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Target-Date Assets Surge to New Highs in 2019, Reach $2.3 Trillion

Rising Stock Prices Fuel Tremendous Growth for Leading Providers

March 2, 2020, Newton, NH—Assets in Target-Date mutual funds and CITs shattered the $2 trillion mark in 2019, reaching $2.29 trillion by year-end, after beginning the year with $1.77 trillion. The 30% rise in assets was mostly the result of a surge in stock prices, as the S&P 500 Index gained 30% for the year. At year-end 2019, two in five dollars (40%) invested in a non-custom Target-Date solution was invested in a CIT-based solution, up from only 32% at the end of 2015. 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: 2020, Examining Asset Trends Across Providers, Products, Vehicles, Management Styles, and Glide Path Structures.*

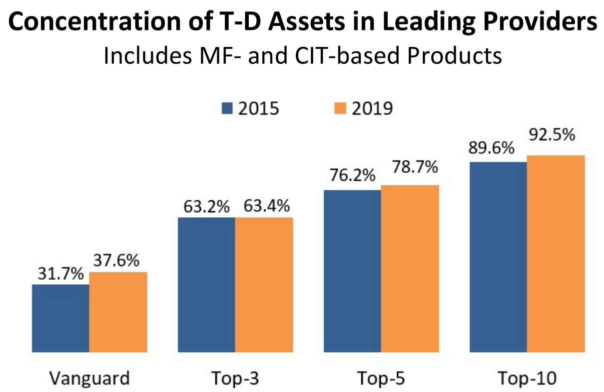
Vanguard Likely to Break $1 Trillion in 2020

Barring a stock market decline, Vanguard Group may manage more than $1 trillion in Target-Date assets before 2020 comes to an end. The firm managed $862 billion of Target-Date assets at the end of 2019, a rise of 33% from $649 billion in 2018, and up from just $356 billion at the end of 2015. The index fund behemoth controlled 38% of assets in non-custom Target-Date solutions to start 2020, up from just 32% at the outset of 2016. Vanguard is the leading provider of both mutual fund- and CIT-based Target-Date series, and no competitor comes close. Second place Fidelity controls $310 billion, while T. Rowe Price is in third position with $282 billion of Target-Date AUM. Vanguard is also the dominant player in Target-Date solutions that invest in Passively-managed underlying investments, controlling an astounding 68% of that market segment.

Vanguard is an example of a firm that offers both asset management and recordkeeping services to defined contribution plans. Firms that bundle asset management and DC plan recordkeeping are dominating the Target-Date market, and now control 85% of assets in non-custom Target-Date products, up from 83% in 2015. On the flip side, asset share of pure asset managers is eroding, and is now just 14%, down from 15% in 2015. Recordkeeping may not be a highly profitable business, but asset management still is (even if margins are declining), and the benefits of having both a major recordkeeping platform and an asset management arm are clearly visible in the Target-Date market.

Target-Date Assets Increasingly Concentrated

One might call it the Vanguard effect, but since 2015, when Sway Research began tracking asset growth across mutual fund- and CIT-based Target-Date solutions, the concentration of assets in a handful of providers has grown. As shown in the graph below, the share of assets controlled by Vanguard and the other nine providers in the top-10 has grown from 89.6% to 92.5% in just four years. This leaves just 7.5% of the market ($171 billion of AUM) to be divvied up among the other 53 providers currently offering non-custom Target-Date solutions.



Source: Sway Research, LLC

NFP Retirement Coming on Fast

NFP Retirement, which launched its first Target-Date series in 2015 and now offers seven CIT-based Target-Date solutions, has quickly grown to become the 14th largest provider of Target-Date assets via flexPATH Strategies, LLC, an affiliate firm that provides sub-advisory services for the seven Target-Date series. NFP, which includes a growing DC plan consulting business, finished 2019 with $12.58 billion of Target-Date AUM—an 84% increase from year-end 2018 ($6.81B). BlackRock is also benefitting from NFP's success, as the firm provides glide path construction and monitoring, as well as many of the underlying investments, for the seven

NFP series. The largest of these series is flexPATH Index+, which controlled $6.26 billion of AUM at the end of 2019.

Fees for Active Target-Dates Fall Again

The fees paid by an average Target-Date investor are coming down. On an asset-weighted basis, the average expense ratio of a mutual fund-based Target-Date series that invests in Actively-managed underlying investments fell to 65 Basis Points (BPs) in 2019, down from 67 BPs in 2018, and 71 BPs in 2017—the first year Sway produced this analysis. The average asset-weighted expense ratio of mutual fund-based Hybrid Target-Date series—those that invest in both Active and Passive underlying funds—dropped to 51 BPs from 55 BPs a year earlier. Though it's important to note that the average was only 48 BPs in 2017, before a number of Active series switched to a Hybrid approach and drove average costs up. The asset-weighted expense ratio of the average Target-Date series that invests in Passive underlying funds is just 13 BPs. This is the same level as in 2018, but down from 15 BPs at the end of 2017.

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 nearly 170 different Target-Date series spread across more than 6,000 individual mutual fund share classes and CITs. This data is harnessed to provide insights into shifts within the $2.3 trillion 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 websites.

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