Reports of Target Date's Death Have Been Greatly Exaggerated

Analyzing the Success of Target Date Funds

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May 8, 2009

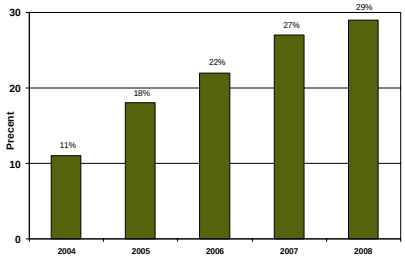
The Popularity of Target Date Investing

	2006	2007	2008
Currently Available — Target Retirement Date Funds ($250 million and above)	43%	80%	82%
Currently Available — Target Retirement Date Funds ($20 – $250 million)	34%	67%	80%

Source: Greenwich Associates

The Popularity of Target Date Investing

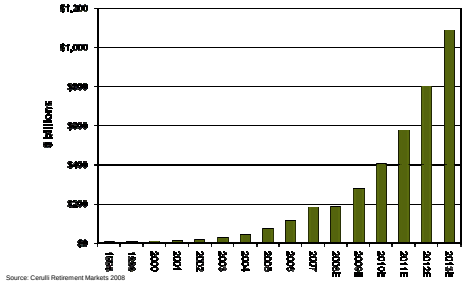
Target Date Adoption Rates by Active Participants in Plans Offering Such Funds



Source: Index Universe January 2009
Vanguard 2008

The Popularity of Target Date Investing

Target Date AUM Estimates



Source: Cerulli Retirement Markets 2008

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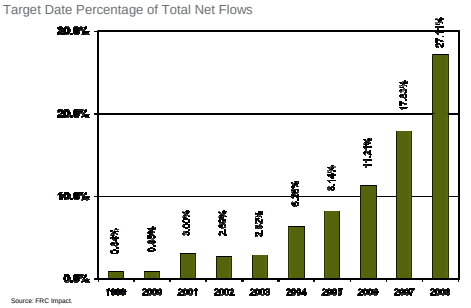
The Popularity of Target Date Investing

Target Date Percentage of Total Net Flows



Source: FRC Impact.

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"Everything Is Broken" – Bob Dylan

"Beyond reconsidering the level of risks embedded in target date funds and the offering of customised solutions, some expect increased regulatory scrutiny of these funds…" *— Financial Times, 11/2/2008*

"Well, soon-to-be-retirees who expected to emerge largely unscathed from 2008's market plunge weren't always so lucky….Last year's average loss was nearly 25 percent among 31 funds with 2010 retirement target dates tracked by Morningstar…depending on which 2010 fund investors were in, the 2008 loss may have been as small as 3.6 percent or as big as 41 percent." *— Washington Post 1/18/2009*

"Data from Ibbotson show the level varied between 26 per cent and 66 per cent [and] has raised questions about what the appropriate glide path is for these funds…" *— Financial Times, 11/2/2008*

"…That raises a big question: Is one asset-allocation strategy appropriate for every investor with the same retirement year?" *— Wall Street Journal, 3/2/2009*

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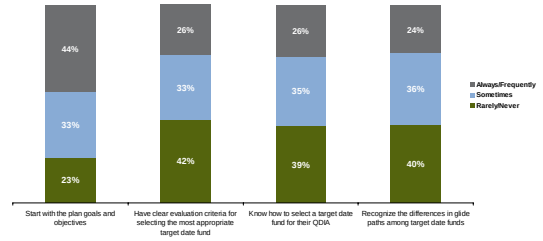
The New World of Target Date Fund Selection

Frequency With Which Plan Sponsors Do Specific Tasks When Selecting Target Date Fund for QDIA



Source: J.P. Morgan / HarrisInteractive October 2008.

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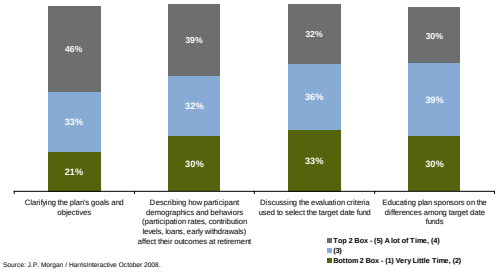
Advisors Appear to Focus on Important Issues

Amount of Time Advisors Spend on Specific Activities to Select Target Date Funds



Source: J.P. Morgan / HarrisInteractive October 2008.

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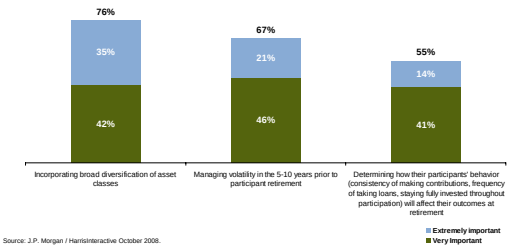
Volatility Management is on the Radar…

Importance of Specific Activities When Selecting Target Date Funds for QDIA



Source: J.P. Morgan / HarrisInteractive October 2008.

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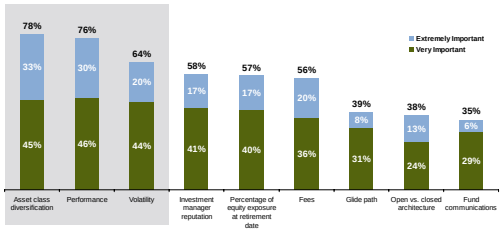
…as is Performance

Importance of Characteristics When Evaluating Differences Among Target Date Funds



Source: J.P. Morgan / HarrisInteractive October 2008.

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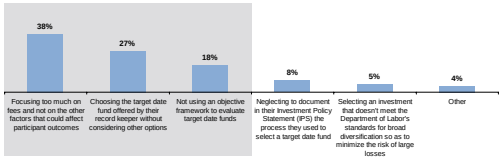
Advisors May Have Seen the Train Coming

Perceived Mistakes in Selecting Funds



Source: J.P. Morgan / HarrisInteractive October 2008.

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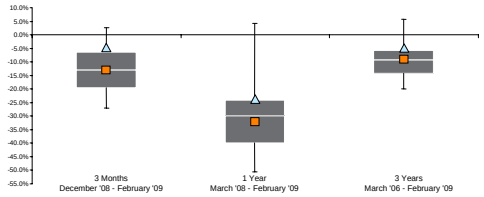
Myth: Designed to Always Generate Positive Return

Investment results compared



	3 Months December '08 - February '09	1 Year March '08 - February '09	3 Years March '06 - February '09
Plan Participant Universe, Ages 62-64			
99th percentile	2.7%	4.1%	5.8%
75th Percentile	-6.3%	-24.2%	-5.8%
50th Percentile	-12.6%	-34.1%	-10.5%
25th Percentile	-19.4%	-39.8%	-14.1%
1st percentile	-26.9%	-50.7%	-20.0%
Sample Target Date Strategy △	-4.7%	-23.7%	-4.8%
Plan Participant Average, Ages 62-64 ◘	-13.0%	-32.1%	-9.1%

Source: J. P. Morgan
Note:The above information is taken from a representative account. Past performance is not indicative of future returns. Participant data was sourced from the J. P. Morgan Retirement Plan Services database and is representative of a large plan that has in excess of 100,000 employees, for which JPMorgan Retirement Plan Services is the recordkeeper.

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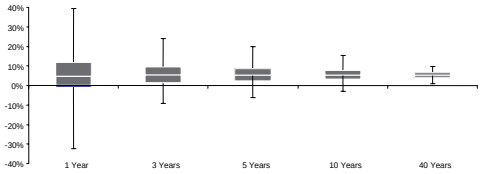
Myth: Designed to Always Generate Positive Return

Ranges of target date strategies outcomes throughout the investment time line



	1 Year	3 Years Annualized	5 Years Annualized	10 Years Annualized	40 Years Annualized
99.5 percentile	39.5%	24.1%	19.8%	15.3%	9.7%
75 Percentile	11.9%	9.4%	8.6%	7.8%	6.6%
50 Percentile	4.8%	5.2%	5.3%	5.4%	5.4%
25 Percentile	-1.0%	1.5%	2.3%	3.2%	4.2%
0.5 percentile	-32.4%	-9.4%	-6.4%	-3.0%	1.0%
Probability of return less than 0%	28.7%	17.1%	11.2%	4.9%	0.1%

Source: J. P. Morgan

Returns represent the distribution of annualized return over rolling 1, 3, 5, 10 and 40 year periods within 1,000 simulated 40-year glidepaths.
Target date strategies are designed in an effort to produce a predictable, target range of results over a period of approximately 40 years. Throughout that 40 years over shorter investment periods, the range of outcomes can be vastly wider than the range of investment expectations at retirement. In particular, one and three year ranges are very wide, with significant potential downside outcomes. For illustrative purposes only.
Past performance does not guarantee future results.

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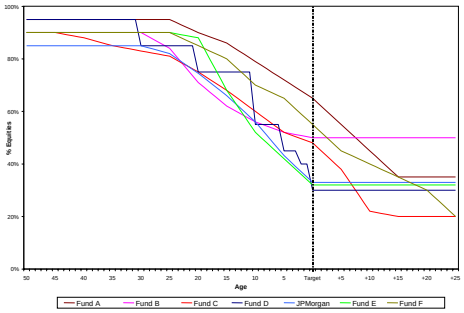
Myth: Glide Paths are Similar



Source: Lipper, a Thomson Reuters Company
The above chart is for illustrative purposes only.

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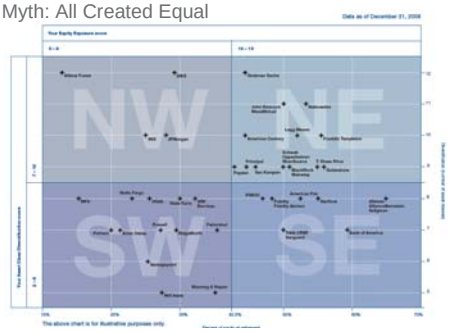
Myth: All Created Equal



Powered by Lipper, a Thomson Reuters Company. Percentage of equity exposure at age 65. Based on information reported in each company's target-date fund prospectus. As of 12/31/08, 51 mutual fund companies offer funds categorized by Lipper as target date mutual funds. Old Mutual is excluded from the above charge as Lipper is currently unable to accurately asses their percentage of equity as of retirement based upon publicly available data. Because they are ETFs, iShares and TDX Independence Funds are also excluded. Asset class diversification: Determined by exposure, across each company's suite of target date funds, to 12 separate asset classes as reported by Lipper through asset allocation, capitalization, credit quality, sector, region and country data as well as underlying fund categorization. Commodities exposure is calculated separately. Credit is given if, across the suite of target date funds, an allocation is made to an underlying mutual fund that is categorized by Lipper as a Natural Resources, Global Natural Resources, Commodities or Gold fund or invests in a portfolio or index that invests primarily in commodities. The 12 separate asset classes include: Large Cap Equity, Mid Cap Equity, Small Cap Equity, Developed International Equity, Emerging Markets Equity, REITs, Commodities, U.S. Fixed Income, High Yield, TIPS/Inflation, International Fixed Income and Emerging Markets Debt.

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Myth: All Created Equal

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Myth: Not Enough Transparency

Source: Examples above from fund prospectus and or marketing materials.
The above charts are for illustrative purposes only.

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Myth: There is a Single Right Answer

Plan Goals

The plan's objective is to help participants meet income replacement goals at retirement.	61%	39%	**The plan seeks to maximize participants' savings throughout their life expectancy.**

Participant Behaviors

Participants tend to increase contribution rates slowly, get raises infrequently, take loans and pre-retirement distributions, and withdraw a significant portion (20%) of savings at retirement.	58%	42%	**Participants tend to increase participation steadily, get raises every year, don't take loans or premature distributions, and withdraw a consistent 4% to 5% annually.**

Source: J.P. Morgan / HarrisInteractive October 2008.
For illustrative purposes only

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Myth: There is a Single Right Answer

Risk Management

Diversification

Perceived Preference for Diversification

Source: J.P. Morgan / HarrisInteractive October 2008.
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Advisor Perspective

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The Emerging Retirement Income Challenge

- AON Consulting's 2008 Replacement Ratio Study details the percentage of your final annual salary that needs to be replaced for you to maintain the same standard of living after retirement.
- An Executive/Professional earning $250,000 per year and planning to maintain a similar pre-retirement standard of living in retirement can require as much as $185,000 or more annually from private and employer sources. As little as 14% comes from Social Security.

Target Date Fund Trade-Offs

- Longevity Risk vs. Sequence Risk
- Tactical vs. Strategic Asset Allocation
  (Secular Bull? Secular Bear?)
- Fiduciary Liability: Age 65 (NRA) or age 100+
- Reality: What do you say to the 60 year old who lost 35% in a 2010 Target Date Fund in 2008.

Number of Years a Retirement Account Should Last

Desired Probability That You Will Not Outlive Your Assets	Male only (65)	Female only (62)	Married Couple (Male 65, and Female 62)
50%	19	24	27
75%	24	30	31
95%	31	38	38

What Is Longevity Risk?

Defined: The risk of outliving your money!

Challenges:

- Advancing life expectancies (improvements in medical care)
- Worker apathy (not saving enough)
- Poor investment results (no transparency or measurement system)
- Post retirement healthcare
- Contingent liability of long term care illness

Managing Longevity Risk?

Pre-Retirement Income	Social Security (%)	Private and Employer Sources (%)	Total (%)	Private and Employer Sources (Annual $)	95% Desired Probability of Not Outliving Assets (38 yrs) – Private and Employer Dollars
$90,000	36	42	78	$37,800	$890,000
$150,000	23	61	84	$91,500	$2,150,000
$200,000	17	69	86	$138,000	$3,250,000
$250,000	14	74	88	$185,000	$4,355,000

This assumes a family situation in which there is one wage earner who retires at age 65, with a spouse at age 62. The Social Security that both spouses will collect at age 62. Annual investment returns are expected to average 7.8% with a standard deviation of 10.7%

What Your Employees Need to Save to Hedge Longevity Risk?

Yearly Savings as a Percentage of Pay – MALES
% of pay that needs to be saved each year until age 65, if saving starts at age X

Current Salary	Age 25	Age 35	Age 45	Age 55
$30,000	4.2	7.1	13.3	32.8
$50,000	4.1	6.9	13.0	31.9
$70,000	4.8	8.1	15.1	37.1
$80,000	5.2	8.8	16.5	40.5
$90,000	5.8	9.7	18.2	44.9

For example: A 35 year old male making $50,000 who hasn't saved anything for retirement, will need to save 6.9% of his salary per year to retire at age 65. If a 45 year old making $70,000 begins saving for retirement, he will need to save 15.1% of his annual salary per year to retire at age 65.

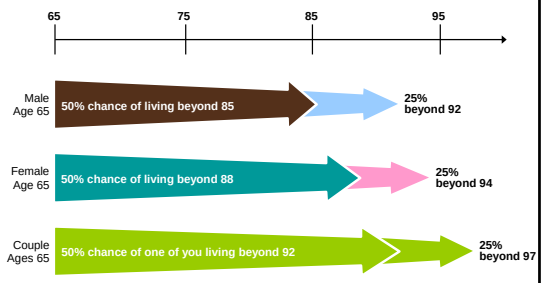
What Your Employees Need to Save to Hedge Longevity Risk?

Yearly Savings as a Percentage of Pay – FEMALES
% of pay that needs to be saved each year until age 65, if saving starts at age X

Current Salary	Age 25	Age 35	Age 45	Age 55
$30,000	4.6	7.7	14.4	35.4
$50,000	4.5	7.5	14.0	34.5
$70,000	5.2	8.8	16.5	40.5
$80,000	5.7	9.5	17.9	44.0
$90,000	6.2	10.5	19.6	48.3

For example: A 35 year old female making $50,000 who hasn't saved anything for retirement, will need to save 7.5% of her salary per year to retire at age 65. If a 45 year old making $70,000 begins saving for retirement, she will need to save 16.5% of her annual salary per year to retire at age 65.

Retirement Savings May Need to Last for Decades



The "Truth" on U.S. Stocks as Measured by the DOW

- From 1900 – 2002, average gain is 7.2% per year
- 63% of years were positive; 37% negative
- Only in "5" of the years were returns between +5% and +10% (less than 5% of the time)
- 70% of the years were double-digit years when stocks were up more than 10% or down by more than 10%
- ½ of the past 103 years ended up by more than 16% or down by more than 16%
- Conclusion: Stocks rarely give you an average year

Investing for the Long Run: 20+ Years

- Eighty-eight 20-year periods in the 20th century
- ½ of the 20-year periods produced compounded returns of less than 4%
- Less than 10% of the 88 periods generated gains greater than 10%
- Of the nine 20-year periods when returns exceeded 9.6% per year, 8 of those 9 were associated with the stock market (secular bull) bubble of the late 1990's
- In "EVERY" case, the P/E ratio is expanding by almost 2X (see chart)

Expanding P/E periods = secular bull

Contracting P/E periods = secular bear

BEGIN YEAR	ENDING YEAR	ANNUAL ROR	BEG P/E	END P/E
1975	1994	9.6%	10.9	20.5
1977	1996	9.7%	11.5	25.9
1942	1961	9.9%	12.2	20.5
1983	2002	10.9%	7.3	25.9
1978	1997	11.9%	10.4	31.0
1981	2000	12.8%	8.8	41.7
1979	1998	12.9%	9.4	36.0
1982	2001	13.0%	8.5	32.1
1980	1999	14.0%	8.9	42.1

Conclusion: Returns of Stocks Correlate Highly to the Trend in the Market's P/E Ratio

20 Year Periods Ending 1919 - 2008 (90 periods)

DECILE	NET TOTAL RETURNS BY DECILE RANGE FROM	TO	S&P500 DECILE AVG	AVG BEGIN P/E	AVG END P/E
1	1.2%	4.5%	3.2%	19	9
2	4.5%	5.2%	4.9%	18	9
3	5.2%	5.4%	5.3%	12	12
4	5.4%	6.0%	5.6%	13	12
5	6.2%	7.9%	7.0%	15	15
6	8.0%	9.0%	8.6%	16	19
7	9.0%	9.6%	9.3%	15	19
8	9.7%	11.0%	10.4%	11	20
9	11.5%	11.9%	11.7%	12	22
10	12.1%	15.0%	13.4%	10	29

Note: P/E ratio based upon Shiller methodology

Is It Possible to be Unlucky, and Retire at the Wrong Time?

Perhaps the most appealing feature of a pension is that it guarantees lifetime income, regardless of when you retire or what happens in the market. Unfortunately, the same is not true for your retirement savings that are tied to the market, such as 401(k) and IRA rollovers.

A poor sequence of returns can have a lasting effect

Financial experts call it the fragile first decade. If your portfolio suffers market losses in the first ten years, the chances of it lasting over a 30-year retirement are greatly diminished.

Mr. Smith Bear Market Ruin

- Experienced negative returns in four of the first ten years of retirement.
- Portfolio volatility heightened by an environment of elevated inflation rates.
- The combination caused the exhaustion of these retirement assets after just 15 years.

Ms. Jones Bull Market Success

- Experienced negative returns in only two of the first ten years of retirement.
- Timely positive market performance helped to grow assets.
- Even while taking withdrawals, an early bull market run provided a strong base to overcome negative returns, and helped the assets last for more than 30 years.

Hypothetical examples

The only difference between these retirements was that Mr. Smith was unlucky, and retired at the wrong time.

	Mr. Smith Investment: $500,000 Stocks 60%/Bonds 40% Retired 1/1/1966 – Annual Withdrawals: $25,000			Ms. Jones Investment: $500,000 Stocks 60%/Bonds 40% Retired 1/1/1976 – Annual Withdrawals: $25,000		
Age	Year	ROR	Year-end Value	Year	ROR	Year-end Value
65	1966	-5.2%	$447,786	1976	20.9%	$ 578,059
66	1967	12.8%	$478,594	1977	-5.5%	$ 518,106
67	1968	7.3%	$485,913	1978	2.1%	$ 498,689
68	1969	-8.0%	$417,913	1979	9.4%	$ 511,830
69	1970	9.4%	$426,403	1980	15.2%	$ 551,338
70	1971	12.7%	$448,413	1981	-1.5%	$ 500,828
71	1972	13.6%	$476,223	1982	29.3%	$ 602,729
72	1973	-9.8%	$394,315	1983	13.5%	$ 637,815
73	1974	-15.2%	$295,252	1984	9.5%	$ 650,127
74	1975	23.3%	$321,347	1985	30.7%	$ 799,715
75	1976	20.9%	$343,350	1986	24.1%	$ 941,517
76	1977	-5.5%	$276,371	1987	0.4%	$ 892,495
77	1978	2.1%	$230,428	1988	13.5%	$ 958,010
78	1979	9.4%	$194,470	1989	27.8%	$1,166,716
79	1980	15.2%	$158,632	1990	0.3%	$1,109,482
80	1981	-1.5%	$ 84,110	1991	25.1%	$1,324,672
81	1982	29.3%	$ 32,167	1992	8.9%	$1,377,373
82	1983	13.5%	Exhausted	1993	14.0%	$1,503,058
83	1984	9.5%	Exhausted	1994	-3.7%	$1,378,579
84	1985	30.7%	Exhausted	1995	35.3%	$1,794,399
85	1986	24.1%	Exhausted	1996	14.0%	$1,972,706
86	1987	0.4%	Exhausted	1997	25.6%	$2,403,137
87	1988	13.5%	Exhausted	1998	23.5%	$2,892,131
88	1989	27.8%	Exhausted	1999	8.9%	$3,072,114
89	1990	0.3%	Exhausted	2000	1.3%	$3,032,033
90	1991	25.1%	Exhausted	2001	-5.6%	$2,779,944
91	1992	8.9%	Exhausted	2002	-7.7%	$2,482,292
92	1993	14.0%	Exhausted	2003	17.3%	$2,826,226
93	1994	-3.7%	Exhausted	2004	8.3%	$2,973,024
94	1995	35.3%	Exhausted	2005	5.6%	$3,048,761
95	1996	14.0%	Exhausted	2006	9.9%	$3,256,908
96	1997	25.6%	Exhausted	2007	5.2%	$3,331,221
97	1998	23.5%	Exhausted	2008	-23.3%	$2,454,999
		Average ROR 10.56%			Average ROR 9.97%	

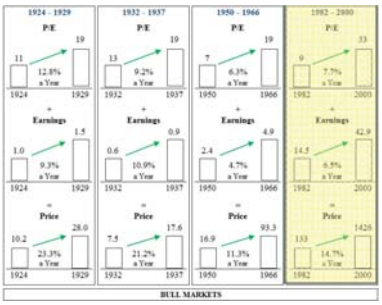
As Long As: Inflation Remained Reasonable, Deflation Was Absent, GDP and Earnings Growth Remained Positive – Market Was Either Bull or Range-Bound

Decade	Nominal Gross Domestic Product	Real Gross Domestic Product	S&P 500 EPS	Inflation (Deflation)	S&P 500 Total Return
1930 - 1940	-1.4%	0.5%	-5.0%	-1.9%	0.0%
1940 - 1950	11.2%	5.9%	7.7%	5.0%	8.9%
1950 - 1960	6.3%	3.8%	5.4%	2.1%	19.3%
1960 - 1970	6.6%	4.5%	5.6%	1.9%	7.8%
1970 - 1980	9.7%	3.2%	7.9%	6.3%	5.8%
1980 - 1990	8.3%	3.1%	5.5%	6.3%	17.3%
1990 - 2000	5.6%	3.0%	7.1%	3.4%	18.0%

Secular Trend	Decade	Nominal Gross Domestic Product	Real Gross Domestic Product	S&P 500 EPS	Inflation (Deflation)	S&P 500 Total Return
Range-Bound	1936 - 1950	9.4%	5.3%	7.9%	3.9%	6.9%
Bull	1950 - 1966	6.4%	4.1%	4.8%	1.9%	13.7%
Range-Bound	1966 - 1982	9.3%	2.7%	6.1%	7.0%	7.7%
Bull	1982 - 2000	6.3%	3.7%	7.5%	3.3%	16.7%
Bull Market Average		6.4%	3.9%	6.2%	2.6%	15.2%
Range-Bound Market Average		9.4%	4.0%	7.0%	5.5%	7.3%

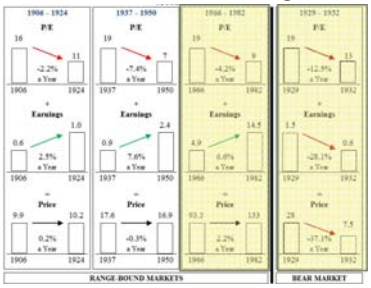
Note: Real GDP growth was extremely stable throughout all secular markets

Sources of Return: Secular Bull Markets



Bull Markets: P/E Expansion + Earnings Growth = Super Returns

Sources of Return: Secular Range-Bound and Bear Markets



Range-Bound Markets: P/E **Contraction** + Earnings **Growth** = Low Returns
Bear Markets: P/E **Contraction** + Earnings **Decline** = Negative Returns

Bull, Bear and Range-Bound Markets Happen

When…

Market	Economic Growth	Starting Valuation (P/E)
Bull	Good (Average)	Low
Range-Bound	Good (Average)	High
Bear	Bad	High

Legal Perspective

Fred Reish
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Political and Policy Issues

Senator Kohl, Chair of the Senate Committee on Aging, has elevated 401(k) target date funds to a policy level—

- Committee hearings
- Inquiries of providers
- Letters to SEC and DOL

This change was caused by the large losses incurred by target date funds in 2008.

Challenges to Target Date Funds

> "Despite their growing popularity, there are absolutely no regulations regarding the composition of target date funds," said Chairman Kohl. "With more and more Americans relying on 401(k)s..., we need to make sure their savings are well-protected with strong oversight and regulation."
>
> U.S. Senator Herb Kohl (D-WI), Chair Special Committee on Aging (from Announcement released February 25, 2009).

The Duty to Act Prudently

TDFs are usually included in plans to be used by participants as investments and to be used by fiduciaries as defaults. Where used for electing participants, the TDFs are no different than other investments and, thus, they must be prudently selected and monitored.

Although fiduciaries are relieved of liability for investing defaulting participants' accounts in a QDIA, they remain responsible for prudently selecting and monitoring the QDIA.

The Starting Point

> "A fiduciary must engage in an objective, thorough, and analytical process that involves consideration of the quality of competing providers and investment products,..."
>
> —Preamble to QDIA regulation.

The Fiduciary Process

The fiduciary process for selecting target date funds involves:

- The traditional qualitative and quantitative analysis utilized for mutual funds, including the reasonableness of expenses.
- An analysis of the asset allocation.
- An analysis of the glide path.
- An analysis of the knowledge and interest of the fiduciaries.
- An analysis of the needs of the plan and the needs and abilities of the participants.

Asset Allocation and Glide Path

> "It is in the glide path where we see the most fundamental differences between fund families. For instance, do the managers believe their job is to boost retirement account balances through aggressive growth strategies, or do they believe their job is more accurately stated by the Hippocratic paraphrase, "First, lose no money?"
>
> — Popping the Hood II, An Analysis of Target Date Fund Families, by Turnstone Advisory Group LLC.

Note: Focus on final 10 years.

Asset Allocation and Glide Path

The courts have embraced the need for fiduciaries to assess the needs of a plan in making decisions regarding plan investments:

> "Failure to investigate ***the needs of a plan*** or to ascertain the particular requirements or restrictions of a plan, and failure to invest in accordance with the best interest of plan participants ...constitutes a breach of fiduciary duties imposed by ERISA."

Analysis of Glide Path

Question: Is there a fundamental difference between the prudent glide path for a retail (or IRA) investor and for the institutional (or 401(k)) investor?

Other Considerations

Query: Can the selection of target date funds be influenced by other factors, for example, a feature for guaranteed minimum withdrawal benefits?