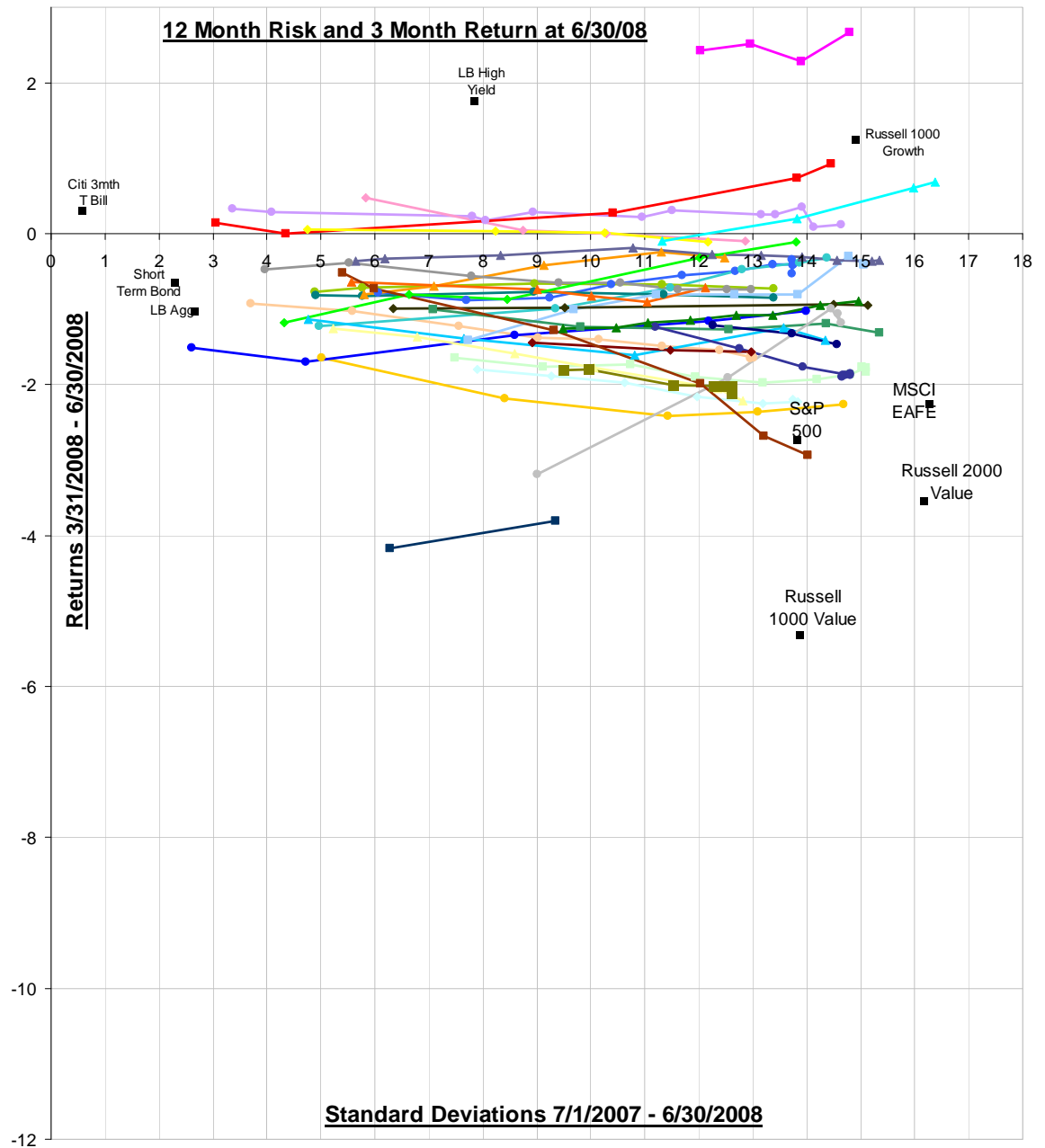


Ibbotson Target Maturity Report



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How did target maturity funds perform in Q2? Flat to negative.



Source: Ibbotson Associates

The above graph plots the 204 target maturity funds with at least a one-year track record. Quarterly returns are displayed on the vertical axis and annualized standard deviation based on 12 months of data is on the horizontal axis. We have connected the dots associated with all the target maturity funds within a family. For the quarter ending June 30, 2008, most target maturity fund families experienced mildly negative returns. In a somewhat unusual pattern, within each fund family the returns were extremely similar across the risk spectrum (notice that most of the lines are flat). In other words, the stock-bond split which is usually the primary driver of return differences across the risk spectrum did not have a clear impact on performance as aggregate stock market and aggregate bond market performance were similar this quarter.

Pain continued for target maturity fund investors in the second quarter defying historical precedent. As we explained in the last report, the first quarter of this year was the 32nd worst quarter for the S&P 500 Index since 1926—a period that includes the Great Depression. But historically, about two-thirds of those bad quarters were followed by a positive quarter. In fact, the average quarterly return following those bad quarters was a somewhat soothing 7.2%. This quarter, investors were not compensated with a market rebound.

The average target maturity fund lost 0.9% in the second quarter. This is significantly better than the first quarter's terrible loss of 6.8%. As one should expect in a down market, target maturity funds outperformed the S&P 500 Index, which declined 2.7% during the second quarter.

We organized the 204 funds into 13 groups based on the funds' target maturity date.

Target Maturity Fund Performance (Q2 – 2008)

Date	Max	Average	Min	# of Funds
Income	0.5%	-0.9%	-3.2%	21
2000	0.3%	-0.7%	-1.6%	2
2005	0.2%	-1.0%	-1.8%	6
2010	2.4%	-0.8%	-1.9%	25
2015	2.5%	-1.0%	-4.2%	22
2020	2.3%	-0.9%	-3.8%	26
2025	0.3%	-1.1%	-2.4%	18
2030	2.7%	-0.8%	-2.2%	24
2035	0.6%	-1.0%	-2.4%	17
2040	0.9%	-1.0%	-2.7%	22
2045	0.7%	-1.0%	-2.3%	13
2050	0.1%	-1.1%	-2.9%	7
2055	-0.4%	-0.4%	-0.4%	1

204

Source: Ibbotson Associates

The following table contains the performance of some of the most common asset class building blocks that make up target maturity funds.

Asset Class Performance

Asset Class	2Q 2008 Return	12 Month Standard Deviation (Annualized)
U.S. Large Growth	1.2%	14.9%
U.S. Large Value	-5.3%	13.9%
U.S. Small Growth	4.5%	17.9%
U.S. Small Value	-3.5%	16.2%
Non-U.S. Developed	-2.3%	16.3%
Emerging Markets	-0.8%	28.2%
Real Estate	-4.9%	21.5%
Commodities (Futures)	16.1%	18.8%
High Yield	1.8%	7.8%
U.S. Aggregate Bonds	-1.0%	2.6%
U.S. Short-Term Bonds	-0.6%	2.3%
Cash	0.3%	0.6%

Source: Ibbotson Associates

Returning to the pattern observed in most of 2007 and reversing the pattern observed last quarter, growth stocks outperformed value stocks helping fund families with a growth tilt. On a relative basis, small-cap stocks outperformed large-cap stocks.

Once again commodity futures were the top-performing asset class of the quarter following last quarter's 9.6% return with an even more impressive 16.1% return. Reexamining this quarter's risk and return graph, the four fund families with positive returns all contained exposure to commodities with the standout fund family containing the largest commodity exposures. Other detailed asset allocation decisions that paid off during the quarter were a tilt toward growth stocks relative to value stocks.

Conversely, fund families without commodities and a tilt toward value stocks relative to growth stocks were hurt during the quarter. The other commonality among last quarter's worst performers was a sizable allocation to real estate.

Recent quarterly performance should not prompt investors to race out and purchase target maturity funds that include an allocation to commodities but don't have an allocation to real estate. Over short periods of time it is very difficult to predict the performance of individual asset classes. When selecting a target maturity fund, investors and advisors should look for funds that reflect their long-term asset allocation beliefs.

About Ibbotson

Ibbotson Associates is a leading independent asset allocation provider offering investment advisory services, retirement advice programs, and customized research. Ibbotson applies academic research to create real-world solutions for financial institutions. Our clients include many of the top brokerage firms, insurance companies, banks, asset managers, and retirement plan providers. Ibbotson was founded in 1977 and is a Morningstar company.

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