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Strong Stock Market Returns Push Target-Date Assets Over $1.7 Tr. in 2017

Passive Strategies Still Gaining Market Share, but Active Managers See Solid Growth Too

March 5, 2018, Newton, NH–The strong performing stock market in 2017 helped assets in mutual fund and CIT-based Target-Date solutions[1] reach $1.73 trillion at year-end, up from $1.34 trillion at the end of 2016, as net sales estimates suggest about two-thirds of the gain was due to appreciation. CIT-based solutions began 2017 with $463 billion in assets and ended the year at $621 billion for a 36% gain. Mutual fund solutions rose 26%, from $883 billion to $1.11 trillion at year-end. These are just a few of the findings featured in the latest in-depth research report from Sway Research—*The State of the Target-Date Market: 2018, Examining Asset Trends Across Providers, Products, Vehicles, Management Styles, and Glide Path Structures.*

The Big Got Even Bigger in 2017

Firms that offer both asset management and DC recordkeeping continue to dominate the Target-Date market, as these providers controlled 85% of Target-Date assets at the end of 2017, up from 83% in 2015. Pure Asset Managers held 14% at the end of 2017, the same as 2015.

One of the firms with DC recordkeeping, Vanguard Group, finished 2017 with $623 billion of Target-Date AUM, which is 2.5-times more than the No. 2 provider—Fidelity Investments—which managed $244 billion. As of the end of 2017, Vanguard controlled $381 billion of assets in mutual fund Target-Dates, which is 34% of the total assets managed in these vehicles, and $242 billion in CIT-based Target-Dates, which is 39% of the assets in these products. "The combination of low fees, strong returns, and a top-5 DC recordkeeping platform continues to drive phenomenal growth for Vanguard's Target-Date effort," says Chris Brown, founder and principal of Sway Research. As of year-end 2017, Fidelity was the No. 2 provider of Target-Date mutual

[1] This data includes assets managed in pre-packaged Target-Date offerings and does not include solutions that are customized to the requirements of a specific plan sponsor or consultant.

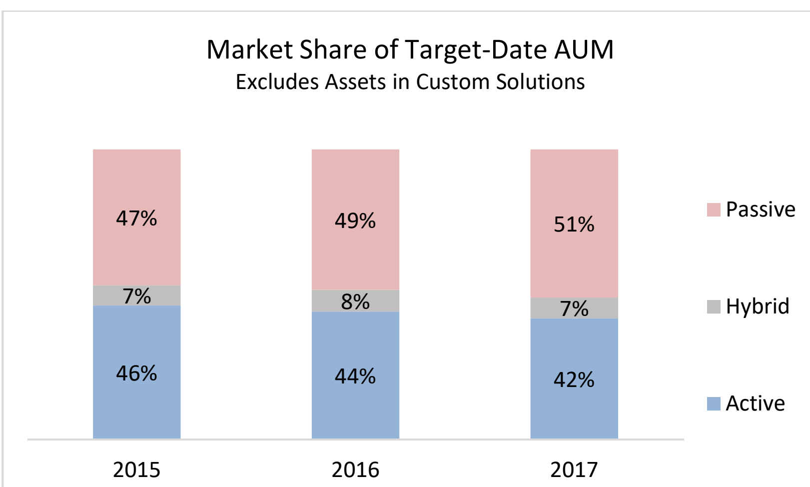
funds, with $227 billion of AUM—good for 21% asset share of Target-Date mutual funds. BlackRock was No. 2 in CIT-based solutions with $122 billion and 20% asset share of these vehicles[2]. T. Rowe Price is the third largest provider in each vehicle type with 15% share of mutual fund Target-Date assets, and 10% of CIT-based offerings.

Vanguard generated amazing asset growth, but the rise of another leading provider is even more amazing. Since the start of 2015, no top-10 provider has grown its Target-Date assets faster than American Funds, which has increased its Target-Date AUM by more than 50% annually. After finishing 2014 with $25 billion of Target-Date assets, American Funds ended 2017 with $89 billion under management.

Assets Still Flowing to Single-Manager and Passively-Managed Offerings

Target-Dates with a single proprietary manager (i.e., the provider manages the money as opposed to hiring a single outside manager) now hold 94 cents of every dollar in non-custom Target-Date solutions, up from 93 cents on the dollar a year ago. Meanwhile, multi-manager solutions dropped from 4% of Target-Date assets two years ago to just 3% in 2017.

Target-Dates that invest in a portfolio of Passively-managed mutual funds and/or CITs gained market share in 2017. At year-end, assets in Passively-managed T-Ds totaled $885 billion, which was 51% of the total market. This was up from 49% at the end of 2016, and just 47% in 2015.



[2] BlackRock is also a leading provider of custom Target-Date solutions and managed an additional $43 billion of assets in these solutions at year-end 2017.

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Solutions that invest in a portfolio of Actively-managed funds/CITs held $721 billion of assets (42%) at the end of 2017, which is down from 44% a year prior, and 46% at the end of 2015. Actively-managed products still control the bulk of assets in Target-Date mutual funds (56% vs. 42% for Passive offerings), but Passively-managed solutions dominate CIT-based Target-Date assets (68% vs 16% for Active solutions). Hybrid offerings hold 16% of assets in CIT-based Target-Dates, but only 3% of assets in Target-Date mutual funds.

Incredibly, just one firm—Vanguard—controls 70% of the assets in Passively-managed Target-Dates. The firm manages an astounding 83% of the assets in Passively-managed Target-Date mutual funds, and 57% of the assets in CIT-based Target-Dates.

On the Actively-managed side, Fidelity leads the pack in mutual fund-based solutions, as the firm controls a third of the assets in its Freedom® Target-Date series. Meanwhile, T. Rowe Price dominates Actively-managed CIT-based Target-Dates, managing 52% of the assets in these vehicles. "While strong downward pressure on plan fees is driving greater usage of Passive products, the asset growth and market share possessed by Fidelity, T. Rowe Price, American Funds, and others prove that there is still considerable demand and opportunity for Actively-managed Target-Date solutions," adds Brown.

About this Research Study

Sway's annual in-depth study of the Target-Date market is based on a proprietary database of mutual fund and collective investment trust Target-Date portfolio and asset data, which includes 128 different Target-Date series spread across 5,679 individual mutual fund share classes and CITs. This data is harnessed to provide insights into shifts within the $1.73 billion Target-Date market, including across products and providers, investment vehicles, underlying investments, management styles, glide paths, and so on. Data is gathered from an array of sources, including Target-Date providers, plan intermediaries, public filings, and marketing collateral, such as fact sheets, brochures, and web sites.

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