sway research

Contact:

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

FOR IMMEDIATE RELEASE

Target-Date Assets Spike to a Record High $3.5 Trillion in 2023

Fees Continue to Fall as Performance Rebounds and Assets Swell

February 12, 2024, Newton, NH—Following a brutal 2022 in which assets fell 13%, Target-Date products rebounded in 2023, gaining 22% to end the year with a record $3.47 trillion of assets under management. Although collective trust (CIT)-based Target-Date products were expected to overtake mutual funds in 2023, mutual fund Target-Dates began the new year holding on to slightly more assets ($1.76 trillion to $1.71 trillion). However, assets in CIT-based Target-Dates expanded by a greater margin in 2023 (26%) compared to mutual fund products, which gained 19%, and will likely surpass mutual funds in 2024. These are just a few findings featured in the latest in-depth research report from Sway Research—*The State of the Target-Date Market: 2024, Examining Asset Trends Across Providers, Products, Vehicles, Management Styles, and Glide Path Structures.*

American Funds Target Date Retirement mutual funds move into 3rd place, by vehicle

During 2023, American Funds Target Date Retirement mutual funds surpassed BlackRock LifePath® Index CIT to become the third largest Target-Date series, by vehicle, behind the CIT and mutual fund versions of Vanguard Target Retirement, which held $668 billion and $620 billion, respectively, at year end. American Funds Target Date Retirement mutual funds finished 2023 with $272 billion. However, BlackRock LifePath® Target-Dates still managed $427 billion of total AUM across all strategies and vehicles, while T. Rowe Retirement Target-Dates managed $350 billion across its mutual fund and CIT versions.

Since the beginning of 2019, Capital Group's Target-Date assets expanded from 5.9% to 8.2% of the Target-Date market, excluding assets in custom Target-Date strategies. Over the same span, market leader Vanguard grew its asset share by one-half of a percentage point. Vanguard's Target-Date assets totaled $1.29 trillion as of the end of 2023, which equaled 37.1% of the market. Between Vanguard and Capital Group—which rank #1 and #5 among the largest Target-

Date providers—are Fidelity with $498 billion of Target-Date AUM, BlackRock with $427 billion (including custom strategies), and T. Rowe Price with $388 billion all as of year-end 2023.

Lower-cost vehicles and strategies driving Target-Date success

Though mutual fund series still possess slightly more assets, CITs, which generally charge lower fees due to lower operational costs, are proliferating. At the end of 2018, there were 62 mutual fund series controlling 62% of Target-Date assets. Five years later, there are only 49 mutual fund series left on the market, and their asset share has fallen to 51%. Asset share of CITs has not only increased from 38% to 49% since the start of 2019, but today, 85 CIT-based Target-Date series are available to investors, up from just 61 in 2018. In 2023, a single mutual fund series (*PIMCO RealPath® Blend*) was among the ten fastest-growing large size (i.e., >$1 billion of AUM) Target-Date solutions, while the other nine were all CITs. The largest series on the market—the CIT version of Vanguard Target Retirement—gained $134 billion of AUM in 2023, while the mutual fund version gained $98 billion. While much of this growth is the result of rising equity markets, the difference in gains likely reflects higher net flows to the CITs, as the two series began 2023 with an asset gap of only $12 billion.

The other side of the low-expense coin lies in products that invest in passive underlying portfolios. With each Target-Date report, Sway analyzes Target-Date mutual fund expenses, as high-quality data is available via public filings, unlike in the CIT space, where fees fluctuate across plans and platforms. The average investor in a Passive Target-Date (i.e., a series that invests in passively-managed underlying portfolios) paid 9 basis points of expenses in 2023 vs. 55 basis points for the average investor in a Target-Date series that invests in actively-managed portfolios and 40 basis points for a Hybrid Target-Date series. Hybrids solutions split investments between active and passive portfolios. Passive Target-Date series finished 2023 with 61% asset share, up from 55% at the outset of 2020. Active Target-Date series concluded 2023 with 30% asset share, down from 36% at the start of this decade. The asset share of Hybrid Target-Dates has remained at 9% over the same period.

Lower expenses don't necessarily produce higher returns, but in 2023, the asset-weighted return of Passive mutual fund Target-Date series was 17.3% vs. 16.9% for Active series and 16.6% for Hybrid solutions. Hybrid Target-Dates fared best over 3 years, though by only a single basis point compared to Active series—3.52% for Hybrids annually to 3.51% for Actives—while Passive solutions returned 3.43%. Heading into 2024, Active mutual fund Target-Dates possessed higher asset-weighted annual returns over 5 and 10 years.

Mutual fund Target-Date expenses plunged 41% since 2018

Using an asset-weighted analysis across all three management styles (i.e., Active, Hybrid and Passive), the average investor in a mutual fund-based Target-Date series paid 30.6 basis points in expenses in 2023 and earned a 17.1% return for the year. In comparing expenses across years, 2023 is a dramatic improvement over 2018, when the average investor in a Target-Date mutual fund paid 43.1 basis points of expenses. This 41% decline was driven by the shift of assets into lower-cost Passive and Hybrid offerings, as well as a general downward trend in expenses across Target-Dates of all types. For example, at the outset of 2020, the lowest-cost share class of the largest Hybrid Target-Date mutual fund series, J.P. Morgan SmartRetirement® Blend, had a 29 basis point prospectus net expense ratio (i.e., the percentage of fund assets, net of reimbursements, used to pay for operating expenses and management fees). Changes during that year brought this down to just 19 basis points, where it remains today.

Higher asset levels provide asset managers with greater flexibility to reduce fees, thus making larger Target-Date series more competitive in the marketplace. This is leading to an increasingly high concentration of assets in a small group of Target-Date providers. At the close of 2023, the ten largest Target-Date providers controlled 94.3% of the AUM, up from 92.4% in 2018. In the Passive space, where fees are especially important to achieving success, just five providers controlled 96.4% of Passive Target-Date assets, with Vanguard alone possessing 61% asset share at the close of 2023.

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 included 135 Target-Date solutions with AUM as of year-end 2023, spread across more than 6,200 mutual fund share classes and CITs. This data is harnessed to provide insights into shifts within the $3.5 trillion Target-Date market, including across products and providers, investment vehicles, underlying investments, management styles, and glide paths.

###

About Sway Research, LLC

Sway Research provides market data and analysis that empowers financial services executives to make decisions, effect change, and grow revenue. Leading manufacturers and distributors of investment products purchase Sway's research in syndicated reports, custom research projects, and strategy engagements. Sway is the leading provider of research and intelligence on the defined contribution investment-only market. Please visit www.swayresearch.com for more information.