



NEWS RELEASE

CALLAN ASSOCIATES TARGET DATE FUND MANAGER SURVEY DEPICTS PROVIDER RESPONSE TO TURBULENT TIMES

SAN FRANCISCO, May 12, 2009 — The *2009 Callan Target Date Fund Manager Survey*, published by the Callan Investments Institute and authored by Lori Lucas, DC practice leader for Callan, depicts fund managers' response to the market turndown amid questions on marketing approaches and risk levels in glidepath funds. The March 2009 survey covers nearly 30 fund managers¹ and reveals how diverse the target date fund (TDF) universe remains.

A key area of the survey found that the majority of providers, 53.3%, evaluate their glidepaths annually; 23.3% quarterly. However, due to recent market events, 85% of fund managers examined their glidepaths between October 2008 and March 2009, but only 34.5% made changes as a result. Some managers that did make adjustments reduced the aggressiveness of the glidepath, while others chose to improve diversification. Nearly 67% of managers reported that they take a strategic approach to asset allocation compared with 6% that take a tactical approach.

“The majority of target date fund managers are avoiding a knee-jerk reaction to the market crisis,” said Lucas. “They continue to examine the situation closely, but are being measured in their response.”

Beyond altering the glidepath, 54.5% of managers made other target date fund changes within the past six months. The most common change at 61.1% was to underlying funds/managers employed in the target date funds – an interesting finding given that many TDFs are populated solely with proprietary funds.

“Target date fund managers know they are going to be held accountable for performance by managers within their funds and many are being proactive about eliminating under-performers,” said Lucas.

Glidepath funds continue to vary widely in terms of equity exposure and shifts in allocation over time across funds, but variations are most profound in nearer-term funds. For example, equity allocations for 2010 TDFs in the survey sample range from more than 60% to less than 20%. Some later series’ target date funds have equity exposure that is most conservative at retirement, while others will glide down well into retirement.

Variations in equity allocation and the use of asset classes can materially impact target date fund performance. A case in point: the worst performing 2010 fund in the sample lost 15.87% in the fourth quarter of 2008 and 34.48% for the year, while the best performing 2010 fund lost 6.20% and 12.92% respectively.

Historically, plan sponsors often defaulted to the target date funds offered by their recordkeepers, but the events of 2008 illustrate that not all target date funds are created equal. “The differences in glidepaths and in underlying funds that led to enormous variations in TDF returns present communication challenges for sponsors of defined contribution plans that must explain target date fund risk levels and how those funds are meant to be used into retirement,” says Lucas.

These variations also raise monitoring and evaluation challenges. Callan suggests that plan sponsors could benefit by thoroughly evaluating their target date funds to understand if they performed as expected by undertaking the following steps:

- Determine an appropriate benchmark
- Locate the appropriate peer group
- Evaluate both near-term and long-term risk exposures
- Examine fees

“Over the coming months, plan sponsors will need to be even more vigilant with respect to target date fund construction and performance,” says Lucas. “Just because managers haven’t made changes to their funds yet, doesn’t mean that they won’t going forward. Mitigating exposure to downside risk is definitely an area of ongoing focus for target date funds.”

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About Callan Associates

Founded in 1973, Callan Associates is one of the largest independently-owned investment consulting firms in the country. Headquartered in San Francisco, Calif., the firm provides research, education, decision support and advice to a broad array of institutional investors through five distinct lines of business: Fund Sponsor Consulting, Independent Adviser Group, Institutional Consulting Group, Callan Investments Institute and the Trust Advisory Group. Callan employs more than 170 people and maintains four regional offices located in Denver, Chicago, Atlanta and Florham Park, NJ. For more information, visit www.callan.com.

¹ Twenty-seven target date fund managers responded to Callan's survey, reflecting the experiences of 33 unique target date series. A unique target date series refers to a target date fund family that is managed with a distinct asset allocation and management approach.

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