THE WORLD IS FLAT

& Other Dangerous TDF Investing Myths
THE STATE STREET DIFFERENCE

Ongoing Monitoring

At State Street Global Advisors, Target Retirement strategy follows a disciplined, annual review schedule that is meant to capture our best thinking on glidepath design. This process is more prudent for the DC marketplace because it is transparent and easily explained to plan sponsors and investment committees.

Asset Allocation

We offer one of the most diversified suites in the market, utilizing 11 underlying sub-asset classes that shift throughout a participant’s working career. This approach is particularly evident in fixed income, an area where we differentiate ourselves from the majority of TDF managers by not relying on the Bloomberg Barclays US Aggregate Bond Index.¹ Having a thoughtful point of view and more building blocks allows us to deliver tailored risk exposure to participants at every age.

Investment Style Consistency

We utilize style-neutral index funds to gain cost-efficient exposure to a broad set of beta. Some “active” managers may exhibit style drift, meaning some portfolio assets may vary in size and growth characteristics and can bounce between asset class categorizations. This volatility can be difficult for plan fiduciaries to effectively monitor and can also have a material impact on the glidepath, creating unwelcome surprises in TDF performance.

¹ Characteristics pulled from provider’s fact sheets and websites. As of December 31, 2017. Characteristics are as of the date indicated, are subject to change, and should not be relied upon as current thereafter.
We believe it is time to dispel some of the myths of “passive” target date funds.

The industry trend towards index investing over the past 10 years has been a windfall for index providers like State Street Global Advisors. However, our target date fund management strength is an area of our business where we do not embrace the “passive” moniker.
All Target Date Funds Are Either Passive or Active

When it comes to target-date selection, there is a growing concern that the retirement industry is falling back on outdated thinking, creating false distinctions between “active” and “passive” TDF suites. Indexing giants that offer target-date solutions utilize index funds as their underlying building blocks to access appropriate asset classes in an efficient, cost-effective manner. However, this doesn’t mean that these target-date suites are passive strategies.

Leading retirement plan specialist advisors are cutting through the TDF myths, analyzing the full TDF universe utilizing rigorous screens to serve their sponsor clients:

- Asset Allocation and Style Consistency
- Performance
- Fees

There is No Variation Across TDF Managers

Nearly half of target-date providers use a custom benchmark for each vintage in their series. This wide range of custom benchmarks highlights the active management decision making — such as which asset classes to use and asset allocation across target date vintages — that occurs across the universe of TDF managers.

Figure 1: Spanning the Spectrum
The Range of Benchmarks Reflects Fund Variation

![Chart showing the range of benchmarks with percentages for Custom Benchmark, S&P Target-Date, Peer Group, Morningstar Lifetime Allocation, Other, S&P 500, and Other]

Source: Cerulli – 2017 Defined Contribution Distribution. Survey respondents were allowed to choose more than one response. Weights are normalized to equal 100%

While custom benchmarks are useful goalposts for TDF portfolio managers and client communication, they are little help to advisors who are looking to compare the performance of two target-date series. To do so, advisors need to dig under the hood, regardless if a target-date solution is managed by a traditionally active or index shop.
TDFs Are Not All Created Equally

Performance comes under greater scrutiny in down market cycles. However, it’s the fund methodology and risk profiles — not active vs. index-based approaches — that separates the stars from the sinkers. As shown in Figure 2, State Street was able to out-perform leading index managers during 2008’s Financial Crisis and reduce fund volatility thanks in part to our lower investment fees and our approach to glidepath construction and asset allocation.

Figure 2: Delivering Results in a Down Market
SSGA Outperformed the Competition During the 2008 Financial Crisis

Source: Morningstar Direct. Universe shown is a combination of the Morningstar Mutual Fund and CIT Target-Date categories. The lowest cost share class from each manager with an applicable track record was utilized. For SSGA, gross of fee returns with 17 bps of fees netted out were used. Past performance is not a guarantee of future results. Performance returns are annualized. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in USD.
Over Time, Alpha from Active Managers Increases Performance

The State Street Target Retirement Series’ glidepath construction and lower investment fees has translated into superior performance, despite the fact that index-based target date funds don’t gain potential alpha from underlying funds. Figure 3 illustrates this returns trend over a 10-year period.

**Figure 3: Above Average**

Returns Over a 10-Year Period Highlight SSGA’s Superior Performance as of 12/31/17

Source: Morningstar Direct. Universe shown is a combination of the Morningstar Mutual Fund and CIT Target-Date categories. The lowest cost share class from each manager with an applicable track record was utilized. For SSGA, gross of fee returns with 17 bps of fees netted out were used. Past performance is not a guarantee of future results. Performance returns are annualized. The performance includes the reinvestment of dividends and other corporate earnings and is calculated in USD.

Fees Don’t Matter in the “Active” vs. “Passive” Debate

Considering fees and investment expenses are both a plan fiduciary’s responsibility and a critical dimension for evaluating actively managed and index-based TDFs — and there is no reason to pay more. In fact, while out-performing the competition, the State Street Target Retirement series costs less (at 13 bps) than 97% of target-date suites in the market.² Advisors who are able to provide their plan participants with an institutional quality glidepath, exposure to a broad set of asset classes, and lower fees may be able to convert and deepen their relationships.

² SSGA Defined Contribution, Morningstar Direct, 2017. (K Class)
SSGA has a demonstrated track record:

Since Inception Outperformed
91% of peers on average

Lower Volatility than
73% of peers on average

Research shows that asset allocation, not securities selection, accounts for more than
90% of return variability.

See how we define our four corners of differentiation:

**Strategic Indexed Investment Approach**
An index investing approach offers investors portfolio diversity without the bias or premiums associated with stock picking strategies. Thanks to our indexing heritage, State Street has been able to outperform our peers, even in down markets.\(^5\)

**“Through” Glidepath**
Evolving to address the risks at each stage of a participant’s journey, our glidepath management is driven by academic research and a deep understanding of participant behavior — at and through retirement.

**Well-Diversified Asset Class Exposure**
With 11 underlying asset classes — that’s double what other leading managers offer — State Street provides a granular asset allocation that’s designed to better perform in the various market environments encountered on the winding road to retirement.\(^6\)

**Array of Investment Options**
Because one size doesn’t fit all, State Street offers both mutual funds (A, I and K share classes) and collective investment trusts (providing multiple share classes with varying fee structures), enabling greater choice for plan sponsors.

---


5 Morningstar Direct. Universe shown is a combination of the Morningstar Mutual Fund and CIT Target-Date categories. The lowest cost share class from each manager with an applicable track record was utilized. For SSGA, gross of fee returns with 17 bps of fees netted out were used.

6 SSGA, as of December 31, 2017.
State Street Global Advisors Worldwide Entities

**Australia:** State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services Licence (AFSL Number 238278). Registered office: Level 17, 420 George Street, Sydney, NSW 2000, Australia. T: +61 2 9240 7600. F: +61 2 9240 7611.

**Belgium:** State Street Global Advisors Belgium, Chaussée de La Hulpe 129, 1000 Brussels, Belgium. T: 32 2 663 2036. F: 32 2 672 2077. SSGA Belgium is a branch office of State Street Global Advisors Limited. State Street Global Advisors Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom.

**Canada:** State Street Global Advisors, Ltd., 770 Sherbrooke Street West, Suite 1200 Montreal, Québec, H3A 1G1. T: +514 292 2400 and 30 Adelaide Street East Suite 500, Toronto, Ontario M5C 3G6. T: +1 416 775 5900. **Dubai:** State Street Bank and Trust Company (Representative Office), Boulevard Plaza 1, 17th Floor, Office 1703 Near Dubai Mall & Bury Khalifa, P.O Box 28938, Dubai, United Arab Emirates. T: +971 (04) 4379280. F: +971 (04) 4379281. **France:** State Street Global Advisors Ireland Limited, Paris branch is a branch of State Street Global Advisors Ireland Limited, registered in Ireland with company number 142221, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson’s Quay, Dublin 2.

**Germany:** State Street Global Advisors Ireland Limited, Paris branch is registered in France with company number RCS Nanterre 832 734 602 and whose office is at Immeuble Défense Plaza, 23-25 rue Delahâve-Lefoullon, 92064 Paris La Défense Cedex, France. T: (+33) 1 44 45 40 00. F: (+33) 1 44 45 41 92.

**Japan:** State Street Global Advisors GmbH, Briener Strasse 59, D-80333 Munich. Authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin"). Registered with the Register of Commerce Munich HRB 121381. T: +81 (0)3 5658 6891. F: +81 (0)3 5658 6890. **Hong Kong:** State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103 0288. F: +852 2103 0200.

**Ireland:** State Street Global Advisors Ireland Limited is registered by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson’s Quay, Dublin 2. Registered number 145221. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300. **Italy:** State Street Global Advisors Limited, Milan Branch (Sede Secondaria di Milano), is registered in Italy with company number ID12470-1997554.3.1.NA.RTL 0418 Exp. Date: 03/31/2019. **Canada:** State Street Global Advisors, Ltd., 770 Sherbrooke Street West, Suite 1200 Montreal, Québec, H3A 1G1. T: +514 292 2400 and 30 Adelaide Street East Suite 500, Toronto, Ontario M5C 3G6. T: +1 416 775 5900. **Dubai:** State Street Bank and Trust Company (Representative Office), Boulevard Plaza 1, 17th Floor, Office 1703 Near Dubai Mall & Bury Khalifa, P.O Box 28938, Dubai, United Arab Emirates. T: +971 (04) 4379280. F: +971 (04) 4379281. **France:** State Street Global Advisors Ireland Limited, Paris branch is a branch of State Street Global Advisors Ireland Limited, registered in Ireland with company number 142221, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson’s Quay, Dublin 2.

**Germany:** State Street Global Advisors Ireland Limited, Paris branch is registered in France with company number RCS Nanterre 832 734 602 and whose office is at Immeuble Défense Plaza, 23-25 rue Delahâve-Lefoullon, 92064 Paris La Défense Cedex, France. T: (+33) 1 44 45 40 00. F: (+33) 1 44 45 41 92.

**Japan:** State Street Global Advisors GmbH, Briener Strasse 59, D-80333 Munich. Authorised and regulated by the Bundesanstalt für Finanzdienstleistungsaufsicht ("BaFin"). Registered with the Register of Commerce Munich HRB 121381. T: +81 (0)3 5658 6891. F: +81 (0)3 5658 6890. **Hong Kong:** State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103 0288. F: +852 2103 0200. **Ireland:** State Street Global Advisors Ireland Limited is registered by the Central Bank of Ireland. Registered office address 78 Sir John Rogerson’s Quay, Dublin 2. Registered number 145221. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300. **Italy:** State Street Global Advisors Limited, Milan Branch (Sede Secondaria di Milano), is registered in Italy with company number ID12470-1997554.3.1.NA.RTL 0418 Exp. Date: 03/31/2019. **Canada:** State Street Global Advisors, Ltd., 770 Sherbrooke Street West, Suite 1200 Montreal, Québec, H3A 1G1. T: +514 292 2400 and 30 Adelaide Street East Suite 500, Toronto, Ontario M5C 3G6. T: +1 416 775 5900. **Dubai:** State Street Bank and Trust Company (Representative Office), Boulevard Plaza 1, 17th Floor, Office 1703 Near Dubai Mall & Bury Khalifa, P.O Box 28938, Dubai, United Arab Emirates. T: +971 (04) 4379280. F: +971 (04) 4379281. **France:** State Street Global Advisors Ireland Limited, Paris branch is a branch of State Street Global Advisors Ireland Limited, registered in Ireland with company number 142221, authorised and regulated by the Central Bank of Ireland, and whose registered office is at 78 Sir John Rogerson’s Quay, Dublin 2.

**Germany:** State Street Global Advisors Ireland Limited, Paris branch is registered in France with company number RCS Nanterre 832 734 602 and whose office is at Immeuble Défense Plaza, 23-25 rue Delahâve-Lefoullon, 92064 Paris La Défense Cedex, France. T: (+33) 1 44 45 40 00. F: (+33) 1 44 45 41 92.