Contact: **FOR IMMEDIATE RELEASE**

Chris J. Brown
Tel. 603-382-5300
chris@swayresearch.com
www.swayresearch.com

Target-Dates Top $1 Trillion, Yet Remain Largely Out of Reach for Most Asset Managers

Capturing Substantial Target-Date Market Share Remains an Unrealized Goal for All But a Few Financial Services Firms

March 22, 2016, Newton, NH–This year marks the 10th anniversary of the Pension Protection Act of 2006 (PPA), which drove adoption of auto-enrollment and auto-escalation policies across much of the defined contribution (DC) plan market. The PPA also introduced QDIAs (Qualified Deferred Investment Alternatives)—the investments through which many new participant investment dollars now flow into the DC marketplace. Sway Research's latest in-depth research report—*The State of the Target-Date Market: 2016 - Assessing the QDIA Behemoth a Decade After Passage of the Pension Protection Act*—examines this most popular form of QDIA.

Target-Date Assets Highly Concentrated, Challenging for Many Asset Managers

The study, which provides a comprehensive examination of more than 120 Target-Date series in both mutual fund and collective investment trust (CIT) vehicles, reveals that as of the end of 2015, more than three of every five dollars invested in a Target-Date mutual fund or CIT is controlled by one of only three financial services firms—Vanguard, Fidelity, and T. Rowe Price. Not coincidentally, each of these firms also possesses a leading DC recordkeeping business. Vanguard, which boasts low cost passively-managed Target-Date portfolios, is the most dominant Target-Date player, managing nearly a third of the $1.1 trillion of Target-Date mutual fund and CIT assets within its proprietary offerings.

Only a handful of asset managers that lack a DC recordkeeping business or branded product have achieved a substantial share of Target-Date assets. BlackRock is the only firm among the top-10 in market share of Target-Date mutual funds and CITs that does not have a DC product or platform. Even though only 54% of Target-Date mutual funds and CITs invest exclusively in the proprietary funds of the series sponsor, products of this type held 92% of the assets at the end of 2015.

Study Also Reveals Key Design Features

The new study not only reveals the asset share of more than 100 Target-Date mutual fund and CIT-based series—crucial knowledge for financial services sales and marketing executives—but also where Target-Date assets lie across a range of product design features, such as the different types of underlying investments, range of fees and expenses, glide path structures, and 5- or 10-year increments. For example, more than four of every five Target-Date dollars is invested in a series that features a "Through" retirement glide path, though the term "Through" is very much subjective as more than half of these assets are in products that realize their equity landing point (the point at which they reach their lowest equity allocation) within 15 years of reaching the target.

The Target-Date market remains incredibly challenging for financial services firms that lack a DC recordkeeping business, but opportunities are available via open-architecture multi-manager products from retirement plan recordkeepers, advisors and consultants, such as Schwab, Callan and NFP Retirement. By harnessing this research, which is based on a combination of primary and secondary research from a wide array of industry sources, including the Target-Date providers themselves, industry executives will enhance their ability to capture Target-Date assets within proprietary and/or multi-manager products going forward,.

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