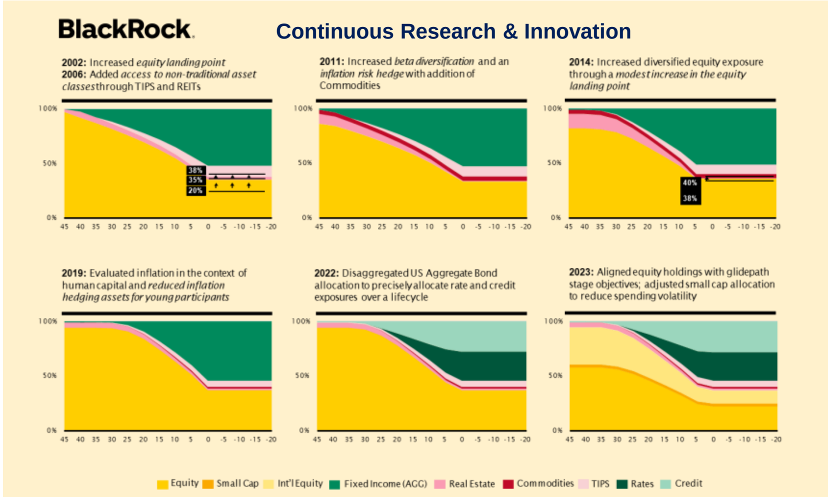
5 things you should know about your TDF before presenting to clients

1. WHAT ARE DISTINCTIVE CHARACTERISTICS FOR THE SERIES?

Perhaps the most important (and interesting) consideration for any TDF series is understanding how it's similar and different to other series. Asset managers should be able to summarize this in 3-5 bullet points.

a. Examples:

i. American Century reduces sequencing risk by reducing glidepath slope
ii. JPMorgan attempts to reduce participant attrition by reducing risk
iii. BlackRock maximizes growth early with 99% equity and protects around retirement with 40% equity
iv. T. Rowe maximizes growth above all else
v. flexPATH Strategies offers the personalization of managed accounts at the cost and experience of a typical TDF
vi. PIMCO utilizes their active bonds funds with Vanguard equity indexes and S&P puts



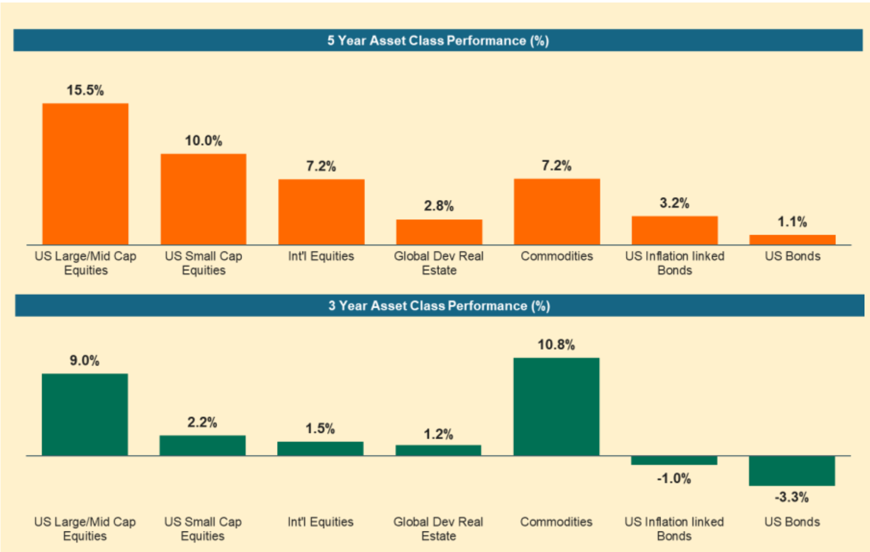
b. Is there sound financial logic to support these viewpoints? How about published research? Make managers prove it. A written or verbal explanation appealing to logic may be sufficient, and ideally there are white papers with a more academic basis.

Do you agree conceptually with these characteristics? Would I manage an individual investor's portfolio in the same way?

!

c. Are you willing to withstand the lows when the bet does not go right? This is where the rubber meets the road. At some point in time the market will be in opposition to the manager's positioning. If you agree with the positioning, whether conceptually or upon reading research, are you willing to stick with the series and give them time to bounce back? If not, you risk "selling low" and "buying high" into a different series with opposite positioning. Example: when international is underperforming US, replacing a series that is underperforming peers due to an international bias with a series that looks "better" because they have a US bias.

2. HOW WOULD I EXPECT THE SERIES TO PERFORM LOOKING BACKWARDS AND LOOKING FORWARDS?



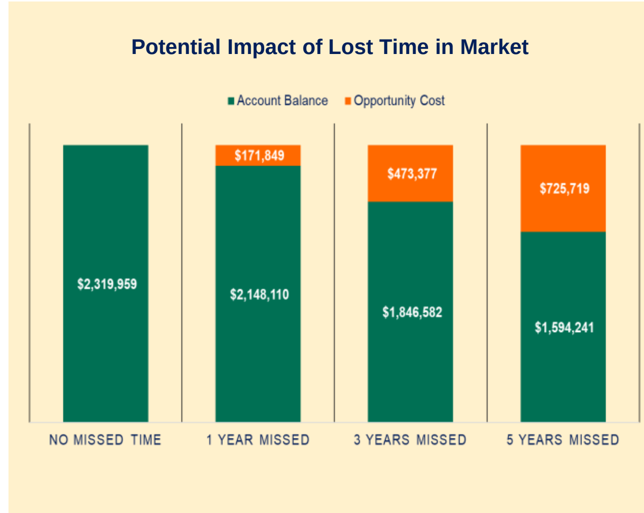
a. Differentiate between past and expected future performance. Often managers are not highly tactical and shifting in and out of asset classes entirely or even in tilts. Understand that due to its multi-asset nature, many sources that drove a manager's past returns are unlikely to persist in the future. Example: as value and growth tend to flip flop in terms of outperformance, a manager that has excelled due to a growth bias is unlikely to reap the same benefits on a long-term basis going forward.

b. Understand the series' asset class selection. What is their backing for including or excluding certain asset classes? More is not always better, in particular in the niche fixed-income areas, e.g. high yield, international debt, EM debt, etc.

Visuals: 1. Source: flexPATH Strategies via BlackRock Institute. 2. Performance data quoted represents past performance and does not guarantee future results. Indices represented, from left to right, include Russell 1000 TR USD, Russell 2000 TR USD, MSCI ACWI Ex USA IMI NR USD, FTSE EPRA Nareit Developed NR USD, Bloomberg Commodity TR USD, BBgBarc US Treasury US TIPS TR USD, BBgBarc US Agg Bond TR USD. Returns include reinvestment of dividends and capital gains. Index performance is shown for illustrative purposes only. It is not possible to invest directly in an index. Source: Morningstar as of 12/31/2023

3. WHAT IS THAT MANAGER DOING TO KEEP INVESTORS?

Fund-level returns continue to be the primary basis for TDF selection, however, participant-level returns are much more important, albeit difficult to quantify. **TDFs saw massive outflows following the volatility of early 2020 and all of 2022**. In fact, TDFs had the most net outflows out of any asset class. Equally as concerning, cash funds received over 90% of net inflows in 2022. Thus, keeping investors IN TDFs is an important, and potentially tall, task. This could be accomplished via reducing risk (although this typically means sacrificing potential return) or a heavy communication campaign (although this typically means significant work for the advisor). Risk-based TDFs with a Conservative glidepath offer participants a better “safe haven” than cash during volatile times. The transparency and participant friendliness of listing the glidepath’s risk right in the fund name promotes an intuitive understanding for participants and encourages them to stay the course.



4. WHAT ASSUMPTIONS/INPUTS ARE USED TO CONSTRUCT THE SERIES?

Managers don’t create glidepaths out of thin air. They are the result of dozens or hundreds of inputs, which are financial in nature (return, risk, correlation, inflation) or demographic in nature (beginning age, beginning salary, salary growth, savings rate, marital status, risk tolerance). **Ask about where these assumptions come from. Savings rate is the biggest driving factor of retirement outcomes and thus the glidepath design**; small differences can lead to very different glidepaths. Further, prudent managers will model expected changes in these inputs, e.g. savings rate may average 5% in a worker’s early career, then increase to 10% by mid-career, and add a catch-up contribution close to retirement. BlackRock sources data from the Panel Study of Income Dynamics that observes families and their behavior and statistics over time for a more accurate and complete picture of their constantly evolving financial situation.

5. OVERARCHING FIRM BACKGROUND

a. How important is the TDF franchise to that organization? Check assets vs. total firm assets, growth of TDFs as a percentage of total firm asset growth.
b. How has their product evolved over time? Managers should have a timeline of changes. Consistent improvement is the goal, although there should not have been grievous deficiencies in the past.
c. What are potential constraints or conflicts of interest? Managers may exclude an asset class that might benefit portfolios because they don’t have any funds in that asset class. They may not utilize their best underlying fund in a certain asset class due to capacity constraints or the desire to increase assets in a weak fund. Ideally, the manager is a fiduciary to the asset allocation and underlying fund selection, and ideally these entities are different to ensure a separation of powers and no conflicts of interest.

Visuals: 3. For illustrative purposes. Demographic assumptions: Starting balance: $10,000, starting age: 30, starting salary: $50,000, annual salary growth: 3%, retirement age: 65, returns before age 65: 8%, returns after age 65: 5%, scenario assumptions: High saver (12%): 14%.

120 Vantis, Ste. 480, Aliso Viejo, CA 92656 | Ph. 800.974.0188 | info@flexpathstrategies.com