Ibbotson Target Maturity Report Q3 2009

Tom Idzorek

Chief Investment Officer
and Director of Research

Ibbotson Associates

Rod Bare

Director of Asset Allocation Indexes

Morningstar, Inc.

Target maturity funds enjoyed their second quarter in a row of positive returns, and on an annual basis significantly outperformed the S&P 500 Index. Perhaps most striking given the wealth destruction that took place between October 2008 and February 2009, 173 of the 319 funds with at least a one-year history ended the most recent quarter with a postive annual return. As we highlight later, fund flows remain extremely strong. Finally, talk of increased regulation for target maturity funds has quieted down considerably.

Target Maturity Performance Summary

The average target maturity fund returned 14.1% during the third quarter, slightly below the S&P 500 Index, which gained 15.6%. The weighted-average return of the 13 indices that collectively form the Morningstar Lifetime Moderate Index family was 14.1%.[1] Somewhat incredibly, on a one-year basis, the average target maturity is slightly positive with a return of 0.44%. The Morningstar Lifetime Moderate Index family gained 2.0% over the last 12 months, while the S&P 500 Index lost 6.9%.

Table 1: Target Maturity Performance Summary

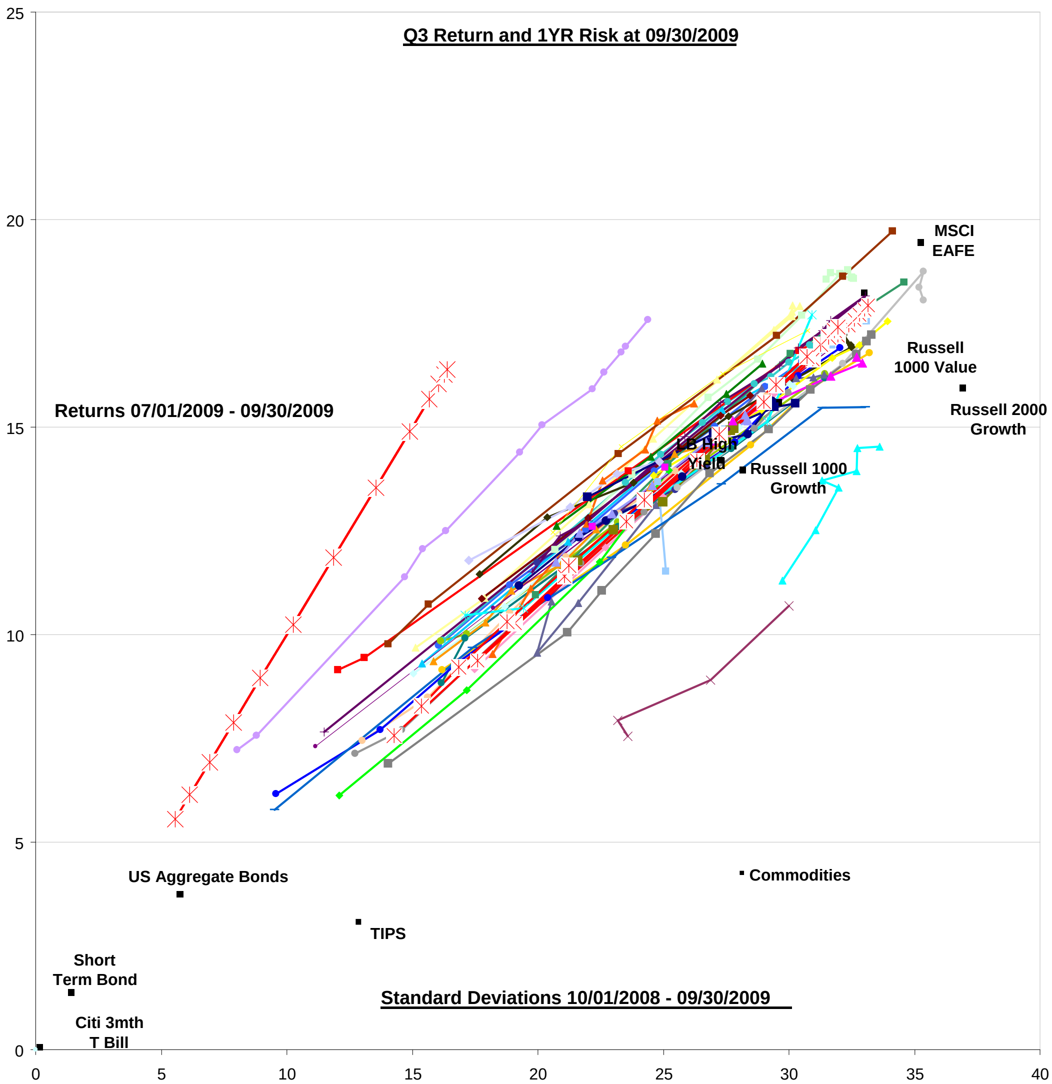
	Q3 Return	12-Month Return Ending Sept. 30 2009
Average Target Maturity Fund	14.1%	0.4%
Morningstar Lifetime Moderate Index	14.1%	2.0%
S&P 500 Index	15.6%	-6.9%

[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

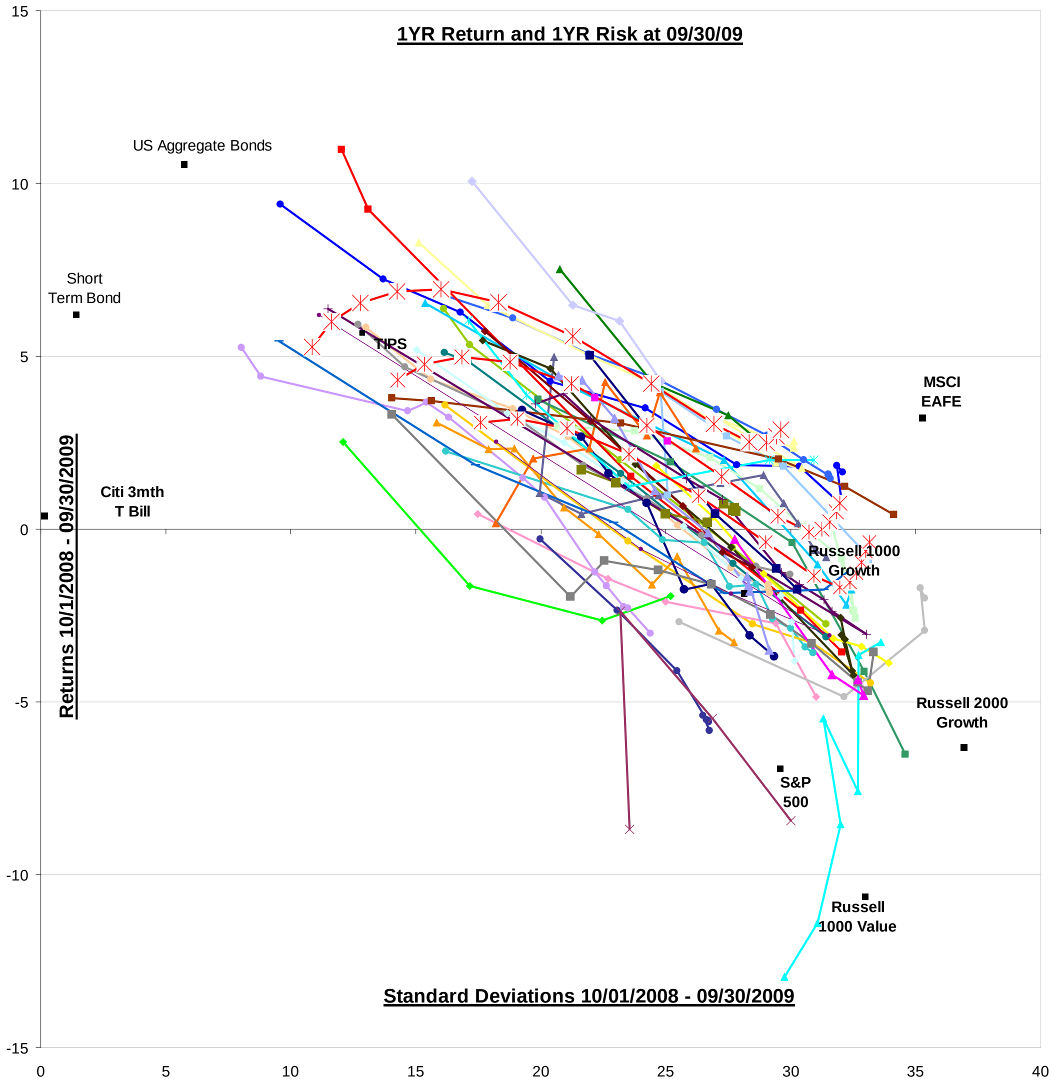
The performance of target maturity fund families during the third quarter is summarized in Figure 1. We are now tracking 319 unique target maturity funds with at least a one-year track record representing 41 fund families. The lines in the graph connect funds from the same fund family. This efficient 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 Q2, this quarter all target maturity funds had a positive return. Once again, the aggregate stock-bond split was the primary driver of *total* returns. 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 crosses. The distinct risk and return characteristics of the Morningstar Lifetime Conservative Index is clear.

Figure 1: Target Maturity Fund Family Performance Q3 2009



Given the extraordinary events of the last year, we also a produced a *one-year* risk and return graph. In contrast with Figure 1, which displays the return during the 3rd quarter on the vertical axis, Figure 2 displays the return during the last year on the vertical axis. Here you can see that many of the riskier funds are still in negative territory over the past year, with a few fund families entirely in negative territory.

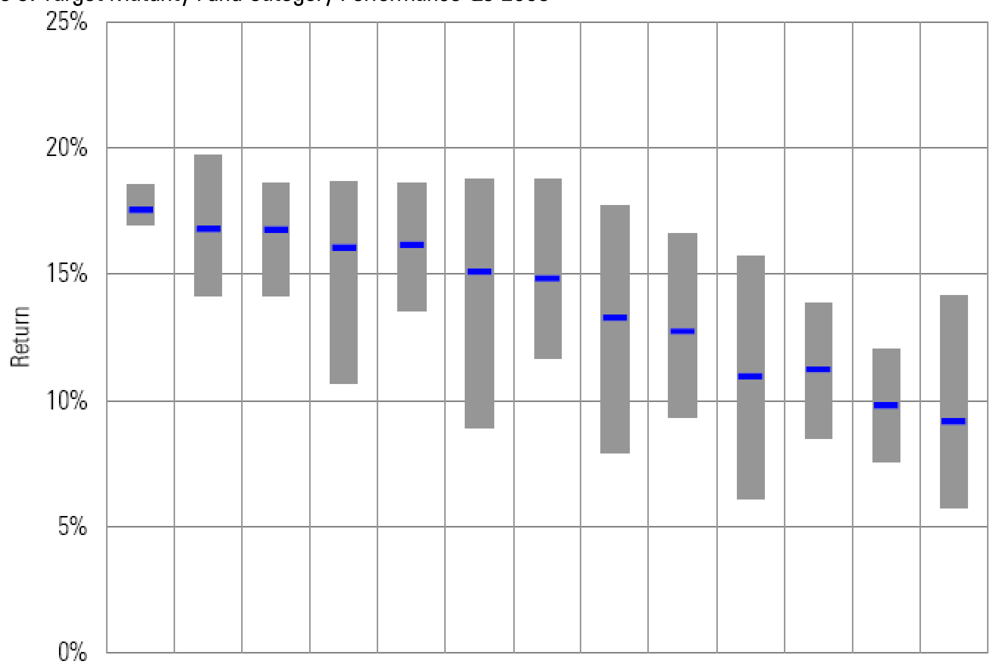
Figure 2: Target Maturity Fund Family Performance. One-Year Ending Q3 2009



Target Maturity Fund Performance

In Figure 3 the floating gray bars show the range of 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. As usual, 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, 87 funds outperformed and 232 underperformed.

Figure 3: Target Maturity Fund Category Performance Q3 2009



Category	2055	2050	2045	2040	2035	2030	2025	2020	2015	2010	2005	2000	Income
Max	18.6%	19.7%	18.6%	18.6%	18.6%	18.8%	18.8%	17.7%	16.6%	15.7%	13.9%	12.1%	14.1%
Average	17.5%	16.8%	16.8%	16.1%	16.2%	15.1%	14.8%	13.3%	12.7%	11.0%	11.2%	9.8%	9.2%
Min	17.0%	14.2%	14.2%	10.7%	13.6%	8.9%	11.7%	7.9%	9.3%	6.1%	8.5%	7.6%	5.8%
# of Funds													
Outpeformers	0	0	0	0	0	1	5	14	20	21	6	1	19
Underpeforms	3	29	23	38	26	38	22	25	9	11	1	1	6
Total	3	29	23	38	26	39	27	39	29	32	7	2	25
Index													
Aggressive	17.9%	17.8%	17.7%	17.6%	17.4%	17.2%	16.6%	15.6%	14.2%	12.7%	11.4%	10.3%	9.4%
Moderate	17.4%	17.3%	17.2%	17.0%	16.7%	16.0%	14.8%	13.3%	11.7%	10.3%	9.2%	8.3%	7.6%
Conservative	16.4%	16.3%	16.0%	15.7%	14.9%	13.5%	11.9%	10.2%	9.0%	7.9%	6.9%	6.1%	5.6%

Source: Ibbotson Associates and Morningstar, Inc.

Asset Class Performance

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: Asset Class Performance Q3 2009

Asset Class	Q3 2009 Return	12-Month Standard Deviation
US Large Growth	14.0%	28.1%
US Large Value	18.2%	33.0%
US Small Growth	16.0%	36.9%
US Small Value	22.7%	40.2%
Non-US Developed	19.5%	35.3%
Emerging Market Stocks	21.0%	45.1%
Real Estate	33.3%	64.8%
Commodities (Futures)	4.2%	28.1%
High Yield	14.2%	27.2%
US Aggregate Bonds	3.7%	5.7%
US Short-Term Bonds	1.4%	1.4%
TIPS	3.1%	12.9%
Cash	0.1%	0.1%

Source: Ibbotson Associates and Morningstar Direct℠

All of the asset classes had positive returns. Like last quarter, most of the fixed income asset classes were slightly positive, while high yield bonds produced equity-like returns of 14.2% helping the performance of target maturity funds that implement a portion of their fixed income asset allocation with high yield. The equity asset classes all produced double-digit positive returns. Emerging market stocks, non-U.S. developed stocks, U.S. small value, and real estate were the standout performers helping funds with higher than average exposures to these asset classes. Within U.S. equities, the long-standing market anomalies were reinforced during the quarter as small cap stocks beat large cap stocks and value stocks beat growth stocks.

Morningstar Lifetime Allocation Indexes

Table 3 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.

Table 3: Morningstar Lifetime Allocation Indexes

(As of 9/30/2009; multiyear periods annualized)	1 Mo	3 Mo	1 Yr	3 Yr	5 Yr
Income					
Conservative Income	1.94	5.55	5.28	4.78	5.18
Moderate Income	2.40	7.56	4.31	3.63	5.21
Aggressive Income	2.80	9.38	3.08	2.45	5.15
2000					
Conservative 2000	2.09	6.14	5.99	4.83	5.41
Moderate 2000	2.58	8.29	4.77	3.54	5.41
Aggressive 2000	3.01	10.27	3.19	2.16	5.31
2005					
Conservative 2005	2.28	6.93	6.54	4.75	5.62
Moderate 2005	2.80	9.21	4.98	3.28	5.60
Aggressive 2005	3.27	11.40	2.91	1.64	5.43
2010					
Conservative 2010	2.51	7.88	6.88	4.53	5.82
Moderate 2010	3.06	10.32	4.84	2.83	5.76
Aggressive 2010	3.57	12.73	2.16	0.87	5.47
2015					
Conservative 2015	2.77	8.95	6.95	4.17	6.03
Moderate 2015	3.36	11.66	4.20	2.10	5.87
Aggressive 2015	3.89	14.21	0.96	(0.12)	5.37
2020					
Conservative 2020	3.07	10.25	6.55	3.56	6.23
Moderate 2020	3.72	13.25	2.99	1.06	5.83
Aggressive 2020	4.20	15.60	(0.37)	(1.13)	5.16
2025					
Conservative 2025	3.45	11.86	5.57	2.61	6.28
Moderate 2025	4.07	14.83	1.53	(0.06)	5.62
Aggressive 2025	4.43	16.64	(1.35)	(1.86)	4.97
2030					
Conservative 2030	3.83	13.54	4.21	1.50	6.15
Moderate 2030	4.33	16.02	0.38	(0.91)	5.39
Aggressive 2030	4.56	17.20	(1.68)	(2.16)	4.92
2035					
Conservative 2035	4.13	14.89	3.04	0.57	5.94
Moderate 2035	4.49	16.69	(0.07)	(1.30)	5.32
Aggressive 2035	4.64	17.45	(1.55)	(2.15)	5.03
2040					
Conservative 2040	4.32	15.67	2.53	0.12	5.85
Moderate 2040	4.58	16.99	(0.01)	(1.34)	5.41
Aggressive 2040	4.70	17.59	(1.26)	(2.05)	5.18
2045					
Conservative 2045	4.42	16.04	2.50	0.02	5.92
Moderate 2045	4.65	17.18	0.21	(1.28)	5.55
Aggressive 2045	4.76	17.71	(0.95)	(1.93)	5.35
2050					
Conservative 2050	4.50	16.28	2.68	0.04	6.03
Moderate 2050	4.71	17.32	0.50	(1.18)	5.70
Aggressive 2050	4.81	17.83	(0.64)	(1.80)	5.52
2055					
Conservative 2055	4.55	16.40	2.88	0.09	6.08
Moderate 2055	4.76	17.42	0.76	(1.10)	5.77
Aggressive 2055	4.86	17.93	(0.37)	(1.73)	5.59

Fund Flows

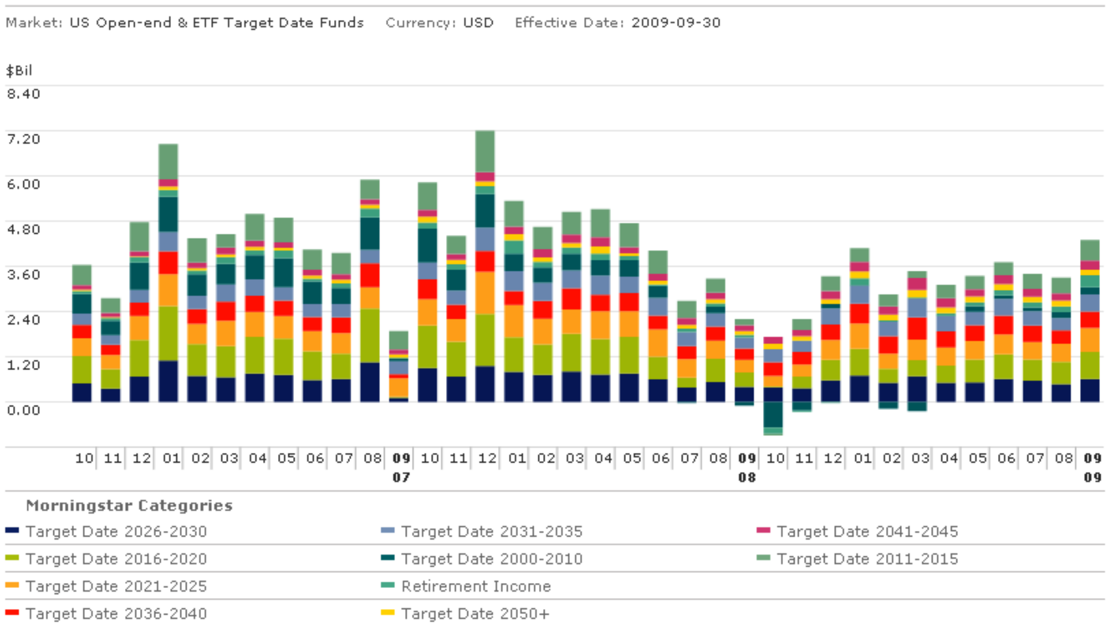
Estimated flows into target maturity funds slowed in the third quarter as compared to the second quarter, as measured by flows as percentage of beginning AUM. This is a surprising turn of events given not only the markets' rebound but the strong flows that the rest of open-end funds enjoyed in the third quarter. The longest-maturity categories experienced the greatest slowdown. In fact, contributions to funds in the 2021 to 2050+ range peaked in the first quarter of 2009 and have been decelerating ever since. Meanwhile, Retirement Income and the categories ranging from 2000 to 2020 have continued to enjoy increasing quarterly growth in flows, with Income leading the way.

Table 4: Target Maturity Fund Flows Q3 2009

	Asset Under Management $Mil		**Estimated Net Flow** $Mil			
					Flow as a % of beginning AUM	
Target Date	End Q2	End Q3	Q3	Average (past four qtrs.)	Q3	Q2
Income	7,576	9,910	618	233	7%	4%
2000-2010	24,017	30,750	430	-129	2%	1%
2011-2015	19,936	27,980	1,364	978	6%	5%
2016-2020	33,062	47,563	1,861	1,486	5%	5%
2021-2025	18,810	28,472	1,586	1,457	7%	8%
2026-2030	23,397	35,591	1,660	1,641	6%	7%
2031-2035	11,827	18,828	1,174	1,197	8%	10%
2036-2040	13,671	21,795	1,228	1,319	7%	10%
2041-2045	4,807	8,082	645	667	10%	14%
2050+	2,545	4,562	449	467	13%	19%
Totals	159,649	233,533	11,015	18,633	5%	6%

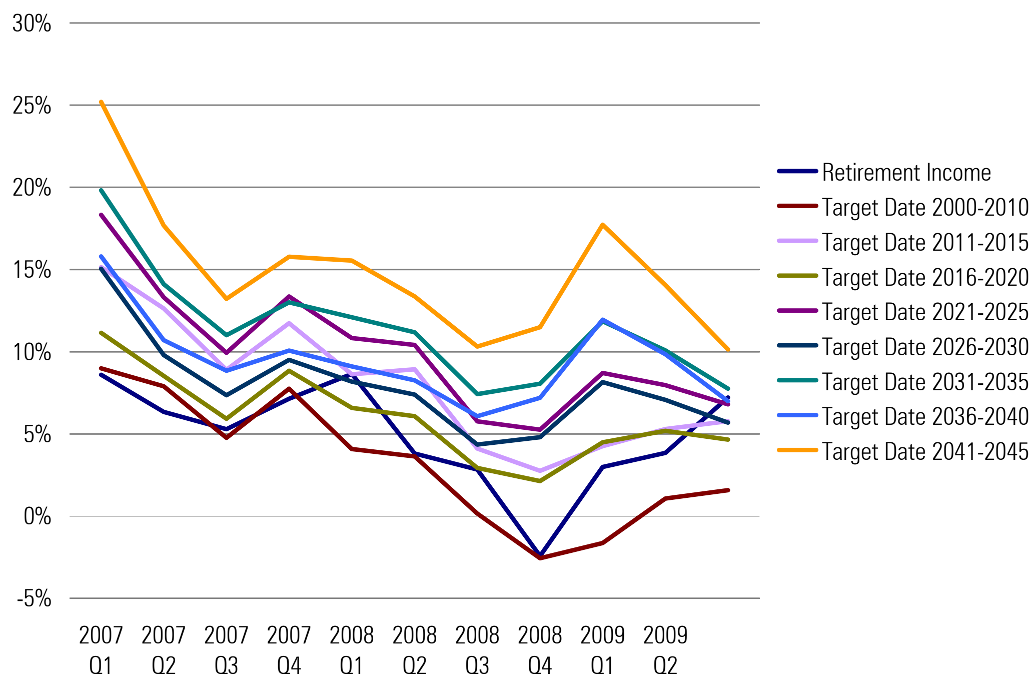
Source: Morningstar Direct[SM]

Figure 3: Monthly Estimated Net Flows by Morningstar Category



Source: Morningstar Direct[SM]

Figure 4: Quarterly Flow as a Percent of Assets Under Management



Source: Morningstar Direct[SM]

Fund Family Ratings and Research Reports

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.

Overall Ratings Summary

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

Morningstar Target-Maturity Fund Series Ratings and Research Reports are now available in Morningstar Principia®, and will be available in the coming months in Morningstar Advisor Workstation℠ Enterprise Edition, Morningstar Direct℠, Morningstar Office®, Morningstar Site Builder℠, 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

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For more information, contact:
Ibbotson Associates
22 West Washington Street
Chicago, Illinois 60602
312 696-6700
312 696-6701 fax
ibbotson.com

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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 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.