

Ibbotson Target Maturity Report

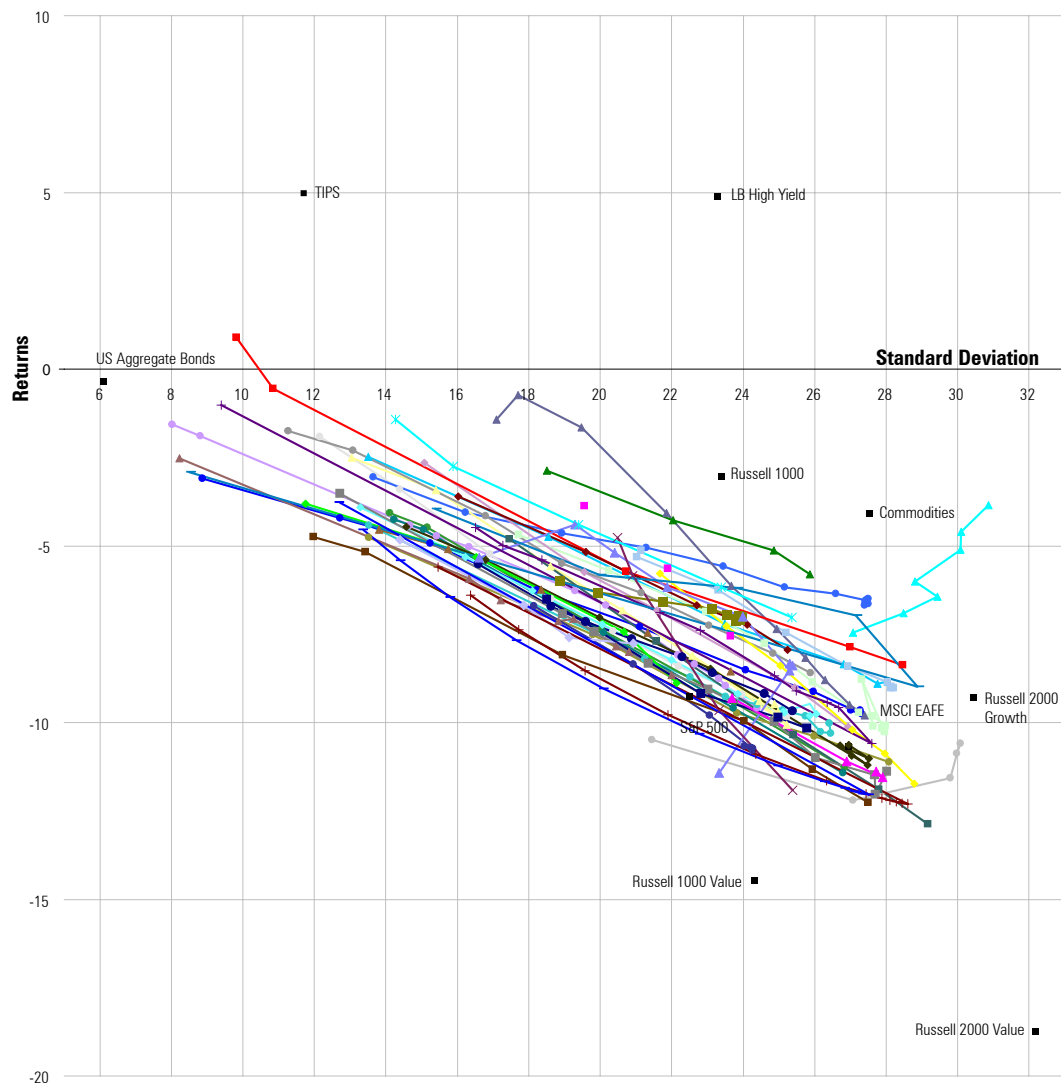


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While March produced what felt like a fast and furious bull market with popular U.S. equity market benchmarks up around 20% for the month, it was not enough to offset the dramatic selloff that occurred during January and February. This is the 6th quarter in a row when the average target maturity fund lost money. The average target maturity fund declined 7.4% during the first quarter, while the S&P 500 Index lost 11%. On an annual basis, the average target maturity fund lost 31.7%, while the S&P 500 Index lost 38.1%

The performance of the increasing number of target maturity fund families during the first quarter is summarized in Figure 1. The first quarter returns are displayed on the vertical axis and the annualized standard deviation, based on 12 months of returns, is on the horizontal axis. The lines connect funds from the same fund family.

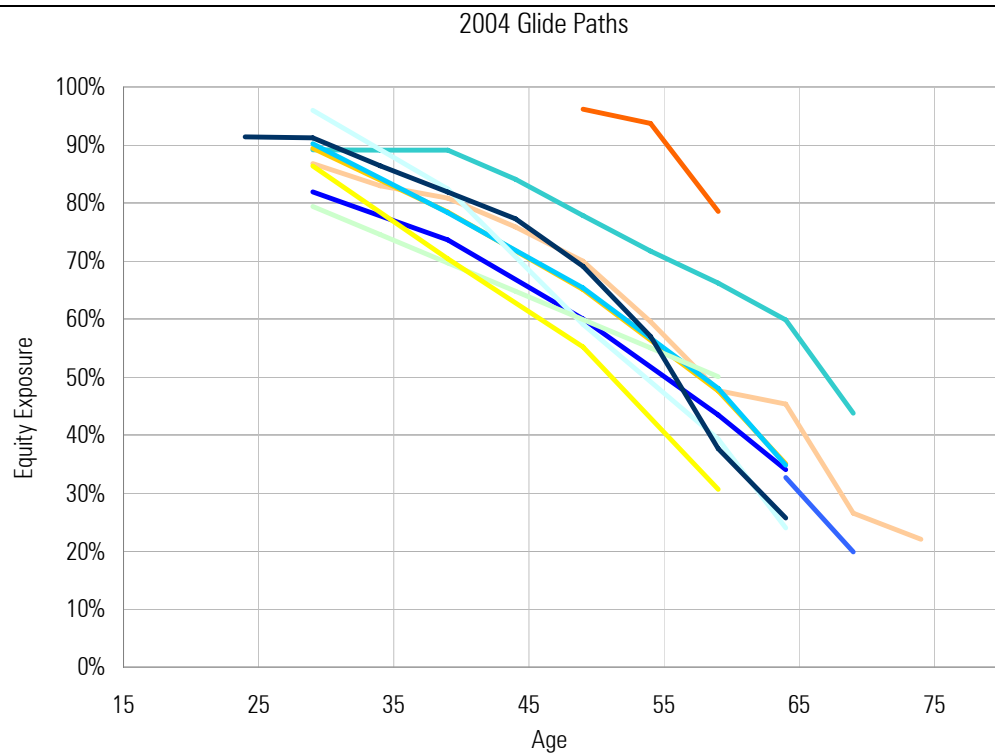
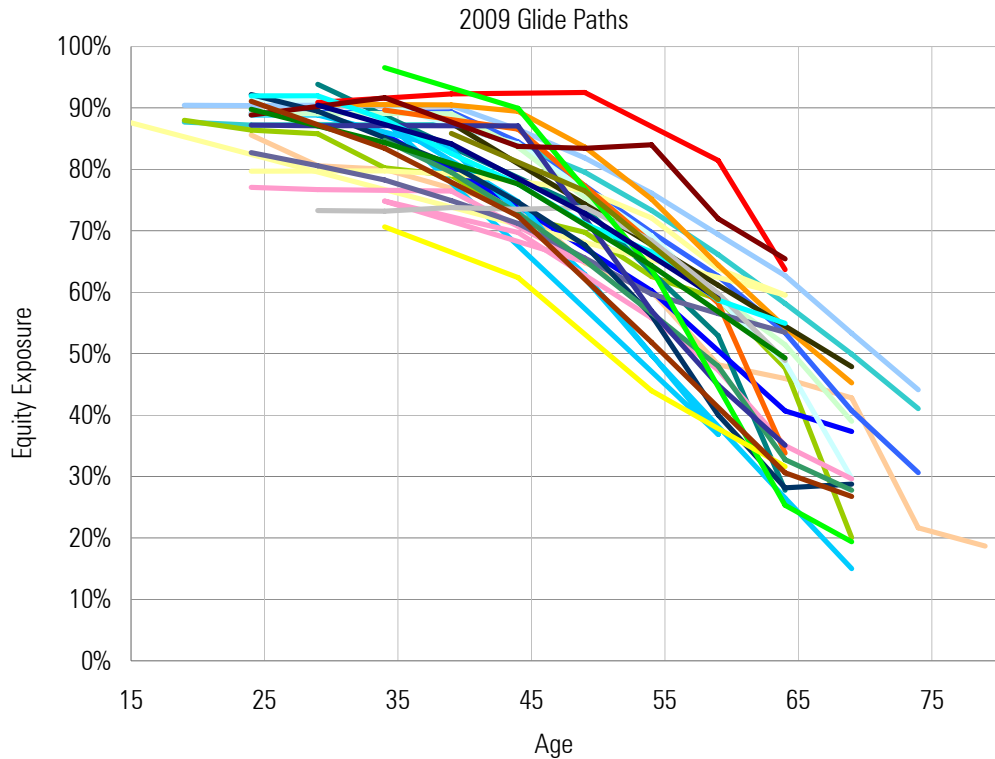
Figure 1: Quarterly Risk-Return Graph (Q4 2008 Return vs. 12-Month Annualized Risk)



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We are now tracking 304 unique target maturity funds with at least a one-year track record (up from 264 last quarter) representing 45 fund families (up from 39 fund families last quarter). As the number of target maturity funds has increased, we thought it would be interesting to look at their current implied glide paths and compare them with the much smaller number of glide paths from five years ago. The top half of Figure 2 contains the implied glide paths of the current 45 fund families while the bottom half contains the

Figure 2: 2009 and 2004 Glide Paths



implied glide paths from five years earlier, the beginning of 2004. In both panels, the vertical axis displays the aggregate estimated equity exposure while the horizontal axis displays the implied age of the investor assuming a retirement age of 65.

There are three important differences. First, the number of fund families increased dramatically. Second, the dispersion in equity exposure increased. Third and perhaps most importantly, equity exposure increased. For investors of equivalent ages above 39 years old, the average 2009 glide path has 4% more equity exposure than the average 2004 path. As we have written before, the propensity of investors to focus on absolute return rather than risk-adjusted returns led some fund manufacturers to adopt more aggressive glide paths under the guise that investors are living longer and a tendency to focus on Monte Carlo simulation output. We reiterate that investors, advisors, and plan sponsors need to consider their unique risk preferences and risk capacity when establishing or selecting an appropriate glide path.

Returning to Figure 1 and this quarter's performance, just like last quarter, only one fund was able to squeak out a positive return, albeit a different fund from last quarter. Also like last quarter, the aggregate stock-bond split was the primary driver of return differences during the first quarter; however, this quarter there were also some significant asset class level return differences that drove performance, like the value-growth split.

Table 1 shows the quarterly performance of the 304 funds by category based on the funds' target maturity date. As usual, there are meaningful differences between the best-performing funds (Max column) and the worst-performing funds (Min column) reflecting the substantial "intra-category" differences in equity exposure.

Table 1: Quarterly Target Maturity Fund Performance (Q1 – 2009)

Date	Max	Average	Min	# of Funds
Income	0.9%	-3.3%	-10.5%	24
2000	-1.9%	-3.3%	-4.7%	2
2005	-3.4%	-4.6%	-5.7%	7
2010	-0.5%	-4.7%	-7.5%	32
2015	-1.7%	-6.1%	-12.2%	30
2020	-2.7%	-6.7%	-9.8%	36
2025	-4.3%	-8.0%	-11.6%	27
2030	-4.4%	-8.4%	-11.2%	36
2035	-5.1%	-9.2%	-11.9%	26
2040	-4.6%	-9.3%	-11.9%	35
2045	-5.8%	-9.7%	-12.9%	22
2050	-3.8%	-9.4%	-12.3%	24
2055	-6.7%	-8.9%	-10.1%	3
			Total	304

Source: Ibbotson Associates

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

Table 2: Quarterly Asset Class Performance

Asset Class	Q1 2009 Return	12-Month Standard Deviation
US Large Growth	-4.1%	26.6%
US Large Value	-16.8%	27.6%
US Small Growth	-9.7%	33.0%
US Small Value	-19.6%	34.3%
Non-US Developed	-13.9%	29.1%
Emerging Market Stocks	1.0%	39.9%
Real Estate	-31.9%	50.1%
Commodities (Futures)	-6.3%	28.9%
High Yield	6.0%	23.3%
US Aggregate Bonds	0.1%	6.1%
US Short-Term Bonds	0.6%	2.0%
TIPS	5.5%	11.7%
Cash	0.0%	0.3%

Source: Ibbotson Associates and Morningstar Direct

Almost all of the equity asset classes lost money, while all of the fixed income asset classes made money. Real estate jumps out as this quarter's worst performer, losing nearly 32%. Emerging market stocks bounced back from last quarter in which they lost nearly 27%. Within U.S. equities, large cap outperformed small cap and growth stocks outperformed value stocks by over a 1000 basis points! Among the fixed income asset classes, high yield spreads improved over the quarter and renewed inflation fears helped TIPS.

Benchmarking

Beginning with this quarterly report, we include performance information on the recently released Morningstar Lifetime Allocation Indexes. As many of you know, the industry continues to struggle with how to benchmark target maturity funds. The Morningstar Lifetime Allocation Indexes form a comprehensive family of target maturity indices based on Ibbotson's Lifetime Asset Allocation methodology.¹ This comprehensive index family includes 39 indices representing three distinct glide paths – aggressive, moderate, and conservative – enabling funds to be benchmarked against an index with similar characteristics.

We have argued that an aggressive fund is neither better nor worse than a conservative fund, and vice versa. From an investor's or advisor's perspective, it is critical to select a fund with a glide path that is appropriate given the investor's unique economic circumstances (risk capacity) and risk preferences. In contrast with traditional asset classes and traditional asset class benchmarks in which the risk level is inherent in the asset class, target maturity funds are not asset classes and there isn't a single, inherent correct risk level. As such, from a benchmarking perspective in the target maturity fund space, funds should not be unjustly penalized or rewarded just because they are either more or less aggressive than the benchmark during an up or down market. While not a perfect solution, the introduction of a comprehensive set of target maturity indexes enables investors, advisors, and plan sponsors to benchmark funds against benchmarks with similar risk and return characteristics.

¹ Additional information on the index family is available at indexes.morningstar.com

Morningstar Lifetime Allocation Indexes*(As of 3/31/09; multiyear periods annualized)*

	1 Mo	3 Mo	1 Yr	3 Yr	5 Yr
Income					
Conservative Income	3.59	(0.54)	(8.27)	2.23	3.23
Moderate Income	4.40	(2.37)	(14.43)	(0.39)	2.33
Aggressive Income	5.15	(4.04)	(19.87)	(2.82)	1.46
2000					
Conservative 2000	3.63	(1.18)	(8.97)	1.88	3.20
Moderate 2000	4.49	(3.01)	(15.39)	(0.85)	2.27
Aggressive 2000	5.31	(4.73)	(21.21)	(3.45)	1.34
2005					
Conservative 2005	3.76	(1.96)	(10.33)	1.26	3.07
Moderate 2005	4.68	(3.80)	(17.06)	(1.61)	2.10
Aggressive 2005	5.60	(5.59)	(23.35)	(4.45)	1.09
2010					
Conservative 2010	3.96	(2.81)	(12.20)	0.44	2.87
Moderate 2010	4.98	(4.71)	(19.38)	(2.66)	1.84
Aggressive 2010	6.04	(6.62)	(26.36)	(5.86)	0.67
2015					
Conservative 2015	4.24	(3.71)	(14.50)	(0.56)	2.64
Moderate 2015	5.42	(5.77)	(22.55)	(4.09)	1.45
Aggressive 2015	6.62	(7.78)	(30.14)	(7.67)	0.01
2020					
Conservative 2020	4.65	(4.74)	(17.58)	(1.89)	2.32
Moderate 2020	6.06	(7.01)	(26.76)	(6.02)	0.79
Aggressive 2020	7.26	(8.88)	(34.04)	(9.59)	(0.79)
2025					
Conservative 2025	5.27	(5.97)	(21.88)	(3.78)	1.74
Moderate 2025	6.77	(8.22)	(31.23)	(8.15)	(0.07)
Aggressive 2025	7.78	(9.68)	(37.08)	(11.11)	(1.48)
2030					
Conservative 2030	6.01	(7.23)	(26.71)	(5.97)	0.91
Moderate 2030	7.37	(9.12)	(34.78)	(9.88)	(0.85)
Aggressive 2030	8.07	(10.07)	(38.70)	(11.91)	(1.84)
2035					
Conservative 2035	6.66	(8.23)	(30.77)	(7.87)	0.08
Moderate 2035	7.71	(9.59)	(36.77)	(10.85)	(1.29)
Aggressive 2035	8.16	(10.17)	(39.24)	(12.13)	(1.89)
2040					
Conservative 2040	7.05	(8.77)	(33.09)	(8.96)	(0.40)
Moderate 2040	7.84	(9.74)	(37.51)	(11.17)	(1.38)
Aggressive 2040	8.20	(10.17)	(39.44)	(12.16)	(1.83)
2045					
Conservative 2045	7.22	(8.97)	(34.06)	(9.38)	(0.54)
Moderate 2045	7.90	(9.78)	(37.82)	(11.26)	(1.35)
Aggressive 2045	8.22	(10.15)	(39.57)	(12.16)	(1.74)
2050					
Conservative 2050	7.30	(9.06)	(34.54)	(9.56)	(0.56)
Moderate 2050	7.93	(9.78)	(38.02)	(11.29)	(1.28)
Aggressive 2050	8.24	(10.13)	(39.69)	(12.15)	(1.65)
2055					
Conservative 2055	7.33	(9.04)	(34.74)	(9.61)	(0.56)
Moderate 2055	7.95	(9.74)	(38.13)	(11.29)	(1.25)
Aggressive 2055	8.26	(10.09)	(39.81)	(12.15)	(1.62)

About Ibbotson

Ibbotson Associates is a leading independent provider of asset allocation, manager selection, and portfolio construction services. The company leverages its innovative academic research to create customized investment advisory solutions that help investors meet their goals.

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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 strategic asset allocation 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.