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Investment Innovation & the Global Future of Retirement

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The Future of Target-Date Funds

Matt Brancato, CFA, CPA

Target Retirement Fund Product Manager

Vanguard



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Investment Innovation
& the Global Future of Retirement



Agenda

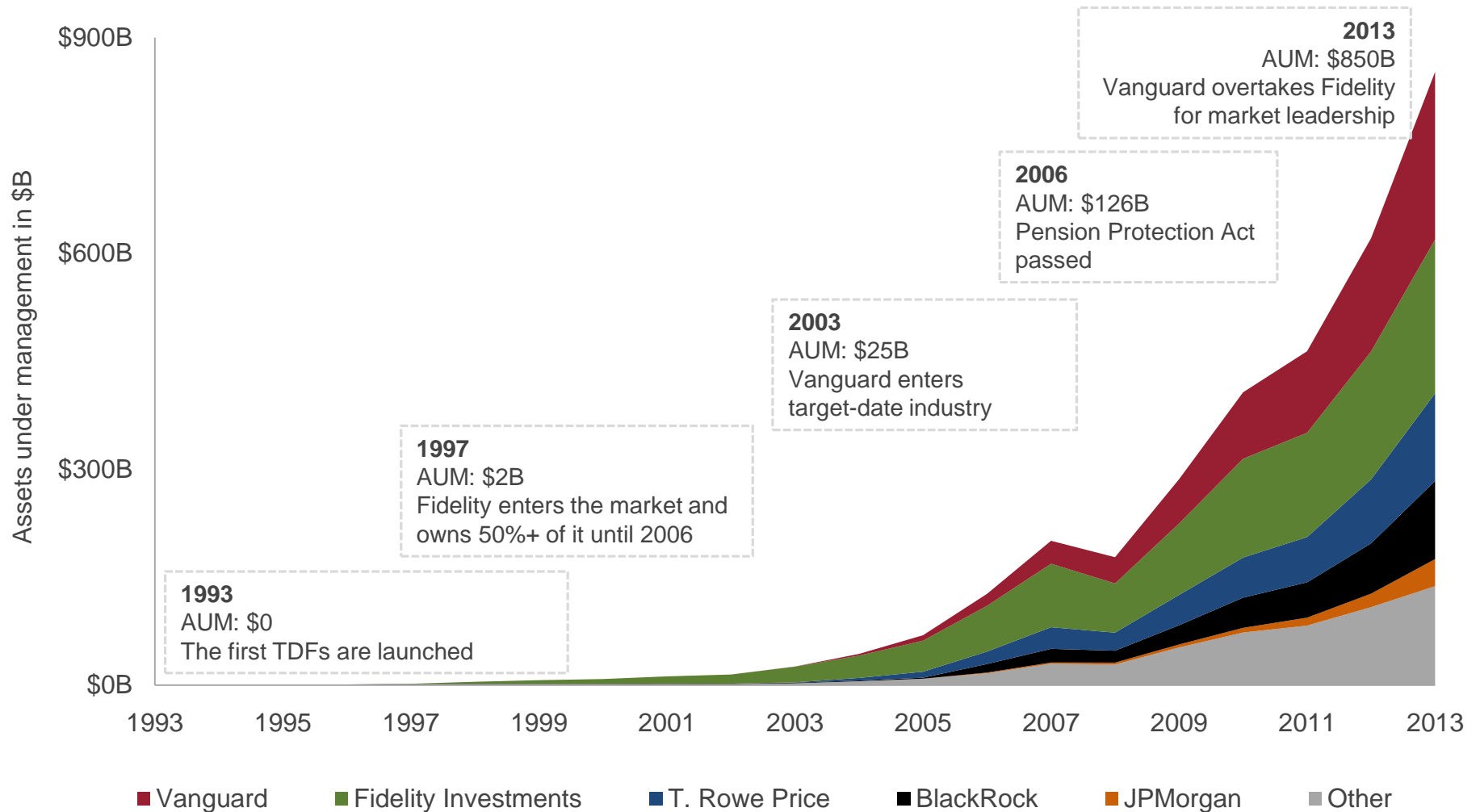
Target-date
fund (TDF)
landscape
and trends

What's next
in TDF
innovation?

TDF landscape and trends

A brief history of the target-date industry

Annual target-date assets under management (AUM)

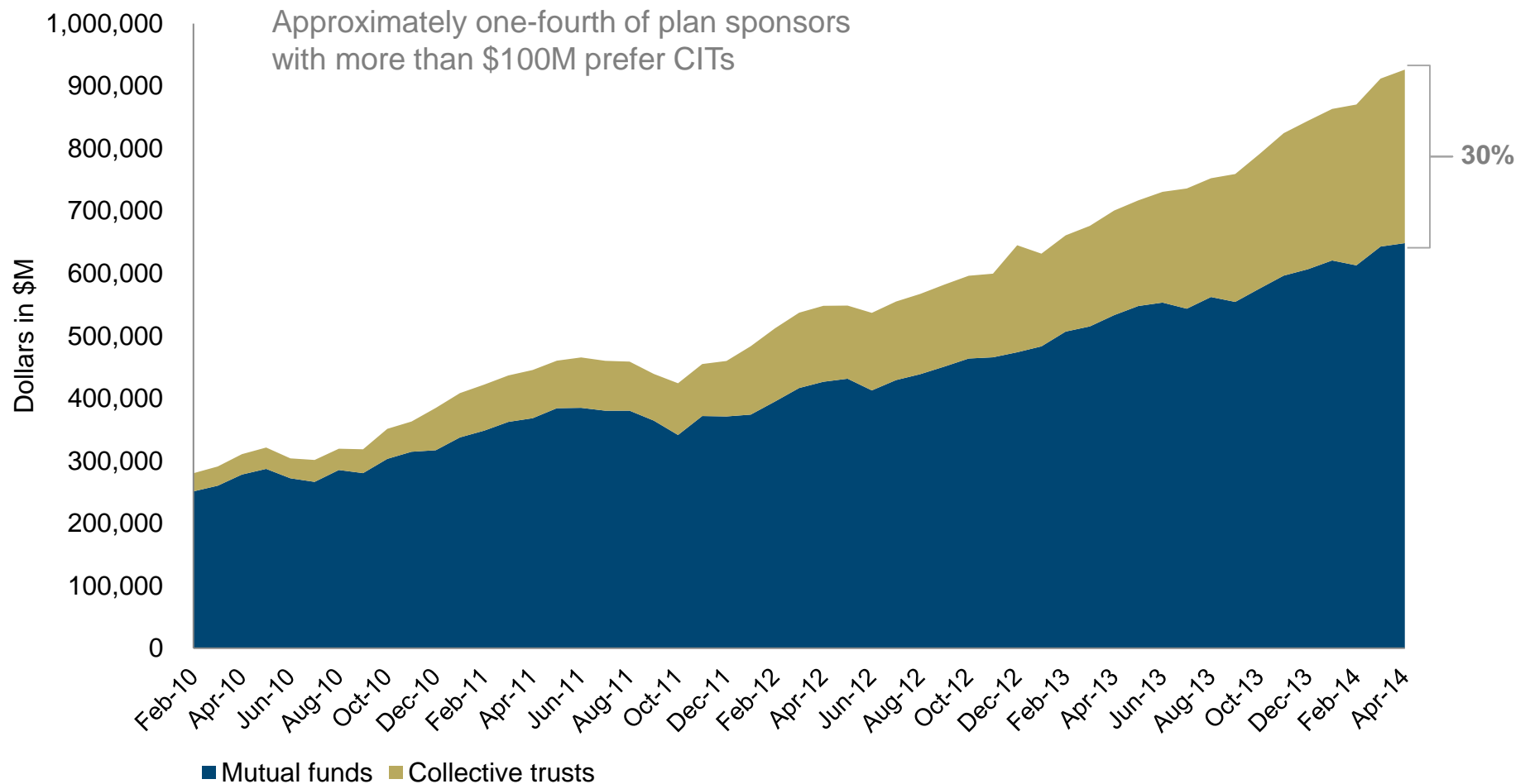


Sources: Vanguard, Morningstar, company public filings, as of December 2013.

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Institutional pricing is gaining ground through the use of collective trusts

Target-date funds versus collective trusts in retail and institutional assets (in \$M)



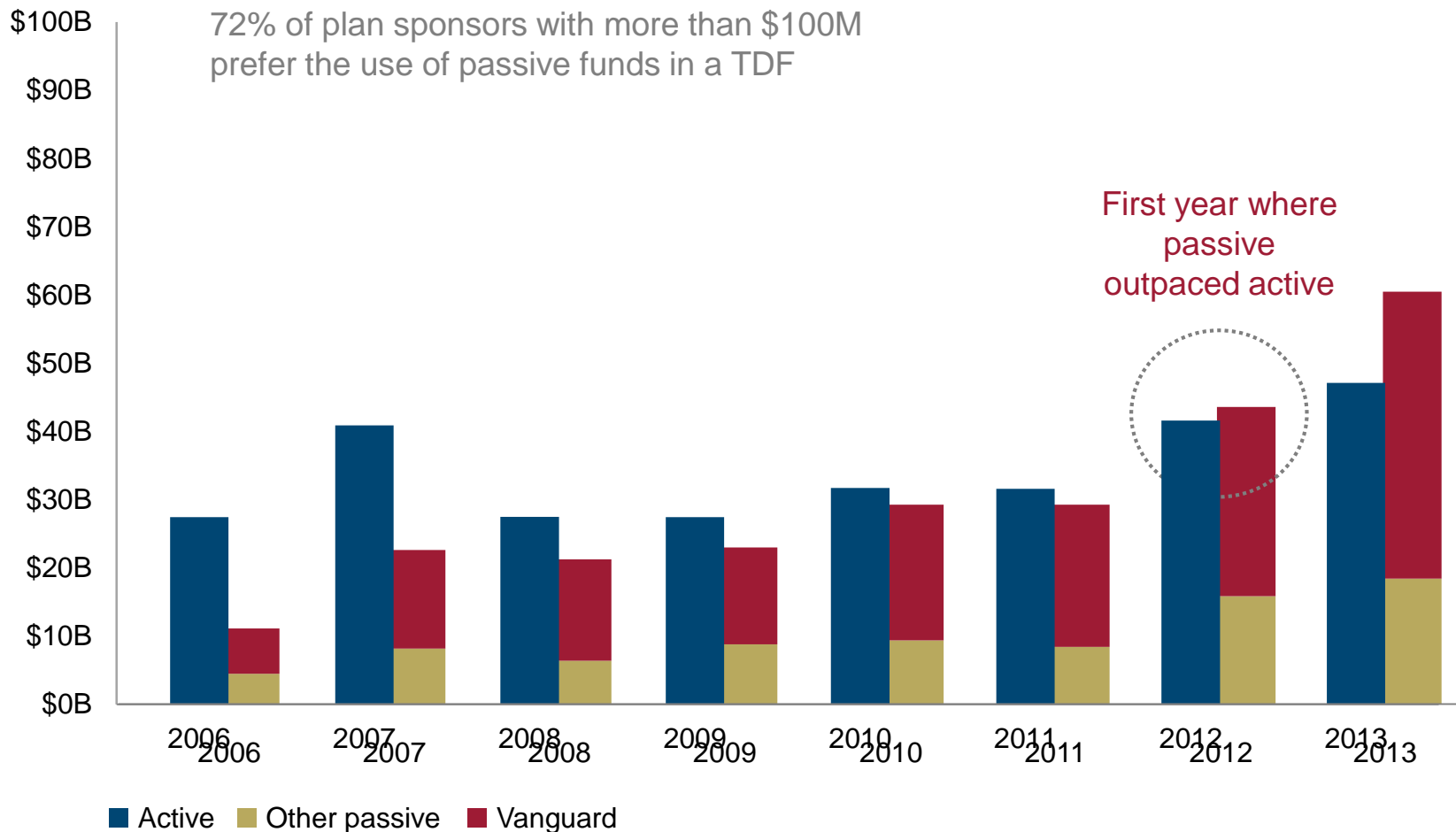
Note: Excludes custom TDFs.

Sources: Greenwich survey of plan sponsors, May 2014; Morningstar, *Pension & Investments*, Vanguard, company public filings.

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Index-based TDFs are gaining ground

2012 was the first year that passive cash flows outpaced active:

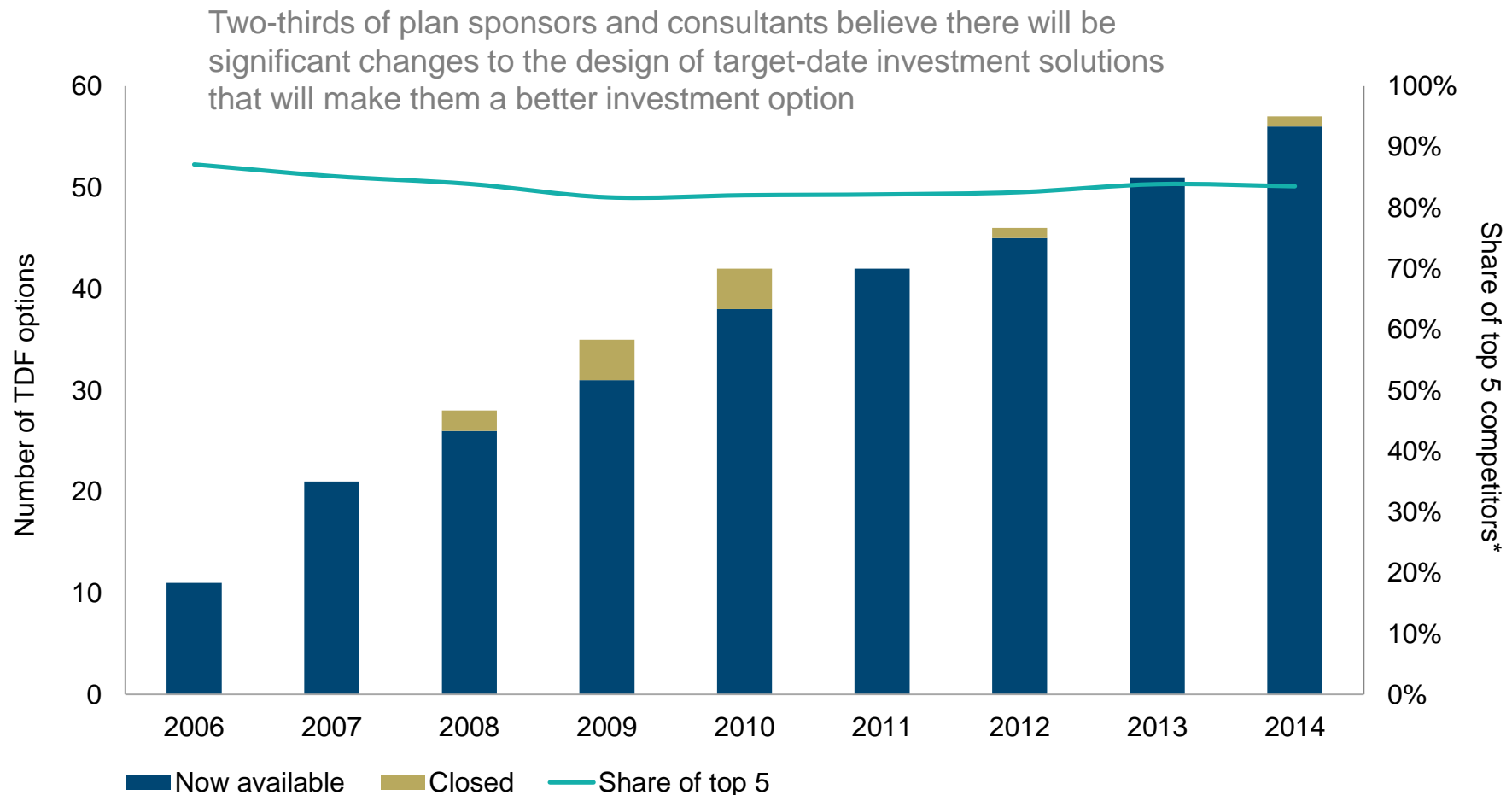


Sources: Greenwich survey of industry wide plan sponsors, May 2014; Vanguard; and Morningstar, as of December 2013.

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The number of TDF options has grown significantly since 2006

Number of TDF options available in the marketplace and top 5 share



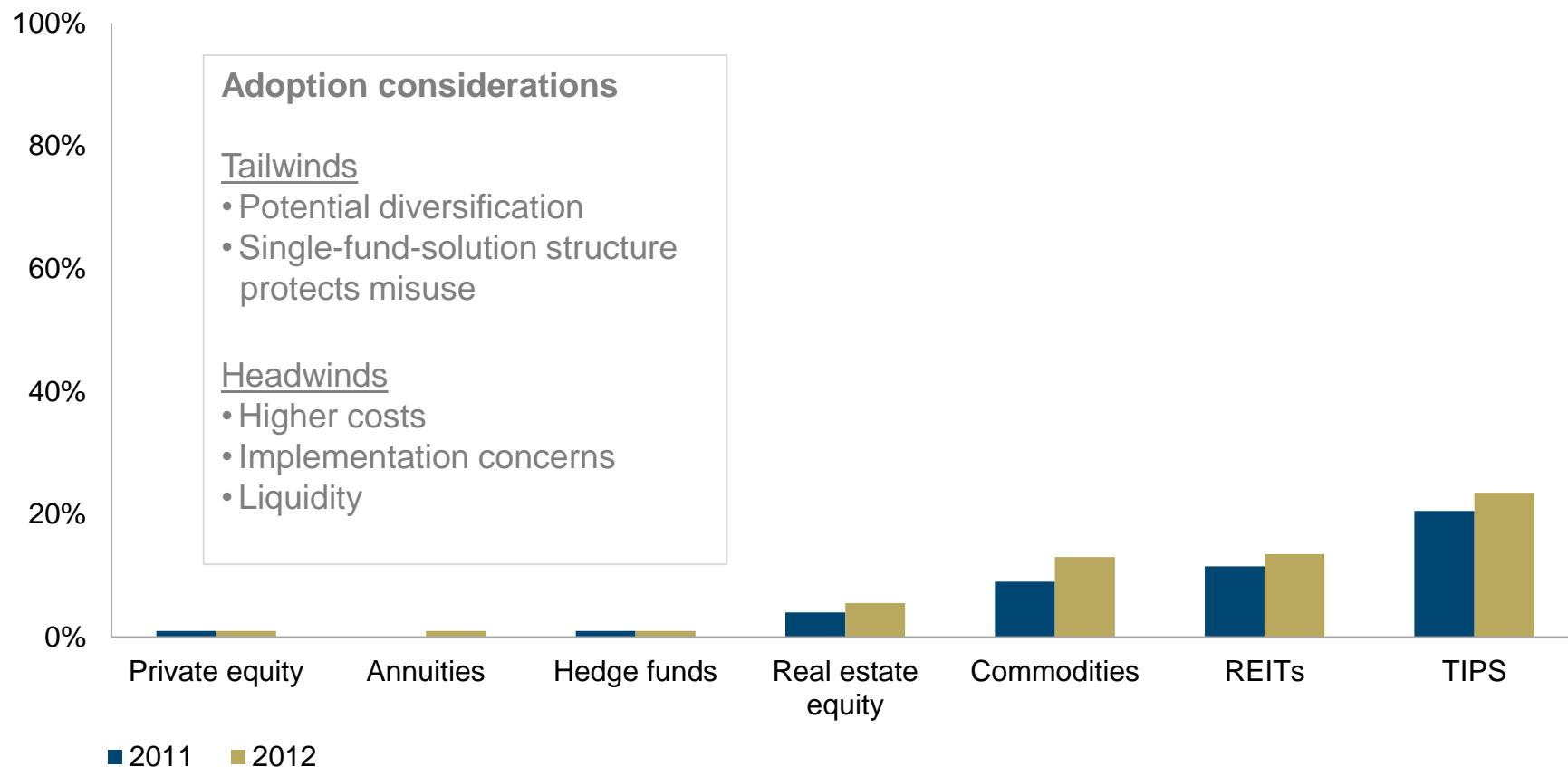
Note: Top 5 competitors: Vanguard, Fidelity, BlackRock, T.Rowe Price, and JP Morgan.

Sources: Greenwich survey of industry wide plan sponsors, May 2014; Vanguard; and Morningstar, company public filings, as of March 2014.

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Alternatives are gaining more attention than traction

Percentage of DC funds using TDF strategies that include select alternatives (among the top 200 plans)

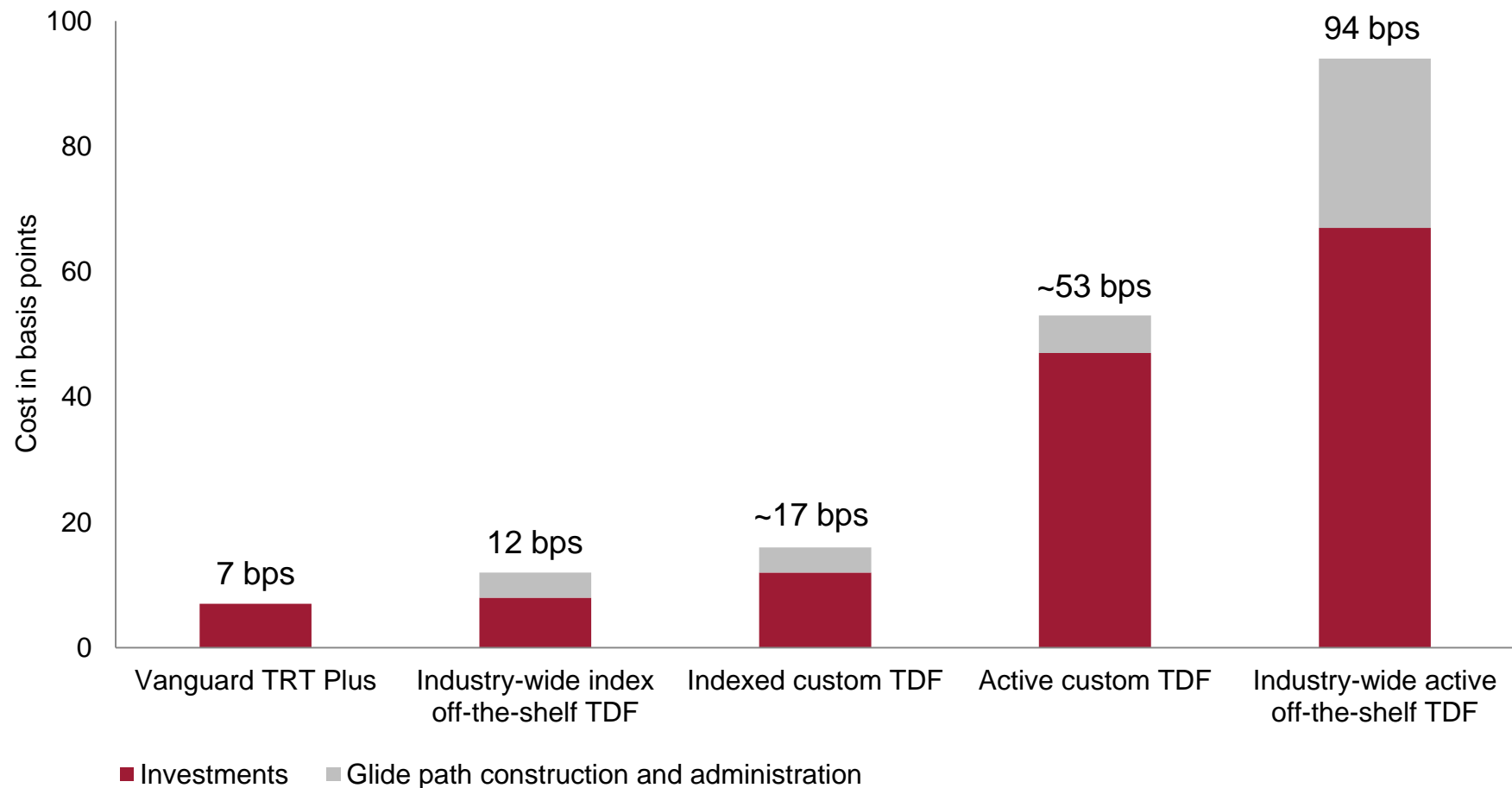


Sources: CNBC, *Pension & Investments*, McKinsey: The Mainstreaming of Alternative Investments: Fueling the Next Wave of Growth in Asset Management, 2012, Plansponsor.com.

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Most custom TDFs still have a meaningful performance hurdle

Costs by TDF selection: Options for clients with \$1B+ in TDF assets



Source: Vanguard.

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What's next in TDF innovation?

When innovating, where do we spend our time?

Focus on the elements that drive investor returns

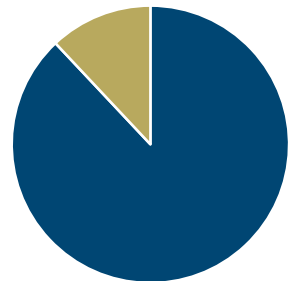


The glide path drives investment returns

A 50/50 mix at retirement matches risk tolerance

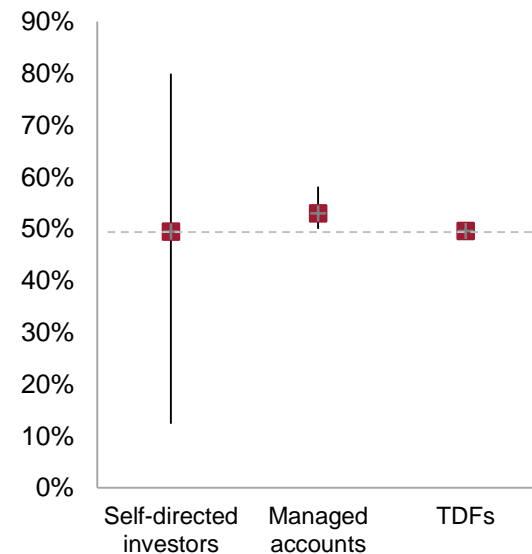
Savings and cost matter most

Factors driving long term return variability

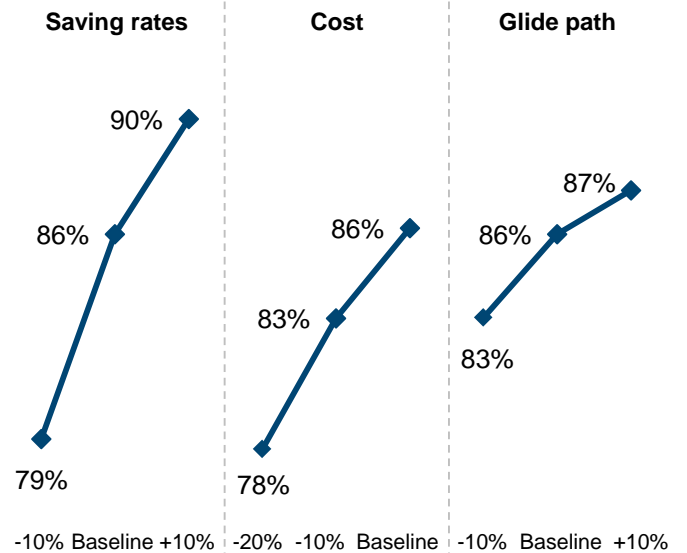


- 88% Asset allocation → the glide path
- 12% Security selection and market-timing

Distribution of equity allocation at age 65



Probability of a positive balance at age 85

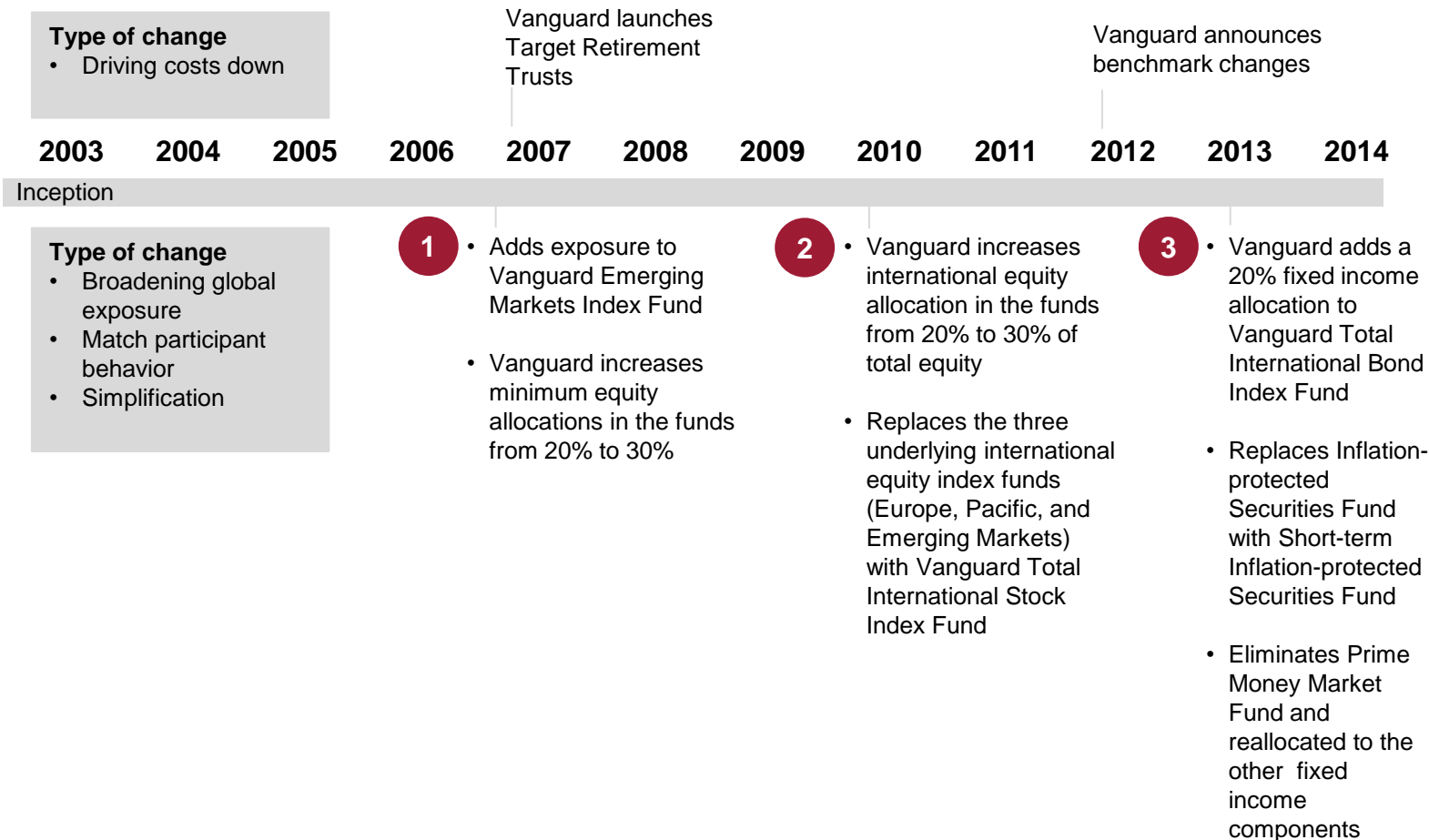


Source: Vanguard, 2012.

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What's on the horizon for Vanguard?

Constant debate, not constant change



Recent research and today's debates

- What's the right mix of US/ex-US stocks & bonds?
- What level of human capital empirically exists for investors in their 60s and 70s?
- Does market-cap weighted fixed income exposure still make sense?
- Do liquid alternatives have a place in a TDF?

Important information

For more information about Vanguard funds, visit vanguard.com or call 800-523-1036 to obtain a prospectus. Investment objectives, risks, charges, expenses, and other important information about a fund are contained in the prospectus; read and consider it carefully before investing.

Investments in Target Retirement Funds are subject to the risks of their underlying funds. The year in the fund name refers to the approximate year (the target date) when an investor in the fund would retire and leave the workforce. The fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in the Target Retirement Fund is not guaranteed at any time, including on or after the target date.

Vanguard Target Retirement Trusts are not mutual funds. They are collective trusts available only to tax-qualified plans and their eligible participants. The collective trust mandates are managed by Vanguard Fiduciary Trust Company, a subsidiary of The Vanguard Group, Inc.

All investing is subject to risk, including the possible loss of the money you invest. Diversification does not ensure a profit or protect against a loss.

An investment in a money market fund is not insured or guaranteed by the Federal Deposit Insurance Corporation or any other government agency. Although a money market fund seeks to preserve the value of your investment at \$1 per share, it is possible to lose money by investing in such a fund.

Investments in bonds are subject to interest rate, credit, and inflation risk.

Vanguard Total International Bond Index Fund is subject to currency hedging risk, which is the chance that currency hedging transactions may not perfectly offset the fund's foreign currency exposures and may eliminate any chance for a fund to benefit from favorable fluctuations in those currencies. The fund will incur expenses to hedge its currency exposures.

Stocks of companies based in emerging markets are subject to national and regional political and economic risks and to the risk of currency fluctuations. These risks are especially high in emerging markets.

Investments in stocks or bonds issued by non-U.S. companies are subject to risks including country/regional risk and currency risk.

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