

Ibbotson Target Maturity Report Q2 2010



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Global equity markets stumbled during the second quarter; therefore, target maturity funds saw returns suffer as most target maturity funds, including those in or near retirement, hold a significant portion in equities. There was nowhere to hide within the equity space as both non-U.S. developed markets and U.S. markets tallied dismal returns, losing more than negative 10%. Because most major equity markets experienced negative returns during the quarter, the returns of target maturity funds within the same peer group are clustered together as shown in this quarter's Risk-Return graph.

Upon reviewing the performance of both global markets and target maturity funds over the quarter, we take a look at the impact on performance of individual asset classes to determine which ones helped or hurt fund performance the most in this quarter's report. Additionally, we continue to review the performance of the Morningstar Lifetime Allocation target maturity indices. Finally, after many quarters of consistent and increasing positive flows into target maturity funds, we discuss the significant slowdown of asset flows during the second quarter.



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Target Maturity Performance Summary

The average target maturity fund had a negative return for the first time in five quarters. Although on average value was destroyed during the quarter, the negative 7.6% average target maturity fund return in the second quarter was notably better than the negative 11.4% return of the S&P 500 Index due to the diversification target maturity funds typically have. The weighted-average return of the 13 indices that collectively form the Morningstar Lifetime Moderate Index family¹ was negative 7.3%, slightly better than the average target maturity fund. For each of the three measures shown in Table 1, the performance over the past 12 months ending June 30, 2010 tells a different story with positive double-digit returns for each metric. Over this period the average target maturity fund underperformed the Morningstar Lifetime Moderate Index by nearly 1% and underperformed the S&P 500 by 1.5%.

Table 1: Target Maturity Performance Summary

	Q2 Return	12-Month Return
Average Target Maturity Fund	-7.6%	12.9%
Morningstar Lifetime Moderate Index	-7.3%	13.8%
S&P 500 Index	-11.4%	14.4%

¹ Ibbotson Associates creates the glide paths and asset allocations for the 39 indexes that form the Morningstar Lifetime Allocation Index family using our Lifetime Asset Allocation framework. The weighted average return presented here for the Morningstar Lifetime Moderate Index is based on the number of funds currently in each of the 13 respective date-based categories, 2055 to Income.

Fund Family Performance

The performance of target maturity fund families during the second quarter is summarized in Figure 1. We are now tracking 334 unique target maturity funds with at least a one-year track record representing 43 fund families. The lines in the graph connect funds from the same fund family. The majority of fund families experienced returns that were similar to their peers, more so than in recent quarters due to the similar performance of most U.S. equity asset classes. This can be seen by the cluster of fund family lines within the graph. This quarter also saw a reversal of upward-sloping risk-return lines to downward-sloping risk-return lines, as equity markets around the world experienced negative returns. Funds with greater allocations to fixed income were the best performers, although nearly all funds experienced negative returns for the quarter. The three Morningstar Lifetime Allocation indexes, representing conservative, moderate, and aggressive glidepaths, are displayed in red with red squares.

Figure 1: Fund Family Performance – Q2 Return and One-Year Risk Ending 6/30/2010

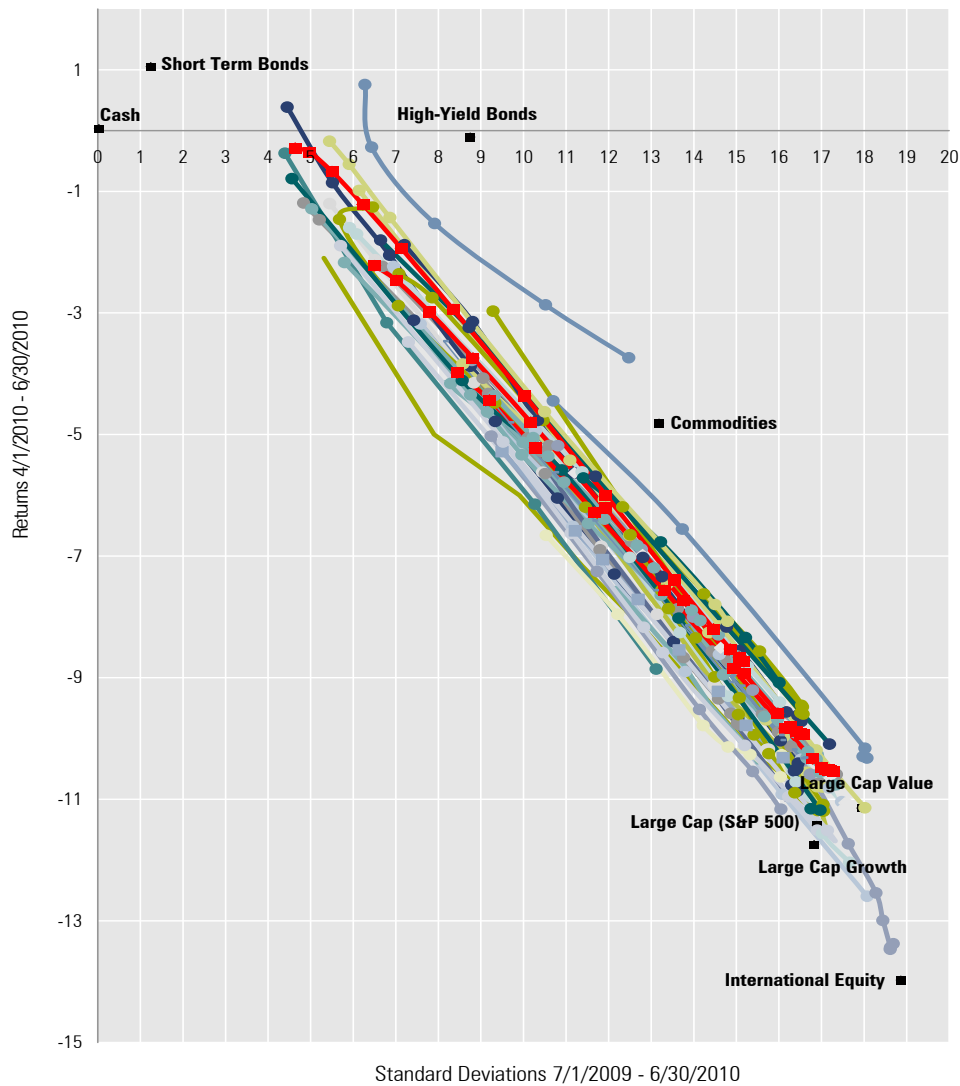
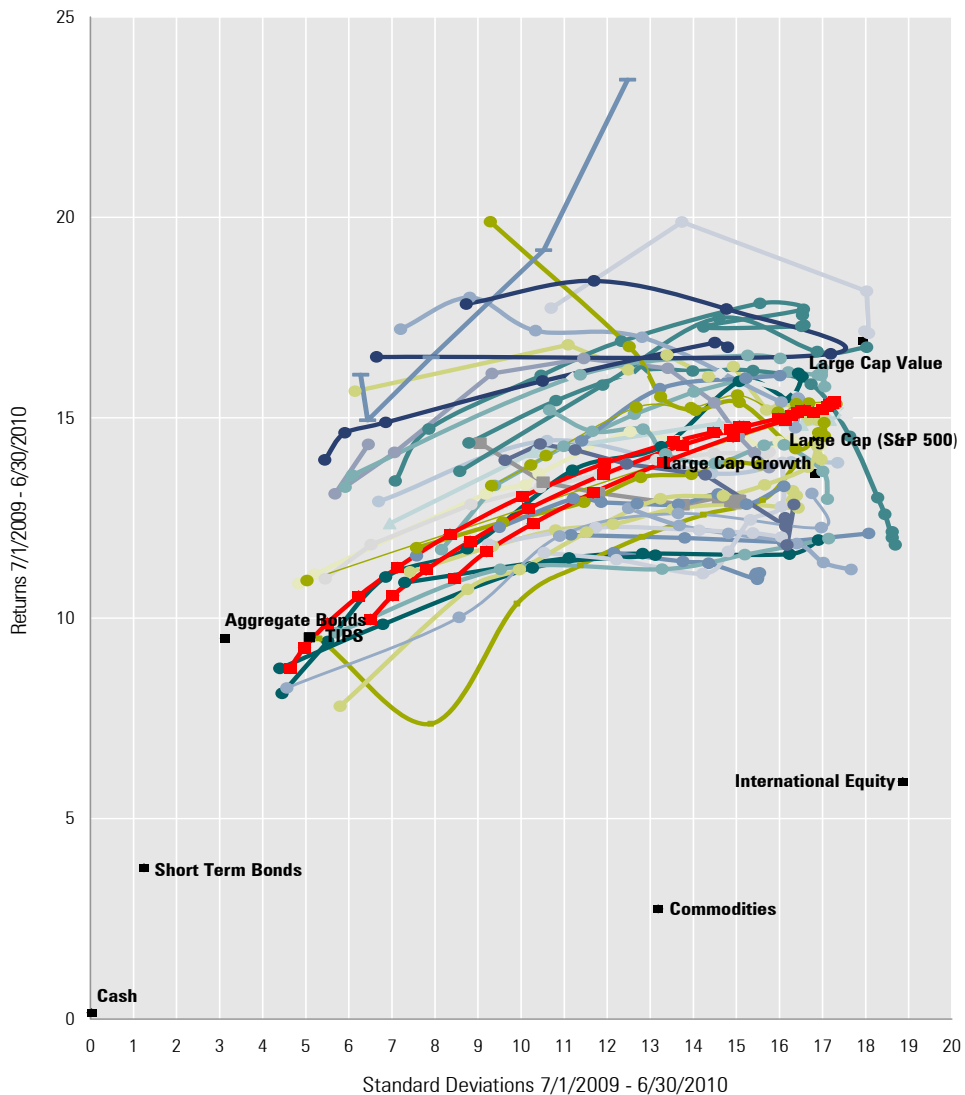


Figure 2 provides a similar look at the target maturity funds with at least a one-year track record, although instead of using returns during the last quarter, returns over the last 12 months were used. A very different story is shown as the majority of funds have experienced positive returns in three of the last four quarters and in aggregate over the past year. A large dispersion of returns for funds with similar risk characteristics can be seen over the last 12 months, which is different than has typically been seen in past periods. For example, funds with a standard deviation of approximately 14% had returns range from just over 10% to nearly 20%, highlighting the importance of the intra-stock and intra-bond asset allocation decisions each fund must make. All fund returns were positive over the 12-month period, although some lines are upward-sloping while others are downward-sloping, which also shows the importance of the asset allocation decision. The three Morningstar Lifetime Allocation indexes are again indicated with red squares.

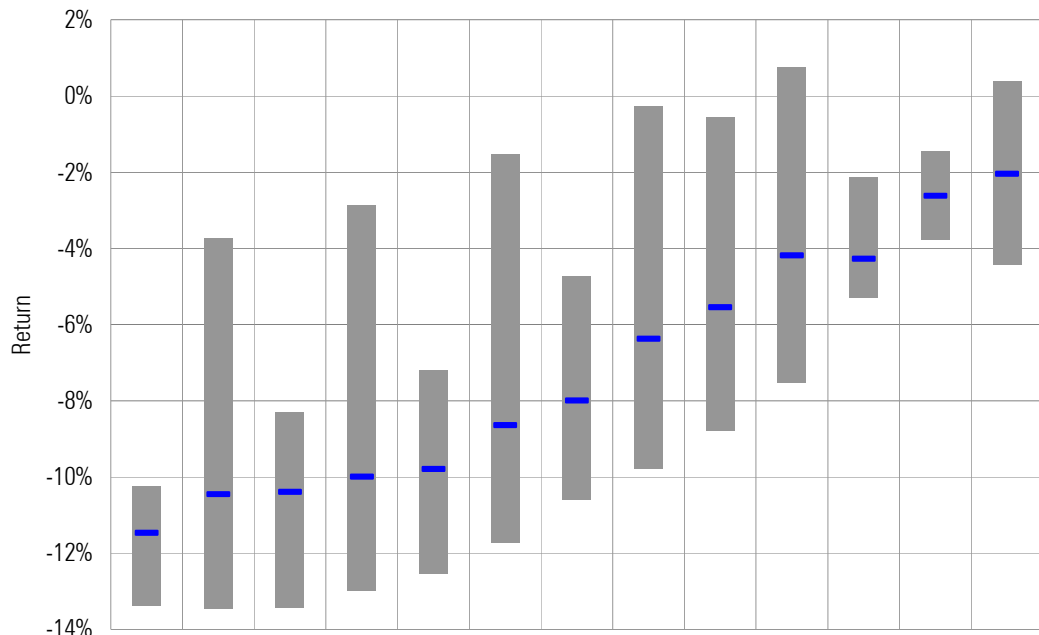
Figure 2: Fund Family Performance – One-Year Return and One-Year Risk Ending 6/30/2010



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. Typically in down markets, such as the one experienced during the second quarter, aggregate equity exposure is the primary detractor from performance. The blue lines identify the averages and form a pattern that resembles the opposite of a typical equity glide path due to negative equity returns. The table also identifies the number of target maturity funds in each category that outperformed or underperformed the category’s corresponding Morningstar Lifetime Moderate Index based on Ibbotson’s Lifetime Asset Allocation methodology. Relative to the Morningstar Lifetime Moderate Index family, 110 funds outperformed while 224 funds underperformed.

Figure 3: Target Maturity Fund Category Performance Q2 2010



Category	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income
Max	-10.2%	-3.7%	-8.3%	-2.9%	-7.2%	-1.5%	-4.7%	-0.3%	-0.6%	0.8%	-2.1%	-1.5%	0.4%
Average	-11.5%	-10.5%	-10.4%	-10.0%	-9.8%	-8.6%	-8.0%	-6.4%	-5.5%	-4.2%	-4.3%	-2.6%	-2.0%
Min	-13.4%	-13.5%	-13.4%	-13.0%	-12.5%	-11.7%	-10.6%	-9.8%	-8.8%	-7.5%	-5.3%	-3.8%	-4.4%
# of Funds (vs. Index)													
Outperformers	0	6	6	12	9	17	12	12	8	9	1	1	17
Underperforms	6	22	22	24	22	19	20	24	27	20	6	1	11
Total	6	28	28	36	31	36	32	36	35	29	7	2	28
Index													
Aggressive	-10.5%	-10.5%	-10.5%	-10.5%	-10.5%	-10.3%	-9.8%	-8.9%	-7.6%	-6.3%	-5.2%	-4.4%	-4.0%
Moderate	-9.9%	-9.9%	-9.9%	-9.8%	-9.6%	-8.9%	-7.7%	-6.2%	-4.8%	-3.7%	-3.0%	-2.5%	-2.2%
Conservative	-8.7%	-8.7%	-8.5%	-8.2%	-7.4%	-6.0%	-4.4%	-2.9%	-1.9%	-1.2%	-0.7%	-0.4%	-0.3%

Source: Ibbotson Associates and Morningstar, Inc.

Asset Class Performance

Table 2 helps us attribute quarterly fund performance differences to various asset class exposures. The table contains quarterly performance for the most common asset class building blocks that comprise target maturity funds.

Table 2: Asset Class Performance – Q2 2010

Asset Class	Q2 2010 Return	12-Month Standard Deviation
U.S. Large Growth Equity	-11.8%	16.8%
U.S. Large Value Equity	-11.2%	17.9%
U.S. Small Growth Equity	-9.2%	21.3%
U.S. Small Value Equity	-10.6%	24.2%
Non-U.S. Developed Equity	-14.0%	18.9%
Emerging Market Equity	-8.3%	20.2%
Real Estate	-4.1%	24.1%
Commodities (Futures)	-4.8%	13.2%
High-Yield Bonds	-0.1%	8.8%
U.S. Aggregate Bonds	3.5%	3.1%
U.S. Short-Term Bonds	1.1%	1.2%
TIPS	3.8%	5.1%
Cash	0.0%	0.0%

Source: Ibbotson Associates and Morningstar DirectSM

After four consecutive quarters of positive returns in equity markets, the second quarter saw a drastic reversal. Each of the equity asset classes listed in Table 2 not only experienced negative returns for the quarter, but the level of returns was significantly negative with even the best performers losing more than 4%. U.S. equity outperformed developed non-U.S. equity, although emerging market equities outperformed both. A weakening euro was one of the drivers of the underperformance of developed non-U.S. equity, with the euro falling by 9% against the dollar during the second quarter. The real estate and commodity alternative asset classes were two of the top performers. Within fixed income, nearly all asset classes were positive with the exception of high-yield bonds, which were slightly negative. U.S. aggregate bonds and TIPS were the top performers, with both returning more than 3% for the quarter.

Looking at annual performance, Table 3 displays asset class returns for the last 12 months.

Table 3: Asset Class Performance – Trailing 12 Months

Asset Class	12-Month Return	12-Month Standard Deviation
U.S. Large Growth Equity	13.6%	16.8%
U.S. Large Value Equity	16.9%	17.9%
U.S. Small Growth Equity	18.0%	21.3%
U.S. Small Value Equity	25.1%	24.2%
Non-U.S. Developed Equity	5.9%	18.9%
Emerging Market Equity	23.5%	20.2%
Real Estate	53.9%	24.1%
Commodities (Futures)	2.8%	13.2%
High-Yield Bonds	26.8%	8.8%
U.S. Aggregate Bonds	9.5%	3.1%
U.S. Short-Term Bonds	3.8%	1.2%
TIPS	9.5%	5.1%
Cash	0.2%	0.0%

Source: Ibbotson Associates and Morningstar DirectSM

As the second quarter of 2010 was the first in the last five quarters where quarterly returns were negative (the sole exception being the commodities asset class during the first quarter), the 12-month return of each asset class in Table 3 is positive. But these positive returns have dropped from the unsustainable levels seen in last quarter's 12-month returns, where more than half of the listed asset classes returned more than 50% and REITs topped 106%. Over the past year, U.S. value has outperformed U.S. growth and U.S. small caps have returned more than U.S. large caps. Non-U.S. developed equity has taken one of the biggest hits over the past year and has underperformed U.S. equities significantly. Although real estate has the highest return over the past year, this figure is half of what it was just three months ago. High-yield bonds continued to display equity-like returns over the past year, outperforming each asset class except REITs. On the fixed-income side, U.S. aggregate bonds and TIPS have returned an impressive 9.5% over this period.

Morningstar Lifetime Allocation Indexes

Table 4 presents the performance figures for the complete Morningstar Lifetime Allocation Index family, which is based on Ibbotson's Lifetime Asset Allocation methodology. For the second quarter, each of the indexes was negative with returns ranging from just less than 0% for the Conservative indexes in retirement to worse than a 10% loss for the Aggressive indexes furthest from retirement. The strong quarterly underperformance was due to the very weak performance of equity markets around the world. One-year performance was quite the opposite story; those returns ranged from nearly 9% to more than 15%.

Table 4: Morningstar Lifetime Allocation Indexes (%)

(As of 6/30/2010; multiyear periods annualized)

	1 Month	3 Month	1 Year	3 Year	5 Year
Income					
Conservative Income	0.52	(0.29)	8.75	4.00	4.71
Moderate Income	(0.34)	(2.22)	9.97	1.88	4.31
Aggressive Income	(1.15)	(3.99)	10.99	(0.17)	3.84
2000					
Conservative 2000	0.55	(0.35)	9.27	3.90	4.81
Moderate 2000	(0.38)	(2.46)	10.56	1.55	4.36
Aggressive 2000	(1.27)	(4.43)	11.66	(0.80)	3.81
2005					
Conservative 2005	0.46	(0.68)	9.88	3.54	4.85
Moderate 2005	(0.55)	(2.99)	11.20	0.92	4.33
Aggressive 2005	(1.56)	(5.22)	12.36	(1.80)	3.67
2010					
Conservative 2010	0.28	(1.22)	10.55	2.95	4.85
Moderate 2010	(0.82)	(3.74)	11.92	(0.03)	4.24
Aggressive 2010	(1.97)	(6.28)	13.12	(3.17)	3.41
2015					
Conservative 2015	0.03	(1.94)	11.26	2.10	4.81
Moderate 2015	(1.21)	(4.80)	12.73	(1.39)	4.04
Aggressive 2015	(2.50)	(7.56)	13.88	(4.79)	3.01
2020					
Conservative 2020	(0.33)	(2.94)	12.09	0.84	4.70
Moderate 2020	(1.77)	(6.21)	13.59	(3.14)	3.66
Aggressive 2020	(3.03)	(8.85)	14.52	(6.34)	2.53
2025					
Conservative 2025	(0.86)	(4.36)	13.03	(0.88)	4.41
Moderate 2025	(2.41)	(7.73)	14.32	(4.93)	3.15
Aggressive 2025	(3.43)	(9.83)	14.94	(7.46)	2.16
2030					
Conservative 2030	(1.53)	(6.00)	13.86	(2.75)	3.94
Moderate 2030	(2.92)	(8.93)	14.77	(6.25)	2.71
Aggressive 2030	(3.61)	(10.34)	15.14	(7.97)	2.02
2035					
Conservative 2035	(2.12)	(7.40)	14.40	(4.22)	3.49
Moderate 2035	(3.18)	(9.58)	14.98	(6.91)	2.51
Aggressive 2035	(3.61)	(10.48)	15.22	(8.08)	2.07
2040					
Conservative 2040	(2.47)	(8.20)	14.64	(5.00)	3.25
Moderate 2040	(3.23)	(9.81)	15.07	(7.10)	2.53
Aggressive 2040	(3.56)	(10.51)	15.27	(8.08)	2.18
2045					
Conservative 2045	(2.58)	(8.53)	14.70	(5.29)	3.22
Moderate 2045	(3.20)	(9.89)	15.13	(7.14)	2.61
Aggressive 2045	(3.49)	(10.52)	15.32	(8.05)	2.30
2050					
Conservative 2050	(2.56)	(8.66)	14.79	(5.39)	3.28
Moderate 2050	(3.14)	(9.92)	15.18	(7.13)	2.72
Aggressive 2050	(3.41)	(10.53)	15.36	(8.01)	2.43
2055					
Conservative 2055	(2.53)	(8.73)	14.78	(5.41)	3.30
Moderate 2055	(3.07)	(9.94)	15.19	(7.11)	2.77
Aggressive 2055	(3.34)	(10.53)	15.39	(7.98)	2.48

Fund Flows

Overall, target maturity flows slowed considerably in the second quarter of 2010 after a big rebound in the first quarter. Monthly flows in May and June reached lows that have not been seen since the height of the financial crisis in October and November of 2008.

The cause of this short-term trend is unclear. Target maturity fund flows have averaged \$3.9 billion per month over the trailing 36 months, but reached only \$2.6 billion in May and \$2.1 billion in June. Of the big four players, Fidelity and Principal had typical quarters in terms of flows, but T. Rowe Price's and Vanguard's flows were a different story.

T. Rowe Price's flows were strong in April (\$989 million), but the new net flows for the following two months combined totaled only \$868 million. Vanguard's flows fell off the table in June with a paltry \$103 million inflow, compared to a monthly average of \$1.2 billion from January 2009 through May 2010. In fact, June's tally was Vanguard's smallest monthly take in the past five years. Vanguard neither confirmed nor rejected the June figure, but suggested that a seasonal effect could have had an impact.

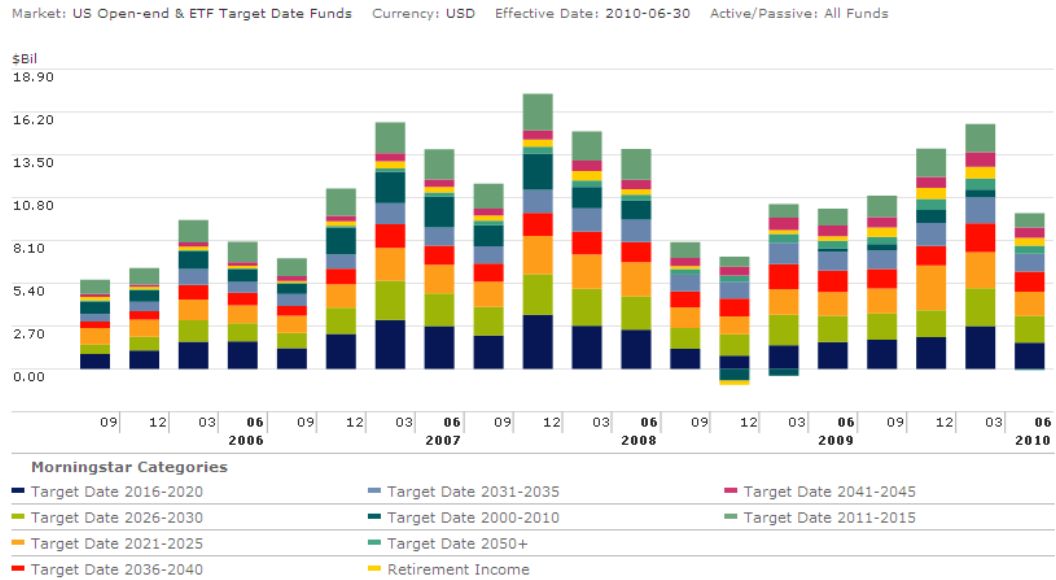
Aside from the Vanguard aberration, the rapid and broad-based changes in flows from quarter-to-quarter suggest that defined contribution investors are not on autopilot when it comes to setting their contributions and leaving them unaltered regardless of market conditions. May's "Flash Crash" has elicited similar such skittish behavior in funds that are used more frequently in taxable accounts, so perhaps it shouldn't be surprising that investors are using similar discretion in monthly contributions in tax-deferred accounts. Additionally, large plans continue to move away from off-the-shelf registered target maturity funds to custom un-registered target maturity solutions. Perhaps this activity was especially high during the quarter; anecdotally we have seen this trend gathering momentum.

Table 5: Target Maturity Fund Flows Q2 2010

Target Date	Asset Under Management (\$Mil)		Estimated Net Flow (\$Mil)			
	End Q1 2010	End Q2 2010	Q2 2010	Avg (past four qtrs.)	Flow as a % of beginning AUM	
					Q2 2010	Q1 2010
Income	8,113	12,777	495	636	6.4	3.9
2000-2010	31,112	31,617	(21)	427	1.6	-0.1
2011-2015	21,868	32,152	898	1,455	5.9	2.7
2016-2020	41,180	53,758	1,673	2,063	5.3	3.0
2021-2025	20,670	34,695	1,514	2,045	7.0	4.2
2026-2030	28,433	40,756	1,701	1,860	6.2	4.0
2031-2035	12,614	22,496	1,117	1,343	7.8	4.7
2036-2040	15,578	25,459	1,269	1,382	7.5	4.7
2041-2045	4,467	10,092	665	730	10.0	6.3
2050+	1,969	6,275	502	584	12.6	7.8
Total	282,013	270,078	9,813		6.0	3.5

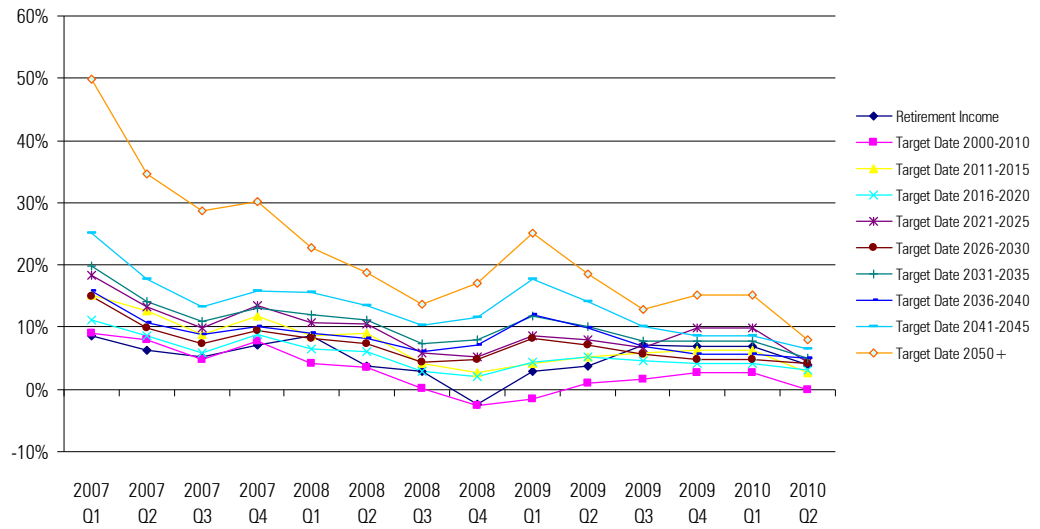
Source: Morningstar DirectSM

Figure 4: Monthly Estimated Net Flows by Morningstar Category



Source: Morningstar Direct Fund Flows

Figure 5: Quarterly Flow as a Percent of Assets under Management



Source: Morningstar DirectSM

Fund Family Ratings and Research Reports

At the end of 2009, Morningstar's mutual fund research team updated its ratings on the 20 largest target maturity mutual fund series. Table 6 summarizes these ratings as of Dec. 31, 2009. The fund families in the Top and Bottom categories did not change from the previous ratings, although the number of fund families in the Above Average and Below Average categories slightly decreased, resulting in a larger number of firms in the Average category. Specifically, MassMutual was upgraded from Below Average to Average, while TIAA-CREF was downgraded from Above Average to Average.

Table 6: Overall Ratings Summary as of Q4 2010

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

The Morningstar Target Maturity Fund Series Ratings and Research Reports are available in Morningstar Principia[®], Morningstar Advisor WorkstationSM Enterprise Edition, Morningstar DirectSM, Morningstar Office[®], Morningstar Site BuilderSM, and through licensed data feeds. Morningstar.com, the company's website for individual investors, publishes the ratings and a modified version of the report.

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

About Ibbotson

Ibbotson Associates is a leading independent provider of asset allocation, manager selection, and portfolio construction services. The company leverages its innovative and ground-breaking academic research to create customized investment advisory solutions that help investors meet their goals. Founded by Professor Roger Ibbotson in 1977, Ibbotson Associates is a registered investment advisor and a wholly owned subsidiary of Morningstar, Inc.

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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 materially 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 indexes available in three risk tracks: Aggressive, Moderate, and Conservative. Each risk track consists of 13 indexes ranging from a 2055 index to an income index. The glide paths and strategic asset allocations of the indexes 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.