

# Ibbotson Target Maturity Report Q4 2009



**Tom Idzorek**

Chief Investment Officer  
and Director of Research,  
Ibbotson Associates

What a difference a year makes. At the end of 2008, we reported that among funds with at least one year of history the average target maturity fund lost 30.8% and that all 264 funds lost money. Switching to 2009, the average target maturity fund gained 27.1% and all of the now 322 funds made money.

After analyzing the fourth quarter and 2009 performance of target maturity funds, we attempt to identify specific asset allocation decisions that helped during the two time frames. Additionally, we take a look at target maturity performance from the peak of the market in October 2007 to the end of 2009. This report also includes the performance of Morningstar Lifetime Allocation Indexes, the latest fund flow statistics, and the latest overall Morningstar Target Maturity Fund Series Ratings.

## Target Maturity Performance Summary

The average target maturity fund returned 4.0% during the fourth quarter, somewhat below the S&P 500 Index, which gained 6.0%. The weighted-average return of the 13 indices that collectively form the Morningstar Lifetime Moderate Index family was 4.6%.<sup>1</sup> The Morningstar Lifetime Moderate Index family gained 27.3% in 2009, while the S&P 500 Index gained 26.5%.



**Jeremy Stempien**

Senior Consultant,  
Ibbotson Associates

**Table 1: 2009 Target Maturity Performance Summary**

	Q4 Return	12-Month Return Ending Dec. 31 2009
Average Target Maturity Fund	4.0%	27.1%
Morningstar Lifetime Moderate Index	4.6%	27.3%
S&P 500 Index	6.0%	26.5%

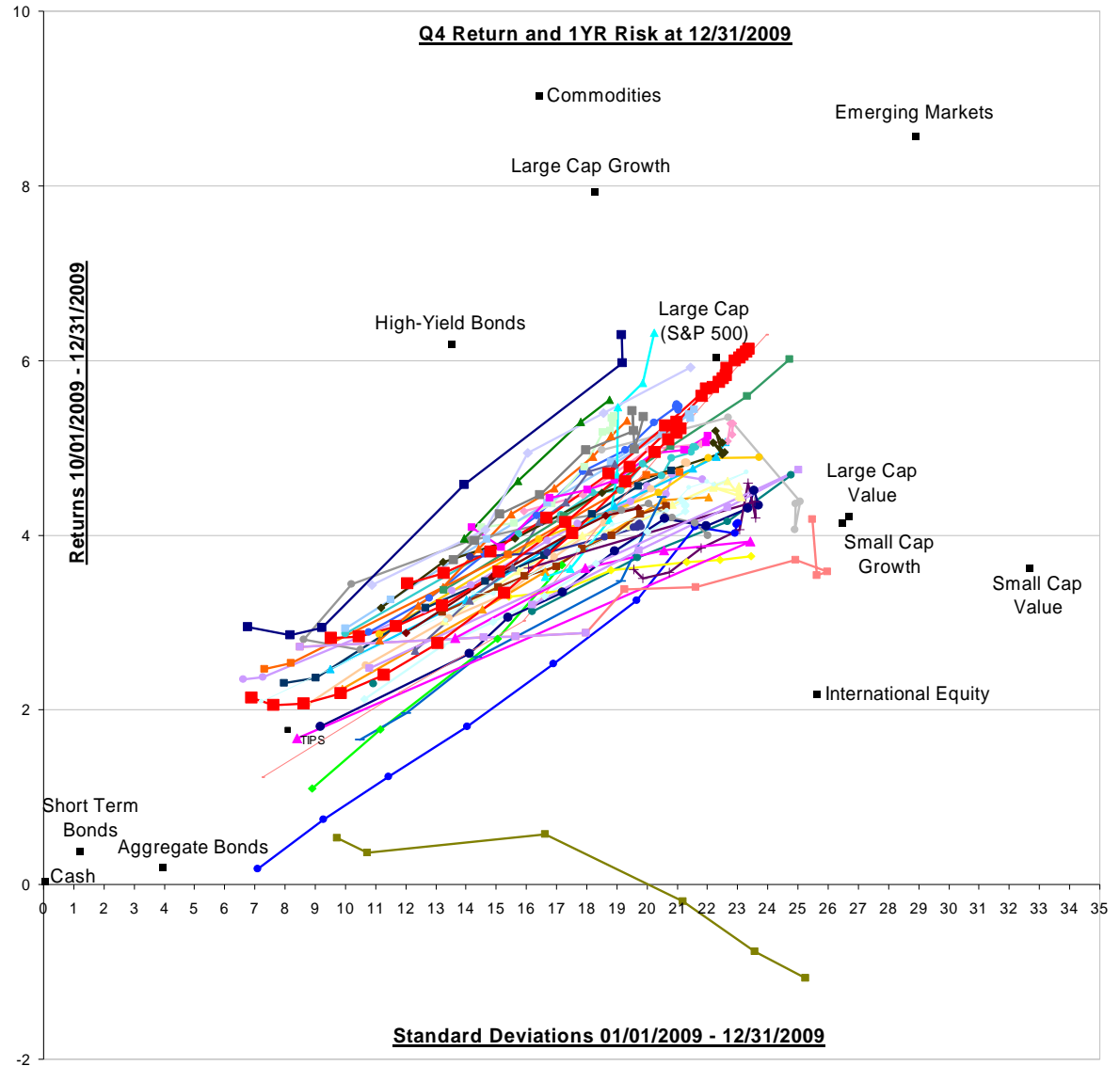
<sup>1</sup> Ibbotson Associates creates the glide paths and asset allocations for the 39 indexes that form the Morningstar Lifetime Allocation Index family using our Lifetime Asset Allocation framework. The weighted average return presented here for the Morningstar Lifetime Moderate Index is based on 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 fourth quarter is summarized in Figure 1. We are now tracking 322 unique target maturity funds with at least a one-year track record representing 42 fund families. The lines in the graph connect funds from the same fund family. This efficient frontier-like risk and return graph enables one to see the distinct performance of different fund families. Plot points that are northwest (up and left representing high return and low risk) are better. In a pattern that is very similar to Q3, this quarter all but three target maturity funds had a positive return. Once again, the aggregate stock-bond split was the primary driver of *total* returns for most funds. Relative return differences among funds with similar aggregate stock-bond splits are caused by detailed asset allocation differences and manager-specific performance. The three Morningstar Lifetime Allocation indexes are displayed in red with red squares.

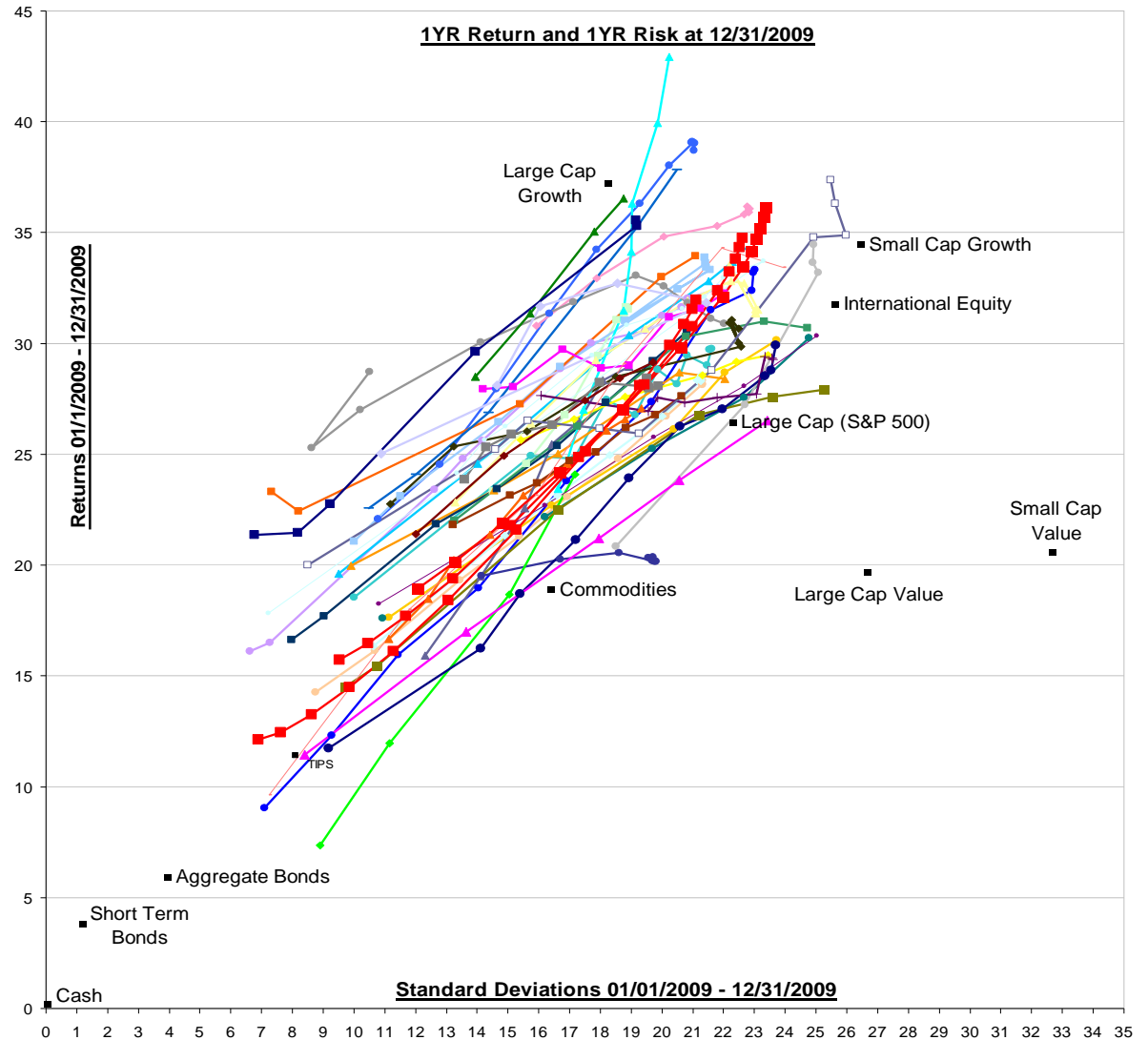
Only one family produced negative returns during the quarter.

Figure 1: Target Maturity Fund Family Performance Q4 2009



To celebrate the end of a successful year, we also produced a *one-year* risk and return graph. In contrast with Figure 1, which displays the return during the fourth quarter on the vertical axis, Figure 2 displays the return during 2009 on the vertical axis. Once again, the three Morningstar Lifetime Allocation indexes are indicated with red squares. For the year we can see that all funds were in positive territory.

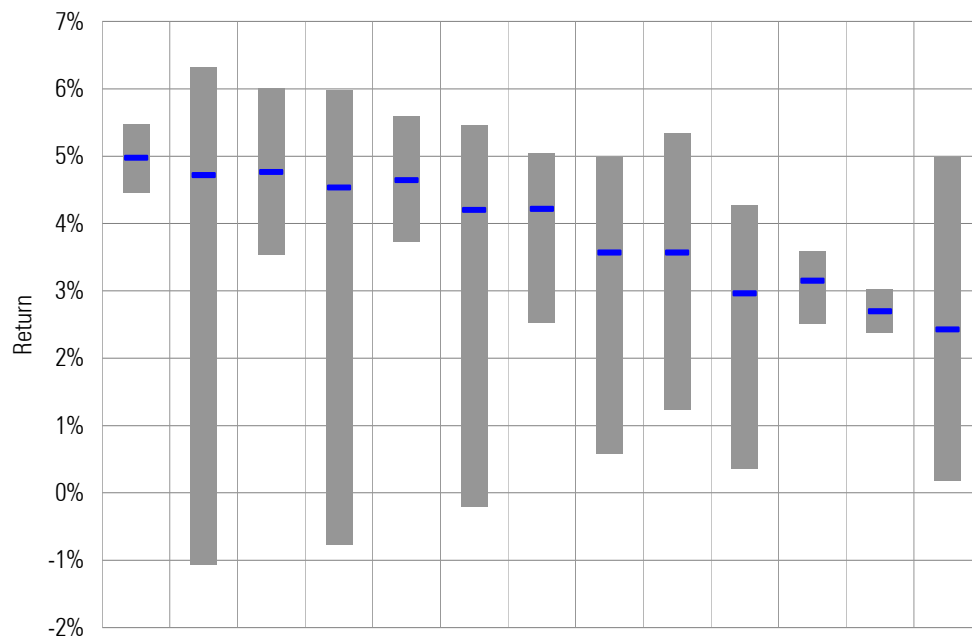
Figure 2: Target Maturity Fund Family Performance. One Year Ending Q4 2009



# Target Maturity Fund Performance

In Figure 3 the floating gray bars show the range of quarterly returns for the 13 target date-based categories. The blue lines near the middle of the bars identify the average fund performance for each category. There are meaningful differences between the best-performing funds (Max row) and the worst-performing funds (Min row) reflecting the substantial “intra-category” differences in equity exposure. In up markets in which aggregate equity exposure is the primary driver of performance, such as this quarter, the blue lines identifying the averages form a pattern that resembles a typical equity glide path. The table identifies the number of mutual funds in each peer group that outperformed or underperformed the peer group’s corresponding Morningstar Lifetime Moderate Index based on Ibbotson’s Lifetime Asset Allocation methodology. Relative to the Morningstar Lifetime Moderate Index family, 69 funds outperformed and 253 underperformed.

Figure 3: Target Maturity Fund Category Performance Q4 2009



Category	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income
Max	5.5%	6.3%	6.0%	6.0%	5.6%	5.5%	5.0%	5.0%	5.3%	4.3%	3.6%	3.0%	5.0%
Average	5.0%	4.7%	4.8%	4.5%	4.6%	4.2%	4.2%	3.6%	3.6%	3.0%	3.2%	2.7%	2.4%
Min	4.4%	-1.1%	3.5%	-0.8%	3.7%	-0.2%	2.5%	0.6%	1.2%	0.4%	2.5%	2.4%	0.2%
<b># of Funds (vs. Index)</b>													
Outperformers	0	4	1	2	1	1	4	10	16	15	6	1	8
Underperforms	3	25	24	35	27	36	25	27	16	15	1	1	18
Total	3	29	25	37	28	37	29	37	32	30	7	2	26
<b>Index</b>													
Aggressive	6.1%	6.1%	6.1%	6.0%	6.0%	5.9%	5.7%	5.3%	4.7%	4.2%	3.8%	3.6%	3.4%
Moderate	5.8%	5.8%	5.8%	5.7%	5.6%	5.3%	4.8%	4.1%	3.6%	3.2%	3.0%	2.8%	2.8%
Conservative	5.2%	5.2%	5.1%	5.0%	4.6%	4.0%	3.3%	2.8%	2.4%	2.2%	2.1%	2.1%	2.1%

Source: Ibbotson Associates and Morningstar, Inc.

## Peak of the Market Until 2010

It has been 27 months since the market peaked in October of 2007. From the beginning of October 2007 through the end 2009, the average target maturity fund lost 7.0% per year, while the S&P 500 lost 10.9% per year. Of the 243 target maturity funds that were incepted prior to October of 2007 and continued to exist through 2009, 12 had a positive return. As Figure 4 shows, only 20 of these 243 funds outperformed the appropriate Morningstar Lifetime Moderate Index.

Figure 4: 10/01/2007 – 12/31/2009 Target Maturity Performance Comparison

<b>Morningstar Target Maturity Index</b>	<b># of Funds with a Return &gt; Index</b>	<b>Annualized Benchmark Return</b>	<b># of Funds with a Return &lt; Index</b>
Morningstar Lifetime Moderate Income	3	1.3%	16
Morningstar Lifetime Moderate 2000	0	0.9%	2
Morningstar Lifetime Moderate 2005	0	0.3%	7
Morningstar Lifetime Moderate 2010	2	-0.7%	25
Morningstar Lifetime Moderate 2015	1	-2.0%	23
Morningstar Lifetime Moderate 2020	1	-3.7%	29
Morningstar Lifetime Moderate 2025	4	-5.4%	17
Morningstar Lifetime Moderate 2030	1	-6.7%	29
Morningstar Lifetime Moderate 2035	4	-7.2%	17
Morningstar Lifetime Moderate 2040	2	-7.4%	25
Morningstar Lifetime Moderate 2045	1	-7.4%	17
Morningstar Lifetime Moderate 2050	1	-7.4%	14
Morningstar Lifetime Moderate 2055	0	-7.3%	2
<b>Total</b>	<b>20</b>		<b>223</b>

# 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 make up target maturity funds.

**Table 2: Asset Class Performance Q4 2009**

Asset Class	Q4 Return	12-Month Standard Deviation
US Large Growth Equity	7.9%	18.3%
US Large Value Equity	4.2%	26.7%
US Small Growth Equity	4.1%	26.4%
US Small Value Equity	3.6%	32.7%
Non-US Developed Equity	2.2%	25.6%
Emerging Market Equity	8.6%	28.9%
Real Estate	9.4%	47.6%
Commodities (Futures)	9.0%	16.4%
High-Yield Bonds	6.2%	13.5%
US Aggregate Bonds	0.2%	3.9%
US Short-Term Bonds	0.4%	1.2%
TIPS	1.8%	8.1%
Cash	0.0%	0.0%

Source: Ibbotson Associates and Morningstar Direct<sup>SM</sup>

All of the asset classes had positive returns, including cash that had a positive .04% return. Like last quarter, most of the fixed-income asset classes were slightly positive, while high-yield bonds produced equity-like returns of 6.2% helping the performance of target maturity funds that implement a portion of their fixed-income asset allocation with high yield. Real estate, commodities, and emerging market stocks were the standout performers helping funds with higher than average exposures to these asset classes. Within U.S. equities, large cap stocks beat small cap stocks and growth stocks beat value stocks, reversing the dynamic of the previous quarter.

Switching from quarterly performance to annual performance, Table 3 displays the asset class returns for 2009.

**Table 3: Asset Class Performance 2009**

Asset Class	2009 Return	12-Month Standard Deviation
US Large Growth Equity	37.2%	18.3%
US Large Value Equity	19.7%	26.7%
US Small Growth Equity	34.5%	26.4%
US Small Value Equity	20.6%	32.7%
Non-US Developed Equity	31.8%	25.6%
Emerging Market Equity	79.0%	28.9%
Real Estate	28.0%	47.6%
Commodities (Futures)	18.9%	16.4%
High-Yield Bonds	58.2%	13.5%
US Aggregate Bonds	5.9%	3.9%
US Short-Term Bonds	3.8%	1.2%
TIPS	11.4%	8.1%
Cash	0.2%	0.0%

Source: Ibbotson Associates and Morningstar Direct<sup>SM</sup>

On an annual basis, all of the asset classes had positive returns. Within the fixed-income asset classes, inflation-linked bonds or TIPS significantly outperformed nominal investment-grade bonds. High yield produced an eye-popping return of 58.2%. Within equities, emerging markets returned an incredible 79.0%. Among U.S. equities, growth stocks significantly outperformed value stocks while large-cap stocks slightly outperformed small-cap stocks.

# Morningstar Lifetime Allocation Indexes

Table 4 presents the performance figures for the complete Morningstar Lifetime Asset Allocation Index family. The Morningstar Lifetime Allocation Index family is based on Ibbotson's Lifetime Asset Allocation methodology. In general, quarterly performance was solid, one-year performance was outstanding, annualized three-year performance was close to zero, and annualized five-year was in the 3-to-5 percent range.

**Table 4: Morningstar Lifetime Allocation (%)**

*(As of 12/31/2009; multiyear periods annualized)*

	<b>1 Month</b>	<b>3 Month</b>	<b>1 Year</b>	<b>3 Year</b>	<b>5 Year</b>
<b>Income</b>					
Conservative Income	(0.76)	2.09	12.17	4.80	5.01
Moderate Income	(0.15)	2.79	15.77	3.52	4.87
Aggressive Income	0.41	3.42	18.97	2.22	4.66
<b>2000</b>					
Conservative 2000	(0.82)	1.99	12.52	4.72	5.11
Moderate 2000	(0.11)	2.78	16.51	3.30	4.95
Aggressive 2000	0.55	3.53	20.16	1.81	4.69
<b>2005</b>					
Conservative 2005	(0.78)	1.99	13.34	4.51	5.19
Moderate 2005	0.03	2.89	17.74	2.92	4.99
Aggressive 2005	0.81	3.77	21.91	1.16	4.66
<b>2010</b>					
Conservative 2010	(0.65)	2.09	14.56	4.17	5.25
Moderate 2010	0.27	3.12	19.46	2.34	5.01
Aggressive 2010	1.19	4.15	24.23	0.28	4.55
<b>2015</b>					
Conservative 2015	(0.44)	2.29	16.19	3.68	5.31
Moderate 2015	0.65	3.51	21.83	1.48	4.96
Aggressive 2015	1.69	4.67	27.02	(0.79)	4.35
<b>2020</b>					
Conservative 2020	(0.08)	2.65	18.48	2.93	5.34
Moderate 2020	1.20	4.09	24.92	0.36	4.80
Aggressive 2020	2.22	5.22	29.84	(1.83)	4.09
<b>2025</b>					
Conservative 2025	0.47	3.24	21.64	1.87	5.26
Moderate 2025	1.81	4.74	28.17	(0.80)	4.53
Aggressive 2025	2.64	5.67	32.10	(2.56)	3.90
<b>2030</b>					
Conservative 2030	1.12	3.94	25.16	0.71	5.06
Moderate 2030	2.31	5.27	30.80	(1.65)	4.31
Aggressive 2030	2.88	5.91	33.47	(2.86)	3.85
<b>2035</b>					
Conservative 2035	1.69	4.55	28.14	(0.20)	4.85
Moderate 2035	2.60	5.56	32.40	(2.04)	4.24
Aggressive 2035	2.98	5.99	34.19	(2.87)	3.95
<b>2040</b>					
Conservative 2040	2.01	4.90	29.95	(0.65)	4.76
Moderate 2040	2.71	5.68	33.23	(2.10)	4.31
Aggressive 2040	3.03	6.03	34.72	(2.80)	4.08
<b>2045</b>					
Conservative 2045	2.15	5.04	30.89	(0.77)	4.81
Moderate 2045	2.77	5.73	33.83	(2.06)	4.42
Aggressive 2045	3.06	6.06	35.21	(2.71)	4.22
<b>2050</b>					
Conservative 2050	2.22	5.11	31.57	(0.77)	4.90
Moderate 2050	2.81	5.77	34.35	(1.99)	4.56
Aggressive 2050	3.10	6.09	35.71	(2.61)	4.37
<b>2055</b>					
Conservative 2055	2.26	5.16	32.02	(0.72)	4.96
Moderate 2055	2.84	5.80	34.77	(1.91)	4.63
Aggressive 2055	3.13	6.13	36.15	(2.54)	4.44

## Fund Flows

Positive sentiment toward target maturity funds strengthened during the fourth quarter. Estimated flows improved significantly to almost \$14 billion as compared to the third quarter's \$11 billion. Flows in each month of the fourth quarter were higher than any of the previous seven months. 2021-2025 funds stood out, with flow growth at 10% versus the third quarter's 7% clip. As a group, target maturity funds enjoyed more than \$45 billion in net flows for 2009, a modest increase over 2008's \$43 billion, but an improvement nonetheless. Thanks to the stock market's recovery as well as new investments, assets in target maturity funds increased from \$159 billion at the end of 2008 to \$256 billion by the end of 2009.

**Table 5: Target Maturity Fund Flows Q4 2009**

Target Date	Asset Under Management \$Mil		Estimated Net Flow \$Mil		Flow as a % of beginning AUM	
	End Q3	End Q4	Q4	Average (past four qtrs.)	Q4	Q3
Income	9,910	11,367	691	365	7%	7%
2000-2010	30,750	31,673	825	218	3%	2%
2011-2015	27,980	30,673	1,760	1,008	6%	6%
2016-2020	47,563	51,421	2,029	1,424	4%	5%
2021-2025	28,472	32,535	2,830	1,506	10%	7%
2026-2030	35,591	38,878	1,693	1,383	5%	6%
2031-2035	18,828	21,178	1,447	1,035	8%	8%
2036-2040	21,795	24,051	1,227	1,076	6%	7%
2041-2045	8,082	9,177	694	560	9%	10%
2050+	4,562	5,505	695	434	15%	13%
<b>Totals</b>	<b>233,533</b>	<b>256,460</b>	<b>13,891</b>	<b>9,010</b>	<b>6%</b>	<b>5%</b>

Source: Morningstar Direct<sup>SM</sup>

Figure 5: Monthly Estimated Net Flows by Morningstar Category

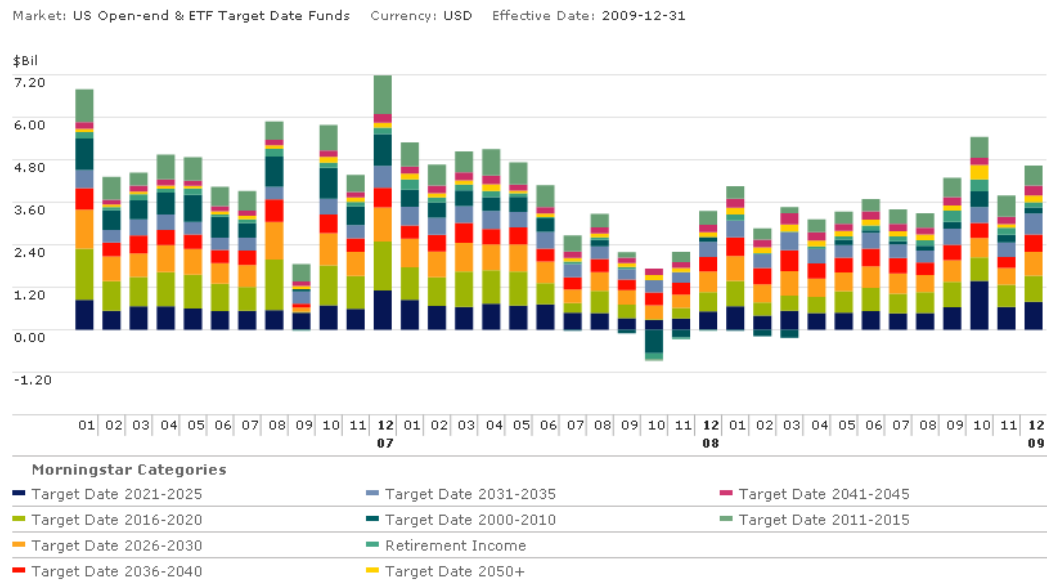
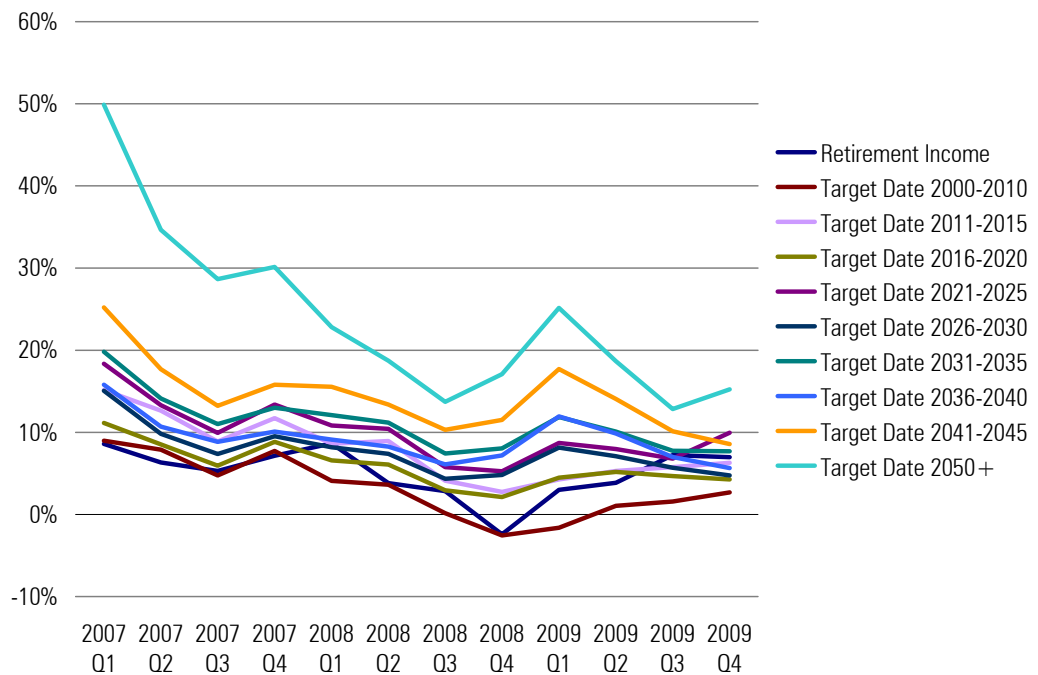


Figure 6: Quarterly Flow as a Percent of Assets Under Management



Source: Morningstar Direct<sup>SM</sup>

## Fund Family Ratings and Research Reports

As reported last quarter, in September, Morningstar's mutual fund research team launched ratings and in-depth research reports for 20 of the largest target maturity mutual fund series. Morningstar identified Vanguard as the best target maturity provider for investors based on such criteria as management, fees, and performance. Oppenheimer rated the lowest. The ratings are updated approximately one month following the end of each quarter; thus, we report ratings as of September 30, 2009.

**Table 6: Overall Ratings Summary as of Q3 2009**

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

Morningstar Target Maturity Fund Series Ratings and Research Reports are now available in Morningstar Principia<sup>®</sup>, Morningstar Advisor Workstation<sup>SM</sup> Enterprise Edition, Morningstar Direct<sup>SM</sup>, Morningstar Office<sup>®</sup>, Morningstar Site Builder<sup>SM</sup>, and through licensed data feeds. Morningstar.com, the company's Web site 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 academic research to create customized investment advisory solutions that help investors meet their goals.

For more information, contact:

Ibbotson Associates  
22 West Washington Street  
Chicago, Illinois 60602  
312 696-6700  
312 696-6701 fax  
www.ibbotson.com

**Important Disclosures**

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 indexes 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 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.