Ibbotson Target Maturity Report 3Q 2011

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Volatility remained high during the third quarter due primarily to concerns over slowing economic growth both in the U.S. as well as around the globe. Continuing concerns over the Eurozone weighed heavily on the markets. With global concerns, asset class correlations increased as most equity markets tumbled together during the quarter. Performance highlights (or lows) for the quarter include:

- Almost all target maturity funds had negative returns during the quarter; on average, the 383 target maturity funds (representing 46 unique glide paths or fund families) lost 11.8% during the quarter.
- The end of the third quarter marked the first time since the end of Q2 2009 that the average target maturity fund lost money (-1.4%) in a 12-month period.
- Equity-centric funds struggled during the quarter, while funds with larger allocations to fixed income, especially those with TIPS and without high yield, were able to limit losses as bonds outperformed equities over this period.
- Quarterly asset flows of $6.3 billion into target maturity funds were at their lowest level since the 2008 financial crisis, which is likely partially related to the large-scale movement of mega-plans to custom target maturity solutions and alternative structures, such as collective investment trusts.

In this quarter's report we continue to monitor the target maturity industry by reviewing the performance of retail target maturity funds as well as investigating the drivers of that performance. In addition to providing updates to industry fund flows, there were also some changes to Morningstar target maturity fund analyst ratings which we will discuss. As we continue to witness outperformance by the Morningstar Lifetime Indexes each quarter, we've taken a step back to review the performance of the Indexes over some longer time frames and investigated what's driving this outperformance.

Finally, a free copy of our new research paper, "Selecting a Target Date Benchmark," can be downloaded from www.ibbotson.com/research

Target Maturity Performance Summary

Along with markets around the globe, the performance of target maturity funds continued their downward trend during the third quarter. After finishing the second quarter slightly positive, the average target maturity fund fell sharply with a nearly 12% loss during the quarter. The average return for the Morningstar Lifetime Moderate Index held up slightly better with a decline of 10% during this period. As can typically be expected, these returns fell between those of the S&P 500 and the BarCap U.S. Aggregate Bond Indexes which posted a 13.9% decline and 3.8% increase, respectively as target maturity funds are made up of combinations of equity and fixed income. Over the past 12 months the average return for both target maturity funds and the Morningstar Lifetime Moderate Index were relatively flat with a 1.4% decline and a 1.4% increase, respectively. Again, these returns fall between those of the S&P 500 and BarCap U.S. Aggregate Bond Indexes. As noted above, it was the first time since our Q2 2009 report that the average target maturity fund posted a negative 12-month return.

Table 1: Target Maturity Performance Summary

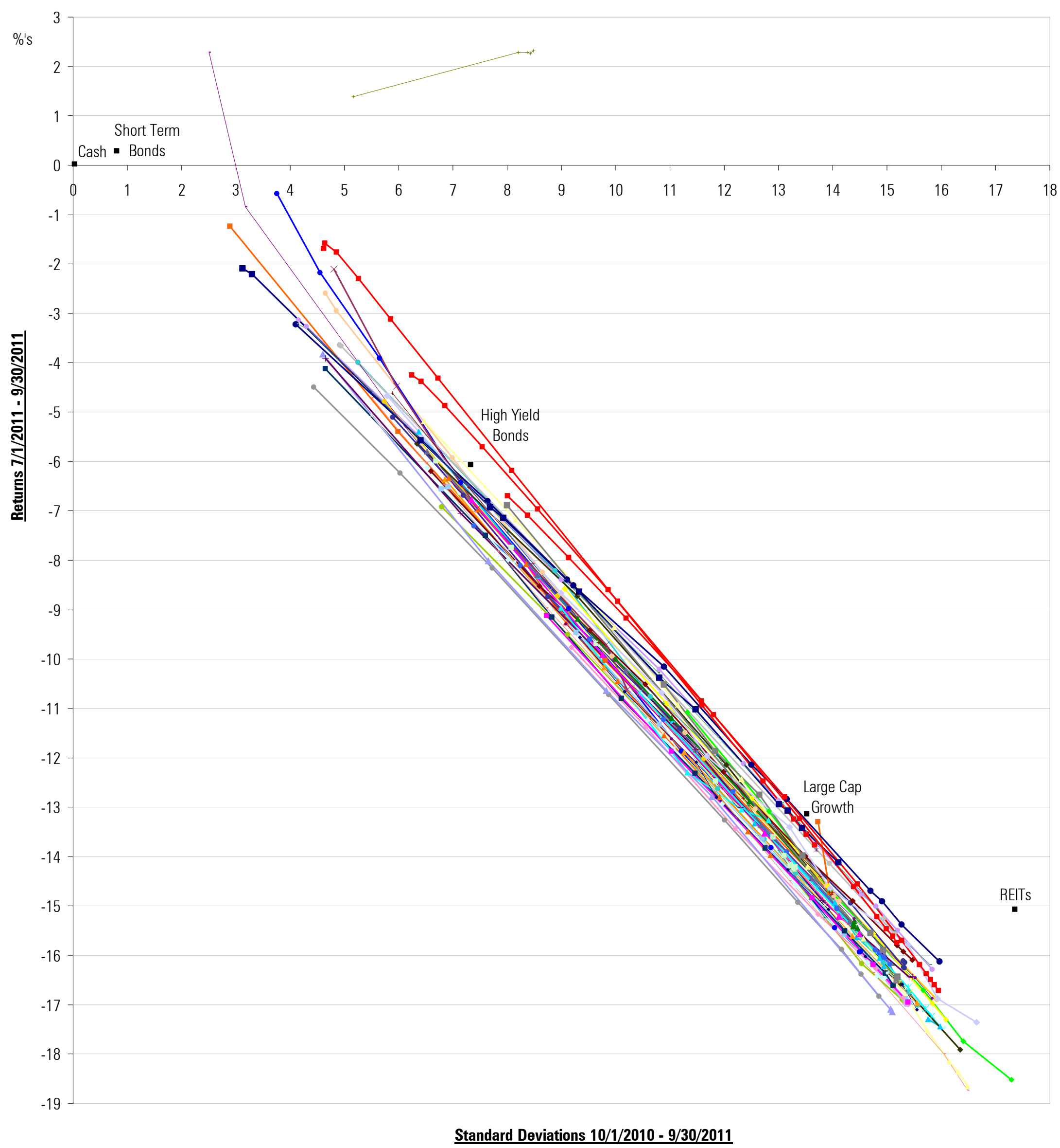
	Q3 Return	12-Month Return
Average Target Maturity Fund*	-11.8%	-1.4 %
Morningstar Lifetime Moderate Index	-10.0%	1.4%
S&P 500 Index	-13.9%	1.1%
BarCap U.S. Aggregate Bond Index	3.8%	5.3%

Source: Ibbotson Associates and Morningstar Direct℠ (see end for important disclosure)
*Average of all open-end target maturity funds that are tracked by Morningstar
Indexes shown are not available for direct investment. Past Performance is not a guarantee of future performance.

Fund Family Performance

The performance of target maturity fund families during the third quarter is summarized in Figure 1. We are now tracking 383 unique target maturity funds with at least a one-year track record representing 46 fund families. The lines in the graph connect funds from the same fund family. Quarterly net returns are plotted on the vertical axis and 12-month standard deviations are plotted along the horizontal axis. Last quarter's report saw downward sloping risk/return lines, although most points remained in positive territory. This quarter we again have downward sloping lines, although now most points are in negative territory as a result of the very poor performance of equity markets. The three Morningstar Lifetime Allocation Indexes, representing conservative, moderate, and aggressive glide paths are displayed along the bolded red lines. For a given level of risk, the Morningstar Lifetime Allocation Indexes held up relatively well.

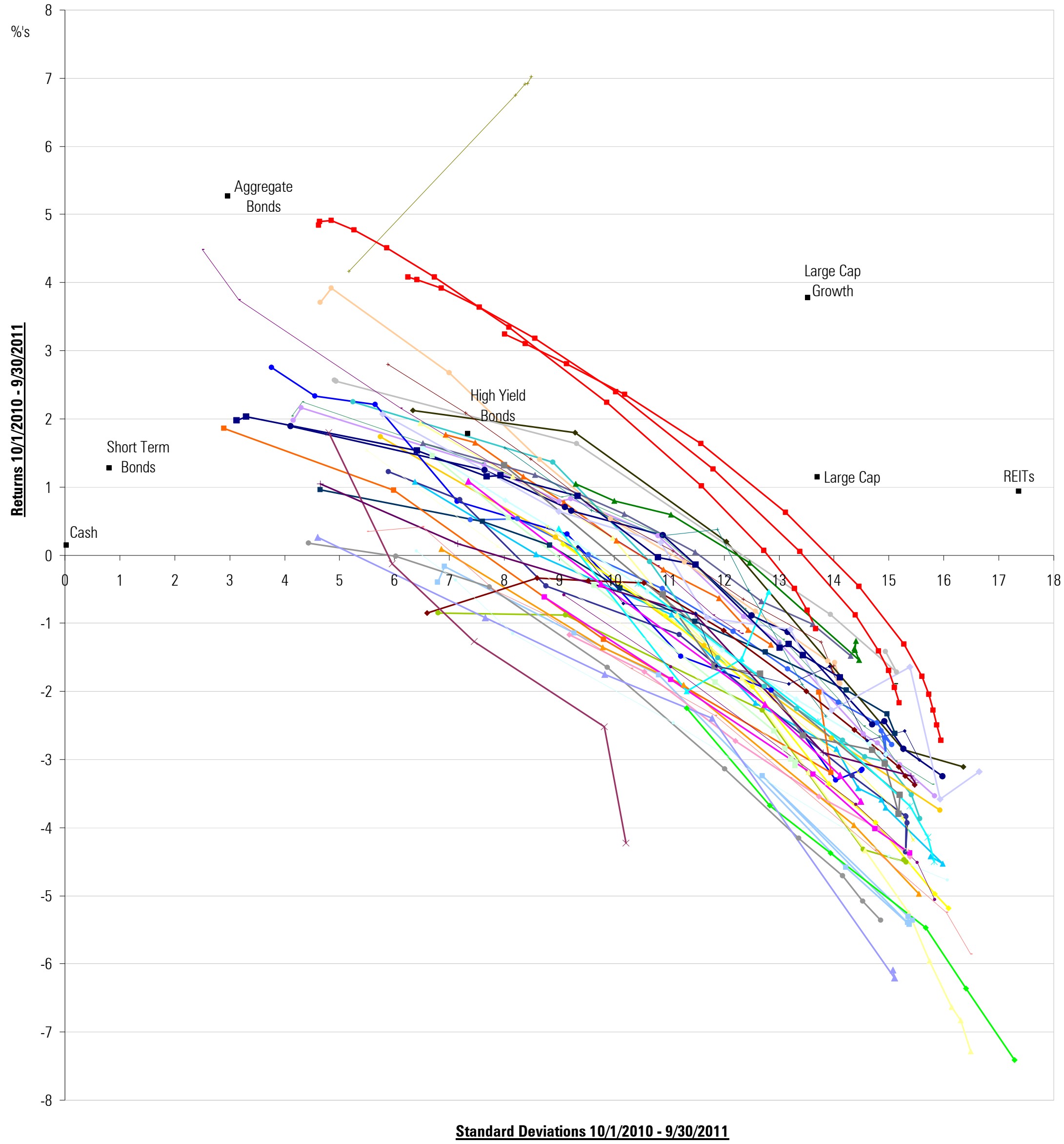
Figure 1: Fund Family Performance – Q3 Return and One-Year Risk Ending 9/30/2011



Source: Ibbotson Associates and Morningstar Direct[SM] (see end for important disclosures)

Similar information is shown in Figure 2, although instead of using net returns during the third quarter we show net returns over the most recent 12 months. Unlike with the risk/return lines during the quarter, there is quite a bit of dispersion among the fund family lines over the past year as the individual intra-equity and intra-fixed income decisions made by fund management had a significant impact on performance. In addition, during this time approximately half of the individual funds had a positive return (those closer to retirement), while funds further from retirement experienced negative returns. The three Morningstar Lifetime Allocation Indexes are again displayed along the bolded red lines.

Figure 2: Fund Family Performance – One-Year Return and One-Year Risk Ending 9/30/2011

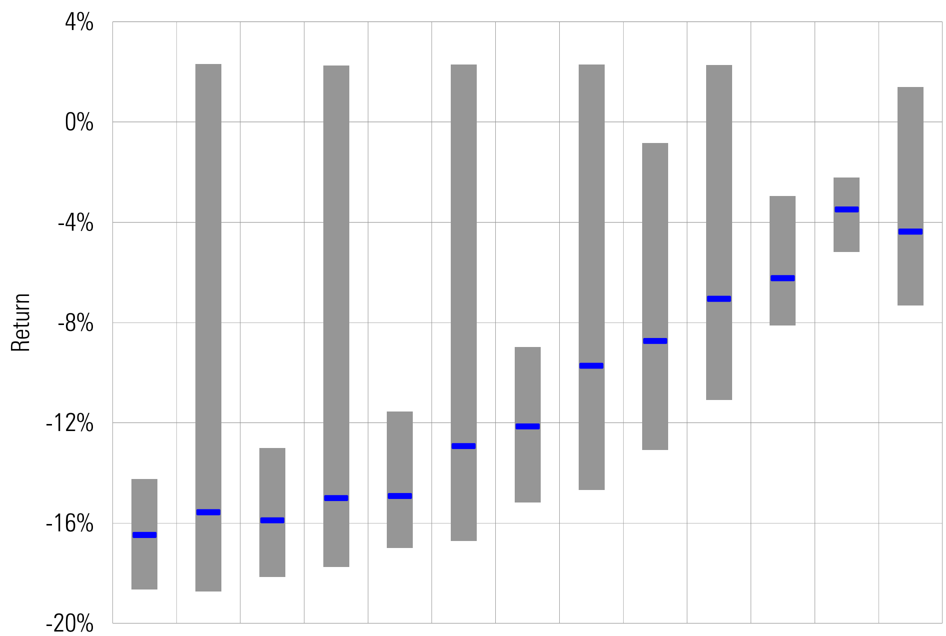


Source: Ibbotson Associates and Morningstar Direct℠ (see end for important disclosures)

Target Maturity Fund Performance

Figure 3 offers performance data relative to each fund's assigned Morningstar category as well as to the Morningstar Lifetime Allocation Moderate Index. The floating gray bars within the chart show the range of quarterly returns for the 13 target maturity fund categories. The blue line within each bar identifies the average fund performance for that category. There are meaningful differences between the best-performing funds ("Max" row within the table below) and the worst-performing funds ("Min" row within the table below) in each category, primarily reflecting the substantial "intra-category" differences in equity exposure. There is an extremely large range of returns for about half of the categories due primarily to the unique tactical strategy of Invesco's Balanced Risk target maturity fund series which allowed these funds to significantly outperform its peers during the quarter. The table also identifies the number of target maturity funds with a minimum return history of one year in each category that outperformed or underperformed the category's corresponding Morningstar Lifetime Moderate Index based on Ibbotson's Lifetime Asset Allocation methodology. For the quarter, the Index outperformed 75% of these funds across the 13 Morningstar categories.

Figure 3: Target Maturity Fund Category Performance Q3 2011



Category	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income
Max	-14.3%	2.3%	-13.0%	2.3%	-11.6%	2.3%	-9.0%	2.3%	-0.8%	2.3%	-2.9%	-2.2%	1.4%
Average	-16.5%	-15.6%	-15.9%	-15.0%	-14.9%	-12.9%	-12.2%	-9.7%	-8.7%	-7.1%	-6.2%	-3.5%	-4.4%
Min	-18.6%	-18.7%	-18.2%	-17.7%	-17.0%	-16.7%	-15.2%	-14.7%	-13.1%	-11.1%	-8.1%	-5.2%	-7.3%
# of Funds (vs. Index)													
Outperformers	3	8	8	11	10	15	7	12	5	3	1	2	11
Underperforms	9	26	27	29	26	25	30	28	34	25	7	2	19
Total	12	34	35	40	36	40	37	40	39	28	8	4	30
Index													
Aggressive	-16.7%	-16.6%	-16.5%	-16.4%	-16.2%	-15.7%	-14.6%	-12.8%	-10.9%	-9.2%	-7.9%	-7.1%	-6.7%
Moderate	-15.7%	-15.6%	-15.5%	-15.2%	-14.6%	-13.2%	-11.1%	-8.8%	-7.0%	-5.7%	-4.9%	-4.4%	-4.3%
Conservative	-13.8%	-13.5%	-13.2%	-12.5%	-10.9%	-8.6%	-6.2%	-4.3%	-3.1%	-2.3%	-1.8%	-1.6%	-1.7%

Source: Ibbotson Associates and Morningstar, Inc. (see end for important disclosures)

Since we started producing the "Target Maturity Fund Category Performance" graph and table shown above in Figure 3, we have noticed that each quarter the Morningstar Lifetime Moderate Index seems to outperform a strikingly high percentage of target maturity funds with at least a one year track record. Thus, we expanded this analysis for the most recent 1-year, 3-year, and 5-year periods through the end of the third quarter. The results are shown in Table 2.

The top panel of Table 2 shows the results based on return, while the middle and bottom panels show the results for standard deviation and Sharpe Ratio, respectively. Over 1 year, 3 years, and 5 years, the Index outperformed 95%, 88%, and 97% of retail target maturity funds during these respective time periods. The besting of the Index over the funds should be viewed through the risk lens as well to ensure that this outperformance is not due to taking on significantly higher (or lower) levels of risk than the funds. For the comparison, a fund was deemed to have outperformed if it had a lower realized standard deviation than the Index. In this comparison, slightly less than 50% of the funds had a lower standard deviation than the Morningstar Lifetime Moderate Index. As the table shows, the level of standard deviation falls near middle. Combining these metrics gives us the Sharpe Ratio where the Index outperformed 96%, 85%, and 96% of the funds over the three measured time periods (1-year, 3-year, and 5-year). The comparison based on Sharpe Ratio is arguably the most important as it's a measure of risk-adjusted return.

Presumably, a large portion of this outperformance was the result of fees. The average target maturity fund net expense ratio is 89 basis points while there are no fees associated with the Index. Thus we repeated this analysis using gross of fee fund returns in Table 3. Even after adjusting for fees the results still overwhelming show drastic outperformance by the Index. Looking first at gross return, over the 1-, 3- and 5-year periods, the Index outperformed 95%, 82%, and 90% of target maturity funds over these periods, respectively. While we would like to attribute this stellar performance to the superiority of Ibbotson's asset allocation capabilities, we must defer a detailed attribution analysis to a future report.

Table 2: Net Returns – Performance Relative to Morningstar Lifetime Moderate Index

Net Return														
1-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Outperformers	1	5	5	3	1	1	0	0	0	0	1	0	0	17
Underperforms	10	29	29	37	34	39	36	40	38	28	7	4	28	359
Total	11	34	34	40	35	40	36	40	38	28	8	4	28	376
3-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Outperformers	1	2	3	4	4	3	2	1	2	2	0	0	8	32
Underperforms	2	24	18	29	19	31	22	33	24	21	6	2	15	246
Total	3	26	21	33	23	34	24	34	26	23	6	2	23	278
5-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Outperformers	0	0	1	0	2	0	0	0	0	1	0	0	1	5
Underperforms	0	5	8	19	9	21	11	21	13	14	5	2	14	142
Total	0	5	9	19	11	21	11	21	13	15	5	2	15	147
Standard Deviation														
1-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Funds with Greater SD	6	16	18	23	21	27	20	22	16	12	4	3	19	207
Funds with Less SD	5	18	16	17	14	13	16	18	22	16	4	1	9	169
Total	11	34	34	40	35	40	36	40	38	28	8	4	28	376
3-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Funds with Greater SD	2	13	11	19	15	23	15	19	8	10	1	1	11	148
Funds with Less SD	1	13	10	14	8	11	9	15	18	13	5	1	12	130
Total	3	26	21	33	23	34	24	34	26	23	6	2	23	278
5-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Funds with Greater SD	0	2	6	12	8	13	8	12	4	6	1	1	7	80
Funds with Less SD	0	3	3	7	3	8	3	9	9	9	4	1	8	67
Total	0	5	9	19	11	21	11	21	13	15	5	2	15	147
Sharpe Ratio														
1-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Outperformers	1	3	4	1	1	0	0	0	1	2	1	0	2	16
Underperforms	10	31	30	39	34	40	36	40	37	26	7	4	26	360
Total	11	34	34	40	35	40	36	40	38	28	8	4	28	376
3-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Outperformers	1	2	3	4	4	3	3	3	3	4	1	1	10	42
Underperforms	2	24	18	29	19	31	21	31	23	19	5	1	13	236
Total	3	26	21	33	23	34	24	34	26	23	6	2	23	278
5-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Outperformers	0	0	1	0	1	0	0	0	0	1	0	0	3	6
Underperforms	0	5	8	19	10	21	11	21	13	14	5	2	12	141
Total	0	5	9	19	11	21	11	21	13	15	5	2	15	147

Table 3: Gross Returns – Performance Relative to Morningstar Lifetime Moderate Index

Gross Return														
1-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Outperformers	1	6	5	3	2	2	0	0	0	0	1	0	0	20
Underperforms	10	28	29	37	33	38	36	40	38	28	7	4	28	356
Total	11	34	34	40	35	40	36	40	38	28	8	4	28	376
3-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Outperformers	1	4	4	7	5	5	3	3	3	4	0	0	11	50
Underperforms	2	22	17	26	18	29	21	31	23	19	6	2	12	228
Total	3	26	21	33	23	34	24	34	26	23	6	2	23	278
5-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Outperformers	0	0	2	1	2	1	2	1	1	2	0	0	2	14
Underperforms	0	5	7	18	9	20	9	20	12	13	5	2	13	133
Total	0	5	9	19	11	21	11	21	13	15	5	2	15	147
Standard Deviation														
1-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Funds with Greater SD	6	16	18	23	21	27	20	22	16	12	4	3	19	207
Funds with Less SD	5	18	16	17	14	13	16	18	22	16	4	1	9	169
Total	11	34	34	40	35	40	36	40	38	28	8	4	28	376
3-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Funds with Greater SD	2	13	11	19	15	23	15	19	8	10	1	1	11	148
Funds with Less SD	1	13	10	14	8	11	9	15	18	13	5	1	12	130
Total	3	26	21	33	23	34	24	34	26	23	6	2	23	278
5-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Funds with Greater SD	0	2	6	12	8	13	8	12	4	6	1	1	7	80
Funds with Less SD	0	3	3	7	3	8	3	9	9	9	4	1	8	67
Total	0	5	9	19	11	21	11	21	13	15	5	2	15	147
Sharpe Ratio														
1-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Outperformers	1	3	4	1	1	0	0	0	1	2	1	0	2	16
Underperforms	10	31	30	39	34	40	36	40	37	26	7	4	26	360
Total	11	34	34	40	35	40	36	40	38	28	8	4	28	376
3-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Outperformers	1	2	3	4	4	3	3	3	3	4	1	1	10	42
Underperforms	2	24	18	29	19	31	21	31	23	19	5	1	13	236
Total	3	26	21	33	23	34	24	34	26	23	6	2	23	278
5-Year ending Q3-2011	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income	Totals
Outperformers	0	0	1	0	1	0	0	0	0	1	0	0	3	6
Underperforms	0	5	8	19	10	21	11	21	13	14	5	2	12	141
Total	0	5	9	19	11	21	11	21	13	15	5	2	15	147

Asset Class Performance

Quarterly performance for some of the most common asset classes that comprise target maturity funds are displayed in Table 4. This data allows us to determine which asset classes were the primary drivers and detractors from performance during the third quarter.

Table 4: Asset Class Performance – Q3 2011

Asset Class	Q3 2011 Return	12-Month Standard Deviation
U.S. Large Growth Equity	-13.1%	13.5%
U.S. Large Value Equity	-16.2%	15.1%
U.S. Small Growth Equity	-22.3%	20.5%
U.S. Small Value Equity	-21.5%	19.2%
Non-U.S. Developed Equity	-19.0%	19.2%
Emerging Market Equity	-22.5%	20.9%
Real Estate	-15.1%	17.4%
Commodities (Futures)	-11.3%	21.8%
High-Yield Bonds	-6.1%	7.3%
U.S. Aggregate Bonds	3.8%	3.0%
U.S. Short-Term Bonds	0.3%	0.8%
TIPS	4.5%	5.7%
Cash	0.0%	0.0%

Source: Ibbotson Associates and Morningstar Direct[SM]
Indexes shown are not available for direct investment. Past Performance is not a guarantee of future performance.

During the quarter, all of the equity asset classes experienced double-digit losses. The higher-risk asset classes, such as U.S. small cap equity and emerging markets equity, were the worst performers with declines of more than 20%. U.S. large cap equity outperformed non-U.S. equity and U.S. small cap equity. As has been the trend in recent quarters, growth outperformed value which rewarded those target maturity funds with a growth bias. Although they also had negative returns, alternatives such as REITs and commodities did provide some diversification benefit over this period as they were two of the top-three non-fixed income performers.

Among the fixed income asset classes, TIPS was the top performer with a 4.5% return, followed by U.S. aggregate bonds returning 3.8%. Shorter-duration fixed income asset classes such as U.S. short-term bonds and cash had slightly positive returns. On the flip side, high-yield bonds, which tend to swoon with equities, detracted from performance with a 6.1% loss.

Table 5 displays asset class returns and standard deviations for the past 12 months.

Table 5: Asset Class Performance – 9/30/2011 Trailing 12 Months

Asset Class	12-Month Return	12-Month Standard Deviation
U.S. Large Growth Equity	3.8%	13.5%
U.S. Large Value Equity	-1.9%	15.1%
U.S. Small Growth Equity	-1.1%	20.5%
U.S. Small Value Equity	-6.0%	19.2%
Non-U.S. Developed Equity	-8.9%	19.2%
Emerging Market Equity	-15.9%	20.9%
Real Estate	0.9%	17.4%
Commodities (Futures)	0.0%	21.8%
High-Yield Bonds	1.8%	7.3%
U.S. Aggregate Bonds	5.3%	3.0%
U.S. Short-Term Bonds	1.3%	0.8%
TIPS	9.9%	5.7%
Cash	0.1%	0.0%

Source: Ibbotson Associates and Morningstar Direct℠
Indexes shown are not available for direct investment. Past Performance is not a guarantee of future performance.

Over the past 12 months, significant return differences among the various asset classes resulted in the higher than usual performance differences among target maturity funds as observed earlier in Figure 2. Within equities, returns ranged from a 15.9% loss for emerging markets equity to positive 3.8% for U.S. large-cap growth. Non-U.S. equity declined 8.9%, which was the second-worst performing asset class over this period. Despite returns near zero, there was a benefit to allocating to the commodity and REIT alternative asset classes as they had slightly positive returns over this time while almost all traditional equity asset classes lost money. The past year also rewarded allocations to U.S. growth over U.S. value and to U.S. large cap over U.S. small cap. With the exception of U.S. small-cap growth relative to U.S. small-cap value, these asset classes achieved superior returns while providing less risk as represented by standard deviation,.

Target maturity funds closer to retirement tended to be the best performers over the last year due to the strong and steady performance of fixed income. Each of the fixed-income asset classes listed in Table 5 had a positive return with the biggest winners being TIPS with a stellar 9.9% return and U.S. aggregate bonds with a 5.3% return. High-yield bonds had a return just shy of 2% while U.S. short-term bonds and cash had returns of 1.3% and 0.1%, respectively.

Morningstar Lifetime Allocation Indexes

Table 6 presents the performance figures for the complete Morningstar Lifetime Allocation Index family, which is based on Ibbotson's Lifetime Asset Allocation methodology. Returns for all of the Indexes were negative during the past month and quarter due to the asset class underperformance discussed above. As the time horizon increases performance generally improves, particularly during the past 3- and 5-year ranges. Interestingly, over the past 5 years the Indexes closest to, and even into retirement, outperformed those further from retirement as fixed income has generally outperformed equities over this period.

Table 6: Morningstar Lifetime Allocation Indexes

(As of 9/30/2011; multiyear periods annualized)	1 Month	3 Month	1 Year	3 Year	5 Year
Income					
Conservative Income	-2.5%	-1.7%	4.8%	6.0%	5.4%
Moderate Income	-3.6%	-4.3%	4.1%	5.6%	4.7%
Aggressive Income	-4.6%	-6.7%	3.2%	5.1%	3.9%
2000					
Conservative 2000	-2.5%	-1.6%	4.9%	6.4%	5.5%
Moderate 2000	-3.6%	-4.4%	4.0%	5.9%	4.7%
Aggressive 2000	-4.8%	-7.1%	3.1%	5.2%	3.7%
2005					
Conservative 2005	-2.6%	-1.8%	4.9%	6.7%	5.6%
Moderate 2005	-3.8%	-4.9%	3.9%	6.0%	4.6%
Aggressive 2005	-5.2%	-7.9%	2.8%	5.1%	3.4%
2010					
Conservative 2010	-2.8%	-2.3%	4.8%	6.9%	5.5%
Moderate 2010	-4.2%	-5.7%	3.6%	6.0%	4.3%
Aggressive 2010	-5.7%	-9.2%	2.4%	4.8%	3.0%
2015					
Conservative 2015	-3.1%	-3.1%	4.5%	7.0%	5.3%
Moderate 2015	-4.8%	-7.0%	3.2%	5.8%	3.9%
Aggressive 2015	-6.5%	-10.9%	1.6%	4.3%	2.3%
2020					
Conservative 2020	-3.6%	-4.3%	4.1%	6.8%	4.9%
Moderate 2020	-5.6%	-8.8%	2.4%	5.2%	3.1%
Aggressive 2020	-7.4%	-12.8%	0.6%	3.6%	1.5%
2025					
Conservative 2025	-4.4%	-6.2%	3.3%	6.4%	4.3%
Moderate 2025	-6.6%	-11.1%	1.3%	4.4%	2.3%
Aggressive 2025	-8.2%	-14.6%	-0.5%	2.9%	0.9%
2030					
Conservative 2030	-5.5%	-8.6%	2.2%	5.7%	3.4%
Moderate 2030	-7.6%	-13.2%	0.1%	3.7%	1.5%
Aggressive 2030	-8.8%	-15.7%	-1.3%	2.5%	0.5%
2035					
Conservative 2035	-6.6%	-10.9%	1.0%	4.9%	2.6%
Moderate 2035	-8.3%	-14.6%	-0.9%	3.2%	1.1%
Aggressive 2035	-9.1%	-16.2%	-1.8%	2.4%	0.4%
2040					
Conservative 2040	-7.3%	-12.5%	0.1%	4.4%	2.2%
Moderate 2040	-8.6%	-15.2%	-1.4%	3.1%	1.0%
Aggressive 2040	-9.2%	-16.4%	-2.0%	2.4%	0.4%
2045					
Conservative 2045	-7.7%	-13.2%	-0.5%	4.2%	2.0%
Moderate 2045	-8.8%	-15.5%	-1.7%	3.1%	1.0%
Aggressive 2045	-9.3%	-16.5%	-2.3%	2.5%	0.5%
2050					
Conservative 2050	-7.9%	-13.5%	-0.8%	4.2%	2.0%
Moderate 2050	-8.9%	-15.6%	-1.9%	3.1%	1.0%
Aggressive 2050	-9.3%	-16.6%	-2.5%	2.5%	0.5%
2055					
Conservative 2055	-8.0%	-13.8%	-1.1%	4.2%	2.0%
Moderate 2055	-8.9%	-15.7%	-2.2%	3.1%	1.0%
Aggressive 2055	-9.4%	-16.7%	-2.7%	2.5%	0.5%

Source: Ibbotson Associates and Morningstar Direct[SM]
Indexes shown are not available for direct investment. Past Performance is not a guarantee of future performance.

Fund Flows

In the second quarter, net flows into target maturity funds declined by 34% to $10.9 billion as compared to the first quarter. That slowdown in fund inflows continued in the third quarter where only $6.3 billion, flowed into target maturity funds, a further decline of 42% from the second quarter. In fact, this was the lowest net flow into retail target maturity since Q4 2008. The Fidelity Freedom Funds took the brunt of this drop off of new monies. During the previous four quarters Fidelity Freedom Funds experienced an average inflow of more than $3 billion per quarter, but the flow during the third quarter was approximately $115 million. The next two largest target maturity fund families, Vanguard and T. Rowe Price, were off relative to previous quarters, yet both fund families gathered more than $1.6 billion each. JP Morgan and Mainstay's target maturity series also had strong quarters with organic growth rates (defined as net flows divided by beginning net assets) of 15.4% and 14.1%, respectively.

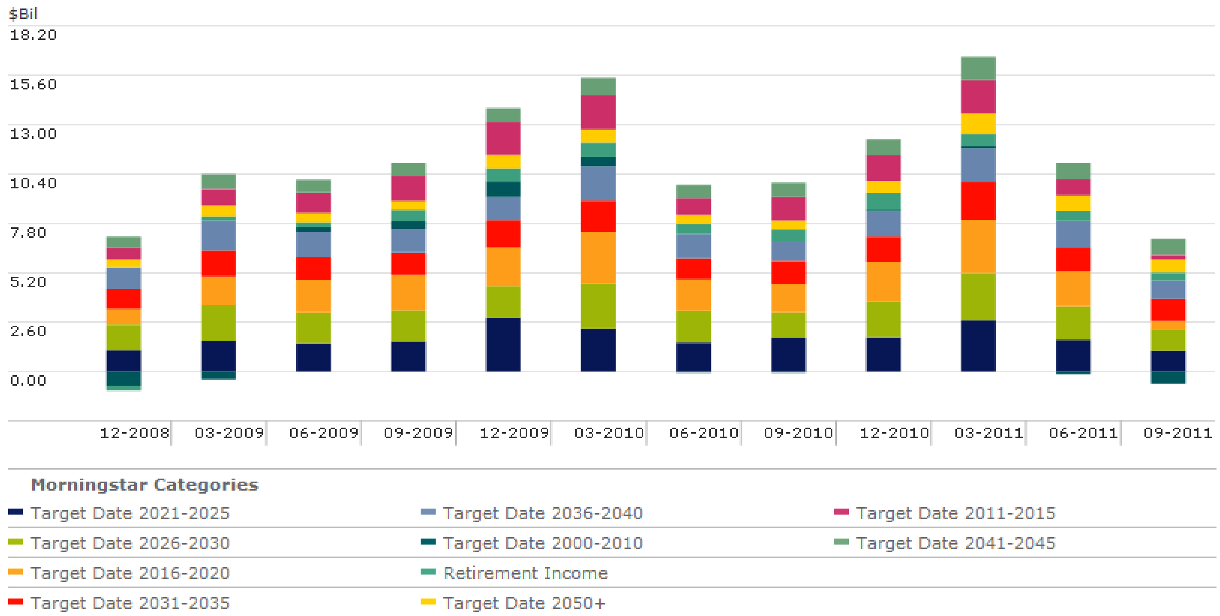
Total assets in target maturity funds dropped by more than 10% during the quarter which is not that surprising given the flow data and that the average target maturity declined by nearly 12% during the quarter. The fund providers with the largest percent decline in net target maturity assets were Goldman Sachs, AllianceBernstein, and Putnam. PIMCO had the largest percentage increase in net assets by a wide margin with a nearly 18% increase from the second quarter.

Table 7: Target Maturity Fund Flows Q3 2011

	Asset Under Management ($Mil)		**Estimated Net Flow ($Mil)**	
Target Date	End Q2 2011	End Q3 2011	Q2 2011	Q3 2011
Income	17,265	16,943	527	421
2000-2010	36,924	33,602	(133)	(650)
2011-2015	43,873	40,215	838	239
2016-2020	74,323	66,781	1,839	436
2021-2025	51,496	46,241	1,681	1,089
2026-2030	59,371	52,406	1,794	1,150
2031-2035	34,921	30,792	1,258	1,171
2036-2040	38,511	33,480	1,371	967
2041-2045	16,861	15,034	862	841
2050+	11,207	10,062	823	682
Total	**384,751**	**345,555**	**10,861**	**6,347**

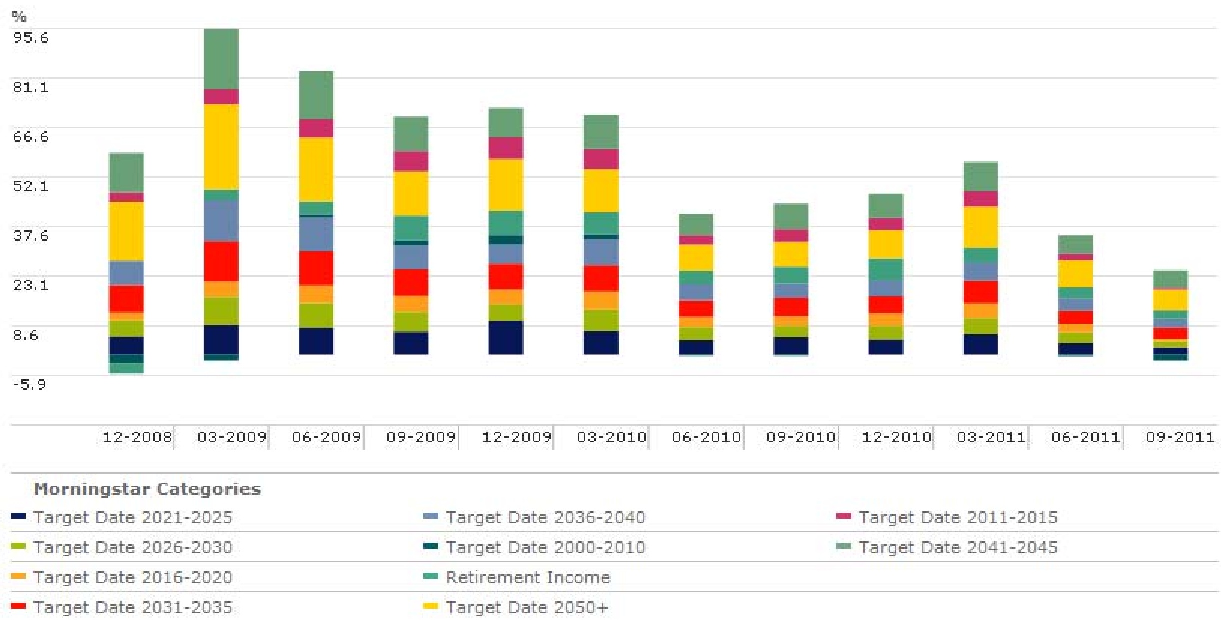
Source: Morningstar Direct[SM]

Figure 4: Quarterly Estimated Net Flows by Morningstar Category as of 9/30/2011



Source: Morningstar Direct[SM]

Figure 5: Quarterly Organic Growth Rate as of 9/30/2011



Source: Morningstar Direct[SM]

Fund Family Ratings and Research Reports

Morningstar's mutual fund research team's target maturity fund series ratings as of 6/30/2011 are summarized in Table 8. This table reflects the 22 largest target maturity fund series tracked by Morningstar's fund analysts.

There were two changes that occurred since our previous report. The first was a downgrade of Schwab's target date series from "Average" to "Below Average" due to a change in management and the lack of a clear, long-term succession plan. The second was a downgrade of DWS from "Below Average" to "Bottom." This downgrade was due continued underperformance by the underlying funds as well as turnover of management in many of these underlying funds.

Table 8: Overall Ratings Summary as of 6/30/2011

Top	*Above Average*	*Average*	*Below Average*	*Bottom*
American Funds	American Century	BlackRock	Putnam	AllianceBernstein
JP Morgan	TIAA-CREF	Fidelity	Schwab	DWS
T. Rowe Price	Vantagepoint	Fidelity Advisor	State Farm	Oppenheimer
Vanguard	Wells Fargo	ING Solution		
		John Hancock		
		MassMutual		
		MFS		
		Principal		

Source: Morningstar

The Morningstar Target Maturity Fund Series Ratings and Research Reports are available in Morningstar Principia®, Morningstar Advisor Workstation℠, Morningstar Direct℠, Morningstar Office®, Morningstar Site Builder℠, and through licensed data feeds. Morningstar.com, the company's website for individual investors, publishes the ratings and an abbreviated version of the report.

For additional information about Morningstar's target maturity fund evaluation and rating methodology, please visit http://global.morningstar.com/TargetDateReports.

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Unless specifically noted, the performance data shown are net of administrative, management, and other on-going fees, but do not account for sales or transaction charges. Returns may be substantially less from the returns shown. The performance data shown represents past performance. Past performance does not guarantee future results. The above commentary is for informational purposes only and should not be viewed as an offer to buy or sell a particular security. The data and/or information noted are from what we believe to be reliable sources, however Ibbotson has no control over the means or methods used to collect the data/information and therefore cannot guarantee their accuracy or completeness. The opinions and estimates noted herein are accurate as of a certain date and are subject to change. The indices referenced are unmanaged and cannot be invested in directly.

This commentary may contain forward-looking statements, which reflect our current expectations or forecasts of future events. Forward-looking statements are inherently subject to, among other things, risks, uncertainties and assumptions which could cause actual events, results, performance or prospects to differ materiality from those expressed in, or implied by, these forward-looking statements. The forward-looking information contained in this commentary is as of the date of this report and subject to change. There should not be an expectation that such information will in all circumstances be updated, supplemented or revised whether as a result of new information, changing circumstances, future events or otherwise.

Appendix: Index Definition
Morningstar Lifetime Allocation Indexes are a family of multi-asset class target maturity indices available in three risk tracks: Aggressive, Moderate, and Conservative. Each risk track consists of 13 indices ranging from a 2055 index to an income index. The glide paths and strategic asset allocations of the indices is based on Ibbotson's Lifetime Asset Allocation methodology. Security selection for each sub-asset class in the index family is provided by a matching Morningstar market index.

Standard & Poor's 500 Index: Market-capitalization-weighted index of 500 widely held stocks. Member companies are chosen based on market size, liquidity, and industry group representation. Included are the stocks of industrial, financial, utility, and transportation companies.

Barclays Capital US Aggregate Bond Index – Broad-based benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM passthroughs), ABS, and CMBS.

BofA Merrill Lynch US 3-Month Treasury Bill - Comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury Bill that matures closest to, but not beyond, three months from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. While the index will often hold the Treasury Bill issued at the most recent 3-month auction, it is also possible for a seasoned 6-month Bill to be selected.

Barclays Capital Global Inflation Linked US TIPS Index – Includes securities which offer the potential for protection against inflation as their cash flows are linked to an underlying inflation index. The index represents a standalone multi-currency index exposed to the real yield curve for each relevant currency.

Barclays Capital US 1-3 Year Government/Credit Bond Index – An unmanaged market value weighted performance benchmark for government and corporate fixed-rate debt issues with maturities between one and three years.

Barclays Capital US Corporate High Yield Index – Covers the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below.

DJ-UBS Commodity Index – A broadly diversified index composed of futures contracts on physical commodities traded on U.S. exchanges, with the exception of aluminum, nickel and zinc, which trade on the London Metal Exchange (LME).

FTSE NAREIT Equity REITs Index – Spans the commercial real estate space across the US economy. The index series provides investors with exposure to all investment and property sectors.

MSCI EAFE Index – Measures international performance and comprises 21 MSCI country indices, representing the developed markets outside of North America: Europe, Australia and the Far East.

MSCI Emerging Markets Index – A market capitalization weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin.

Russell 1000 Growth Index – Measures the performance of the 1,000 largest companies in the Russell 3000 Index, with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index – Measures the performance of the 1,000 largest companies in the Russell 3000 Index with lower price-to-book ratios and lower forecasted growth values.

Russell 2000 Growth Index – Measures the performance of the 2,000 smallest companies in the Russell 3000 Index with higher price-to-book ratios and higher forecasted growth values.

Russell 2000 Value Index – Measures the performance of the 2,000 smallest companies in the Russell 3000 Index with lower price-to-book ratios and lower forecasted growth values.