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Contact: **FOR IMMEDIATE RELEASE**

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

Vanguard Sees Target-Date Asset Share Slip in 2021

Competitors Gain Ground Despite Market Leader's Surge to Nearly $1.2T of T-D AUM

February 9, 2022, Newton, NH—Assets invested in Target-Date mutual funds and CITs reached $3.25 trillion at the end of 2021—a gain of 19% over year-end 2020. Assets in mutual fund-based solutions expanded 14% to finish the year at $1.80 trillion, while CIT-based Target-Dates grew 27% to end 2021 with $1.45 trillion. CIT-based Target-Date solutions, which typically offer lower expenses than mutual funds, now control 45% of non-custom Target-Date assets to 55% for mutual funds. This mix was 35%/65% CIT to MF at the end of 2016. Eight out of 10 of the largest Target-Date providers, including each of the top-5, experienced greater asset growth from CIT-based T-Ds than mutual fund T-Ds in 2021. 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: 2022, Examining Asset Trends Across Providers, Products, Vehicles, Management Styles, and Glide Path Structures.*

Vanguard Slips Slightly as Fidelity Rides Passive Management to Market Share Gains

Passive-management giant Vanguard Group continues to dominate Target-Date assets, yet the firm lost a smidgen of asset share in 2021, despite reaching a colossal $1.19 trillion of Target-Date AUM by year end, up from $1.0 trillion at the close of 2020. The firm saw its share of Target-Date assets slip from 36.9% at year-end 2020 to 36.6% in 2021, while its closest competitors gained share. No. 2 in Target-Date AUM, Fidelity Investments saw its Target-Date asset share climb from 14.0% to 14.3%, as its Target-Date assets reached $465 billion. Fidelity's growth was sparked by its fast-growing Passive Target-Date solutions. The firm's FIAM Index Target Date (CIT) and Fidelity Freedom® Index products were the fastest-growing Target-Date series (among those with more than $1 billion of AUM at the start of 2019) over the past three years. At the end of 2018, just 15% of Fidelity's Target-Date assets were managed in solutions that invested in Passively-managed underlying funds, but this more than doubled to 33% by the end of 2021.

Providers in the No. 3 to 6 positions also gained ground. T. Rowe Price saw its T-D assets rise 21% year-over-year to close 2021 with $382 billion of Target-Date AUM. BlackRock, which holds 99% of its Target-Date AUM in solutions with Passive underlying investments, gained 25% to finish 2021 with $328 billion. Nos. 5 and 6, Capital Group/American Funds and SSgA, each experienced asset growth of 27% to end 2021 with $248 billion and $122 billion of Target-Date AUM, respectively.

Rise of Passive Strategies Has Active/Blend Managers Adding ETFs to T-D Allocations

An intense focus on fees has driven assets in Target-Dates that invest in low-cost Passively-managed underlying portfolios to new highs in AUM and market share. "Passive" Target-Dates now control $1.91 trillion of Target-Date AUM (58.9% asset share) to $1.06 trillion for solutions that invest in Active underlying funds (32.6% asset share). Today, there are 50 Hybrid series on the market vs. 40 Active and 44 Passive series. Despite the abundance of Hybrid solutions, these products held just $278 billion of AUM at the end of 2021, which was good for 8.6% asset share.

One response to the demand for lower-cost Target-Dates is a shift among Active and Hybrid products from investing strictly in Fund of Funds portfolios to a mix of Fund of Funds and ETFs. Products that have added ETFs in recent years include the $36 billion JPMorgan SmartRetirement® and $15 billion JPMorgan SmartRetirement® Blend series, the $5 billion USAA Target Retirement series, and the $648 million Franklin LifeSmart™ Retire Target series. According to Sway Research founder and principal, Chris J. Brown, "The combination of unwavering downward pressure on fees and the rise in asset managers building and/or buying proprietary ETF lineups means the trend of ETFs being added to Target-Date allocations is likely only getting started. Building scale and launching CITs are not the only ways to lower expenses. Investing more of the assets in lower-cost portfolios, such as ETFs and index funds, offers another means to bring costs down."

flexPATH Strategies Continues Surge, Reaches $28B of Target-Date AUM

flexPATH Strategies, an affiliate of NFP (National Financial Partners Corp.), a distributor of retirement plans considered by many to be an "aggregator" in the DC plan sales and support marketplace, reached $28 billion of Target-Date assets across its 11 CIT-based T-D series, most of which invest all or a portion of assets in BlackRock index portfolios and/or iShares ETFs. This makes the firm the 12th largest provider of Target-Date solutions, despite launching its first Target-Date series only recently in 2015. The firm's fast growth has it on track to break into the top-10 within the next year or two. Schwab presently holds the 10th position with $31 billion of Target-Date AUM. At the end of 2019, Schwab controlled nearly twice as many Target-Date assets as flexPATH Strategies ($24 billion for Schwab to $13 billion for flexPATH). flexPATH's success also demonstrates the potential for distributor-affiliated Target-Date solutions to garner assets in a field crowded with big name asset managers and DC plan record keepers.

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 184 different Target-Date series spread across 7,500 individual mutual fund share classes and CITs. This data is harnessed to provide insights into shifts within the $3.3 trillion Target-Date market, including across products and providers, investment vehicles, underlying investments, management styles, and glide paths.

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