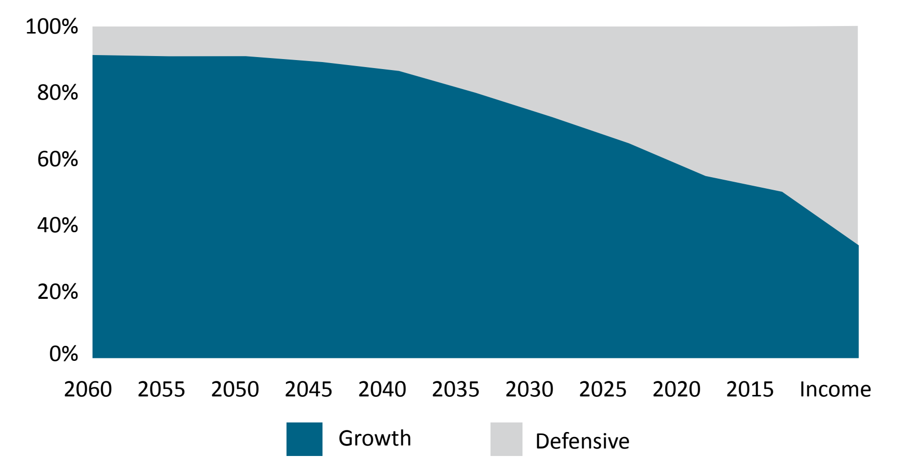


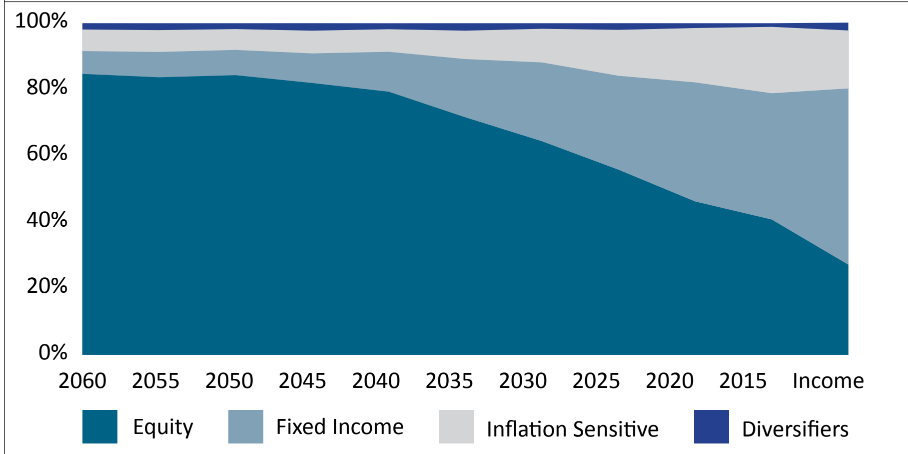
Exhibit 3 illustrates the average custom TDF glide path when the asset classes are aggregated into two main objectives: "growth" and "defensive." These averages, and others detailed within this report, are simple averages calculated across the 65 plans within the initial sample. Allocations to a "growth" objective for each plan reflect the cumulative exposures to the following asset classes: all equity asset classes, real estate, commodities, real assets, infrastructure, multi-asset inflation, private real estate, global real estate investment trusts (REITs), long/short hedge funds, risk parity, absolute return, private equity and preferred. Allocations to a "defensive" objective for each plan reflects the remaining non-"growth" asset classes, which include: all fixed income asset classes, Treasury inflation-protected securities (TIPS), emerging markets TIPS, currency, market-neutral hedge funds, bank loans, structured securities, global tactical allocation asset (GTAA), and US balanced.

Asset Categories

The asset classes are divided into four broad categories: equity, fixed income, inflation sensitive, and diversifiers, as illustrated in Exhibit 1. The simple average allocations across the four asset categories by vintage are illustrated in **Exhibit 4**.

Exhibit 4

Average Custom TDF Glide Path by Asset Category



A majority of the average custom TDF exposure was allocated to equities and fixed income, with a relatively modest--but increasing--allocation to inflation sensitive assets 15 to 20 years prior to retirement. Diversifiers are represented by the dark blue shaded area at the top of **Exhibit 4** and illustrate a relatively consistent, yet minor, average allocation.

Asset Classes

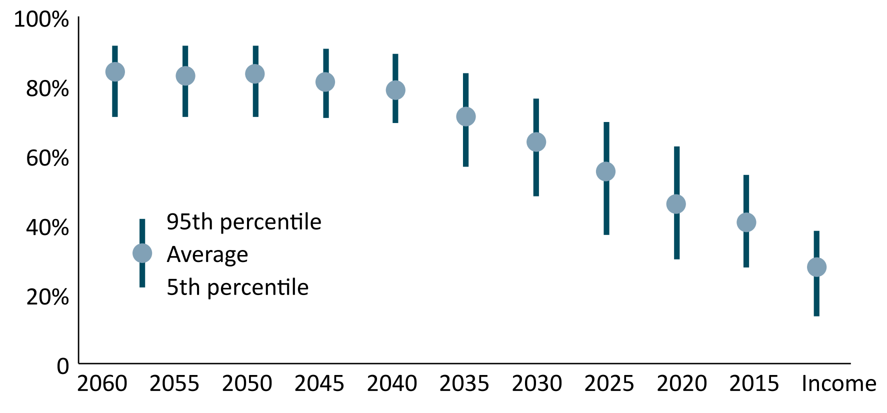
The sections that follow provide more detail about the asset classes within each of the four broad asset categories. The high (95th percentile) and low (5th percentile) allocations are provided to demonstrate the range of investment approaches. The asset classes with the highest prevalence among the sample custom TDF plans are also provided. Prevalence is measured as the number of plans within the sample with an allocation to the specific asset class, divided by the number of plans in the sample.

EQUITY ALLOCATIONS IN CUSTOM TDFS

The high (95th percentile) equity allocations ranged from to 92% for 2060 funds to 39% for income funds. Similarly, the low (5th percentile) equity allocations ranged from 72% for 2060 funds to 12% for income funds. The average allocation to equities for 2060 funds was 85% falling to 28% for income funds. The spread between different custom TDFs was greatest for the 2025 and 2020 vintages, at 33 percentage points between the 95th and 5th percentiles. **(Exhibit 5)**

Exhibit 5

Equity Allocation Spread, 95th and 5th Percentiles

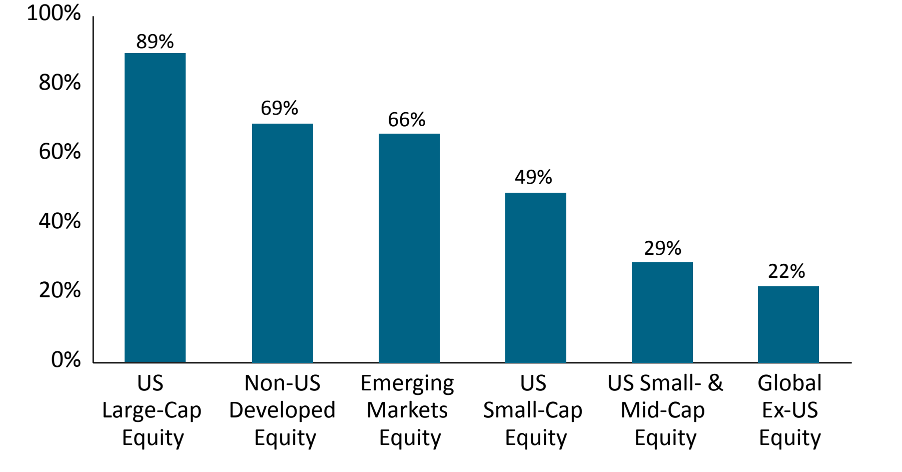


The top five equity asset classes by prevalence were: US large-cap equity (89%), non-US developed equity (69%), emerging markets equity (66%), US small-cap equity (49%), and US small- and mid-cap equity (29%). Global ex-US equity was prevalent in 22% of custom TDF strategies, while the remaining six equity asset classes each had less than 20% prevalence among plans. (**Exhibit 6**)

The prevalence measure highlights the percentage of plans that had discrete exposure to the specific asset class. For example, 89% of the plans in the survey held US large-cap equity exposure in at least one of their custom TDF vintages. The other 11% of plans had exposure to US large-cap stock securities via aggregated approaches to asset classes such as all-cap or global equity. In fact, every participating plan had allocations to US all-cap, US large-cap, or global equity.

Exhibit 6

Most Prevalent Equity Asset Classes



EQUITY METHODOLOGY

Twelve asset classes compose DCIIA's equity category:

1. Large-Cap Equity
2. US Mid-Cap Equity
3. US Small-Cap Equity
4. US All-Cap Equity
5. Non-US Developed Equity
6. Non-US Small-Cap Equity
7. Global Equity
8. Global Ex-US Equity
9. Emerging Markets Equity
10. Defensive/Low Volatility Equity
11. US Small- & Mid-Cap Equity
12. Global All-Cap ex-US Equity

FIXED INCOME ALLOCATIONS IN CUSTOM TDFS

On the low end of exposure, 5th percentile fixed income allocations ranged from 32% for Income funds to 5% for 2060 funds. The 95th percentile equity allocations ranged in a similar style, from 67% for Income funds to 13% for 2060 funds. The average allocation to fixed income for Income funds was 52%, declining to 7% for the 2060 fund. Differences between the 95th and 5th percentiles varied little for later-dated funds but peaked at thirty-five percentage points for the Income allocation. **(Exhibit 7)**

The top five fixed income asset classes by prevalence were: core US bond (94% - the highest percentage of any custom TDF underlying exposure), short duration bond (49%), high-yield/high-income bond (35%), cash (29%), and emerging markets bond (20%). Stable value was prevalent in 20% of custom TDF strategies. The remaining six fixed-income asset classes each had less than 10% prevalence among the plans. All plans had either core or global core allocations. **(Exhibit 8)**

Exhibit 7

Fixed Income Allocation Spread, 95th and 5th Percentiles

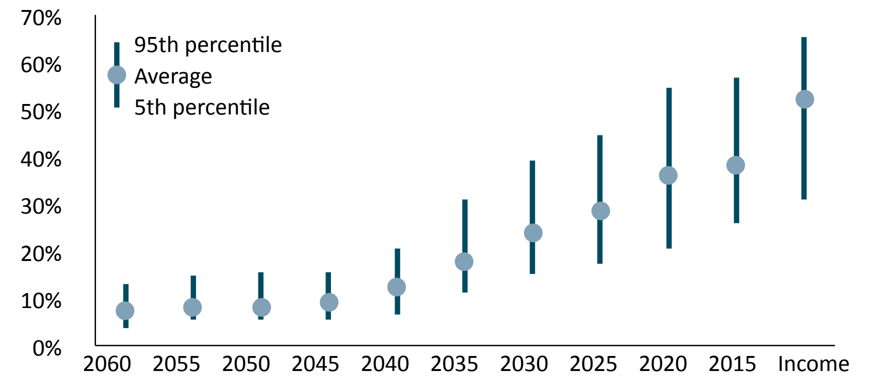
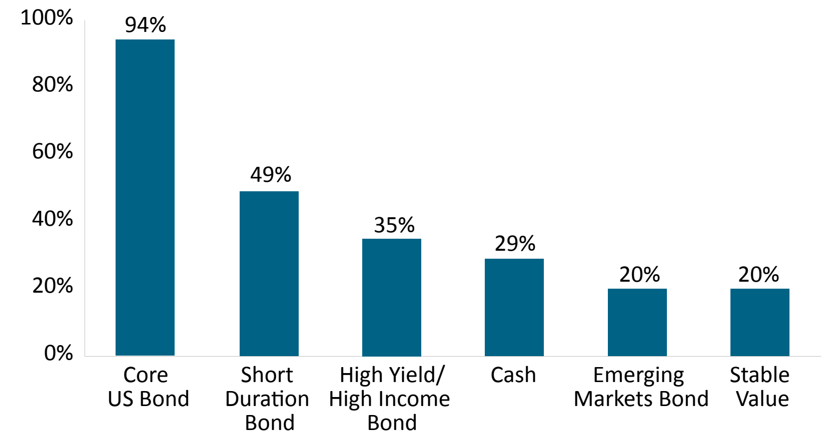


Exhibit 8

Most Prevalent Fixed Income Asset Classes



FIXED INCOME

Twelve asset classes compose DCIIA's fixed income category:

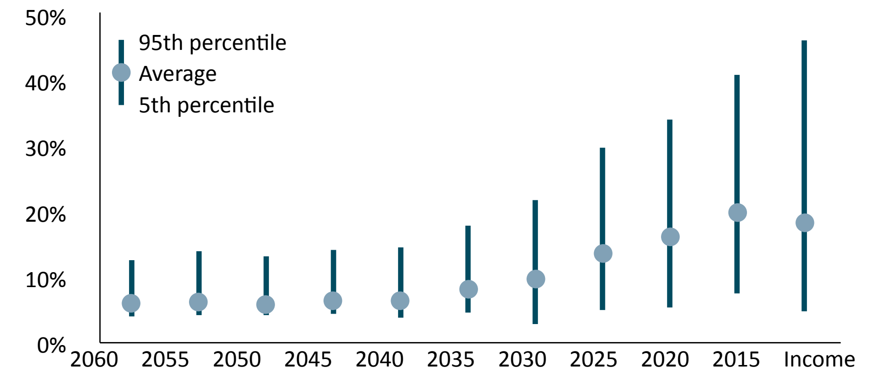
1. Unconstrained Bonds
2. Core (US) Bond
3. Core (Non-US) Bond
4. Global Core (Unhedged) Bond
5. Global Core (Hedged) Bond
6. High-Yield/High-Income Bond
7. Short Duration Bond
8. Long Duration Bond
9. Emerging Markets Bond
10. Cash
11. Stable Value
12. Multi-Asset Credit

INFLATION SENSITIVE ALLOCATIONS IN CUSTOM TDFS

Unlike those for equity and fixed income, the 5th percentile allocations for inflation-sensitive assets were relatively consistent across vintages and showed little range around 4% to 6%. However, the range for the 95th percentile was more pronounced--from 46% for income funds to 14% for 2060 funds. The average allocation to inflation=sensitive assets for income and 2015 funds was approximately 18%, while vintages between 2040 and 2060 hovered around 6%. The custom TDF sample demonstrated consistency in inflation-sensitive exposure among later-dated funds designed for younger plan participants. However, as average allocations to inflation-sensitive asset classes rose, the spread between the 95th and 5th percentile allocations peaked for the retirement allocation fund at 41 percent. **(Exhibit 9)**

Exhibit 9

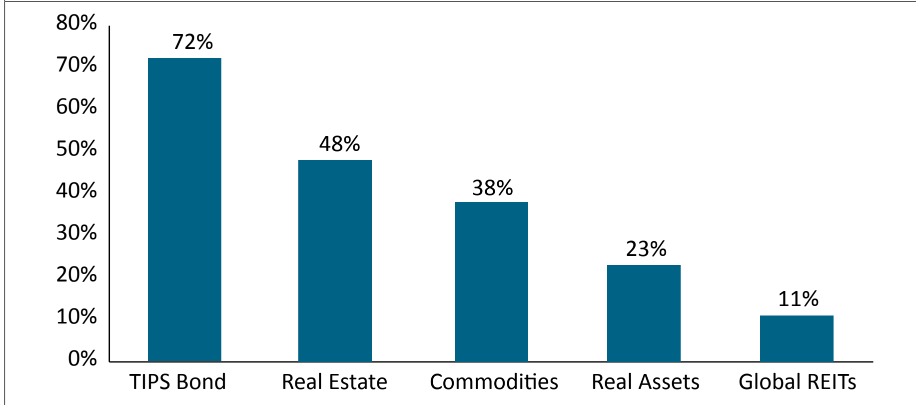
Inflation Sensitive Allocation Spread, 95th and 5th Percentiles



The top five inflation-sensitive asset classes by prevalence are: TIPS bond (72%), real estate (48%), commodities (38%), real assets (23%), and global REITs (11%). The remaining five inflation-sensitive asset classes each had less than 10% prevalence among the plans. (**Exhibit 10**)

Exhibit 10

Most Prevalent Inflation Sensitive Asset Classes



INFLATION SENSITIVE

Ten asset classes compose DCIIA's inflation sensitive category:

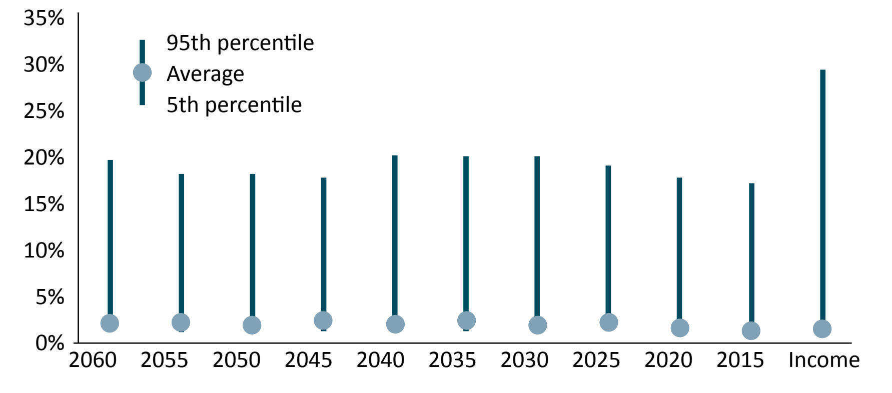
1. Real Estate
2. Commodities
3. Real Assets
4. Infrastructure
5. TIPS Bond
6. Multi-Asset Inflation
7. Private Real Estate
8. Global REITs
9. Emerging Markets TIPS
10. Currency Hedge

DIVERSIFIER ALLOCATIONS IN CUSTOM TDFS

Similar to inflation-sensitive asset classes, the 5th percentile allocations for diversifier assets were relatively consistent across vintages and showed little range around 1%. The allocations to diversifier assets were also consistent in the 95th percentile-- between 17% and 20%--with the exception of income funds, which had a 95th percentile allocation of 30%. The average allocation to diversifiers was 2% across all vintages, but this percentage alone does not capture the high end of the allocations represented by the 95th percentile. **(Exhibit 11)**

Exhibit 11

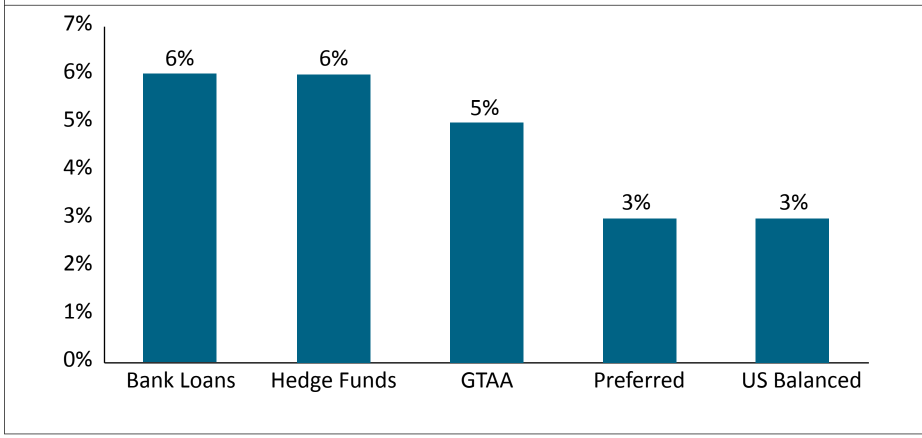
Diversifiers Allocation Spread, 95th and 5th Percentiles



The top five diversifier asset classes by prevalence were: bank loans (6%), hedge funds (6%), GTAA (5%), preferred (3%), and US balanced (3%). The remaining diversifier asset classes each had less than 2.5% prevalence among the plans. **(Exhibit 12)**

Exhibit 12

Most Prevalent Diversifiers Asset Classes



GOING FORWARD

DCIIA is pleased to provide this previously unavailable information and looks forward to the study's evolution over time, such as expanding coverage of the cTDF universe and incorporating other data elements.

For further inquiries on the full coverage of asset classes, please contact DCIIA at info@dciia.org.

DIVERSIFIERS

Nine asset classes compose DCIIA's diversifiers category.

1. Hedge Funds
2. Risk Parity
3. Absolute Return
4. Bank Loans
5. Private Equity
6. Structured Securities
7. Global Tactical Asset Allocation (GTAA)
8. US Balanced
9. Preferred

ABOUT DCIIA

The Defined Contribution Institutional Investment Association (DCIIA) is a non-profit association dedicated to enhancing the retirement security of America's workers. To do this, DCIIA fosters a dialogue among the leaders of the defined contribution community who are passionate about improving defined contribution outcomes. DCIIA's diverse group of members include investment managers, consultants and advisors, law firms, record keepers, insurance companies, plan sponsors and other thought leaders who are collectively committed to the best interests of plan participants.

For more information, visit: www.dciia.org.