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Here's how target-date funds have fared as the market fell, and rose, in 2020

Some TDFs that limited losses during the market dive early in the year came out on top, an analysis of Morningstar Direct data shows

BY EMILE HALLEZ

THE BEST-PERFORMING target-date mutual funds have outperformed the S&P 500 during the wild drop and quick recovery of the stock market this year.

While the market fell during the first quarter, many products designed for near-retirees limited losses, thanks to lower allocations to stocks than funds built for younger savers.

In some ways, this year's volatility has been a test for individual products – whether, for example, they helped protect investors from negative returns or rewarded them with strong returns when the market started to bounce back.

On average, institutional shares of 2020-dated funds saw returns of -0.38% during the first six months of the year, an analysis of data from Morningstar Direct shows. During that time, the S&P 500 returned -3.37%. But the average among 2040-dated funds, which are designed for mid-career workers, was lower, at -4.45%.

In many cases, the funds that have come out the best so far this year are those that limited losses during the first quarter — even if such funds didn't see double-digit returns in the second quarter. The top-performing 2020 fund, for example, was Dimensional Fund Advisors' 2020 Target Date Retirement Income Fund, which had a year-to-date return of 5.48%, data from Morningstar Direct show. At the end of February, that fund allocated between 20% and 45% of its assets to equity funds and 55% to 80% to fixed income, according to the product's prospectus. At its target date, when allocations are mostly held static, that fund is designed to invest between 15% and 25% in equity funds and 75% to 85% in fixed income.

Other 2020 funds from Manning & Napier, John Hancock, Voya Financial and AllianzGI were top performers.

Some 2040 funds outperformed the market. Manning & Napier's Target 2040 Fund, for example, saw a net return year-to-date through June of 3.31%, according to the Morningstar data.

As of the end of June, that fund held about 73% of assets in stock funds, 23% in bond funds and 1% in cash, according to product literature. Its biggest holdings were in large-cap U.S. equity (48%), international equity (20%) and intermediate-term fixed income (19%).

Other funds in the 2040 vintage from American Funds, State Street, American Century and Columbia Threadneedle Investments outperformed peers, the data show.

John Hancock was among several firms

with products among the top 10 performers in both the 2020 and 2040 categories.

That firm's Multimanager Lifetime series allows portfolio managers to use some tactical rebalancing, and the funds were "positioned relatively neutral in terms of risk in the equity-fixed-income split, given the late-cycle nature" of the market heading into 2020, said Greg Frazier, senior manager, research analyst at John Hancock Investment Management. "Our team is probably a little more tactical than some out there."

That series began to reallocate assets to equities and riskier fixed-income securities following the sell-off earlier this year, which helped give it a performance boost, Frazier said.

"It's certainly been a difficult-to-challenging time period to manage any assets, but the team did a good job responding to the market environment and [was not] dissuaded to avert from their process," he said. "This is the same process that we would use in any market environment."

The firm's Multi-Index Preservation series, whose 2020 and 2040 vintages performed well compared to peers, follows a "neutral" glide path, meaning that managers do not shift allocations in response to the market, according to fund documents. The 2020 fund in that series had a roughly 8% allocation to equity funds as of January, while the 2040 fund invested about 74% of assets in stock-heavy funds, according to the prospectuses.

Of the 2020 and 2040-dated funds examined by InvestmentNews, two firms had products in both categories ranking near the bottom by performance: Equitable Investment Management's 1290 Funds and MassMutual.

Representatives from Equitable did not respond to a request for comment.

MassMutual's RetireSMART by J.P. Morgan target-date fund has an investment philosophy that "seeks to help more people cross the investment finish line, and uses two decades of research along with behavioral data from millions of participants to make investment decisions," Doug Steele, the firm's head of investment management for workplace solutions, said in a statement.

Top 10 2020 Funds

	Fund (Institutional Share Classes)	YTD Net Return (Through June)	First-Quarter Return	Second-Quarter Return
1	Dimensional 2020 Target Date Retirement Income	5.48%	-2.71%	8.41%
2	Manning & Napier Target 2020	4.27%	-5.60%	10.45%
3	John Hancock Multi-Index 2020 Preservation Portfolio	2.03%	-5.39%	7.84%
4	Voya Index Solution 2020 Portfolio	1.52%	-6.14%	8.15%
5	AllianzGI Retirement 2020	1.13%	-7.94%	9.85%
6	MFS Lifetime 2020	0.68%	-7.79%	9.19%
7	Goldman Sachs Target Date Retirement	0.63%	-9.13%	10.74%
8	Harbor Target Retirement 2020	0.51%	-9.12%	10.60%
9	Great-West Lifetime Conservative 2020	0.48%	-8.15%	9.39%
10	Voya Solution 2020 Portfolio	0.39%	-8.57%	9.80%
	Peer Average	-0.38%	-9.78%	10.46%

Top 10 2040 Funds

	Fund (Institutional Share Classes)	YTD Net Return (Through June)	First-Quarter Return	Second-Quarter Return
1	Manning & Napier Target 2040	3.31%	-11.36%	16.55%
2	American Funds 2040 Target Date Retirement	-1.67%	-17.03%	18.51%
3	State Street Target Retirement 2040	-1.82%	-16.52%	17.61%
4	American Century One Choice 2040	-1.90%	-15.19%	15.67%
5	Columbia Adaptive Retirement 2040	-2.13%	-7.14%	5.39%
6	AllianzGI Retirement 2040	-2.30%	-18.23%	19.49%
7	John Hancock Multi-Index 2040 Preservation	-2.56%	-15.66%	15.54%
8	T. Rowe Price Target 2040	-2.88%	-17.29%	17.43%
9	John Hancock Multimanager 2040 Lifetime	-3.15%	-19.54%	20.37%
10	Franklin LifeSmart 2040 Retirement Target	-3.25%	-17.54%	17.34%
	Peer Average	-4.45%	-18.18%	16.83%

Source: Morningstar Direct

"The use of diversifying asset classes designed to reduce risk was challenged in the first half of 2020, given extreme levels of market volatility," Steele said. "We believe the investment philosophy designed to mitigate market, event, longevity, inflation and interest rate risks along with a dynamic risk management approach will help investors meet their retirement goals over the long term."

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Diversification and asset allocation do not guarantee a profit or eliminate the risk of a loss.

The past performance shown here reflects reinvested distributions and the beneficial effect of any expense reductions, and does not guarantee future results. Returns for periods shorter than one year are cumulative, and results for other share classes will vary. Shares will fluctuate in value and, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance cited. For the most recent month-end performance, visit jhinvestments.com. The fund may have recently experienced negative short-term performance due to market volatility associated with the COVID-19 pandemic

Average annual total returns as-of 6/30/20

	QTD	YTD	1 Year	3 Year	5 Year	10 Year	Life of fund	Life of fund date
Multi-Index 2020 Preservation Portfolio Class R6 (without sales charge)	7.84	2.03	5.29	4.65	4.35	5.8	5.11	4/30/10[1]
Multi-Index 2040 Preservation Portfolio Class R6 (without sales charge)	15.54	-2.56	4.46	6.52	6.74	9.27	7.83	4/30/10[1]
Multimanager 2040 Lifetime Portfolio Class R6 (without sales charge)	20.37	-3.15	4.19	6.46	6.86	9.82	5.85	10/30/06[2]

Expense Ratios[3]	Gross	Net (what you pay)	Contractual through
Multi-Index 2020 Preservation Portfolio Class R6	0.65%	0.33%	12/31/2020
Multi-Index 2040 Preservation Portfolio Class R6	0.67%	0.36%	12/31/2020
Multimanager 2040 Lifetime Portfolio Class R6	0.93%	0.58%	12/31/2020

"Net (what you pay)" represents the effect of a contractual fee waiver and/or expense reimbursement and is subject to change. Performance data shown excludes fees and expenses. The performance data would be lower if such fees and expenses were included. Past performance does not guarantee future results. Returns for the portfolio's first year are since fund inception.

[1] Class R6 shares were first offered on 9/4/12; returns prior to these dates are those of Class 1 shares that have been recalculated to apply the gross fees and expenses of Class R1 and Class R6 shares.

[2] Class R6 shares were first offered on 9/1/11. Returns prior to this date are those of Class R1 shares and have not been adjusted for expenses; otherwise, returns would vary.

[3] "Net (what you pay)" represents the effect of a contractual fee waiver and/or expense reimbursement and is subject to change.

Portfolio composition table

Portfolio composition (%) as of 6/30/2020	Equity	Fixed Income	Alternative and Specialty
Multi-Index 2020 Preservation Portfolio Class R6	84.84	13.96	1.2
Multi-Index 2040 Preservation Portfolio Class R6	73.92	22.42	3.66
Multimanager 2040 Lifetime Portfolio Class R6	87.76	6.43	5.81

Fund characteristics will vary over time

Portfolio performance depends on the advisor's skill in determining asset class allocations, the mix of underlying funds, and the performance of those underlying funds. The underlying funds' performance may be lower than the performance of the asset class that they were selected to represent. The portfolio is subject to the same risks as the underlying funds and ETFs in which it invests: Stocks and bonds can decline due to adverse issuer, market, regulatory, or economic developments; foreign investing, especially in emerging markets, has additional risks, such as currency and market volatility and political and social instability; the securities of small companies are subject to higher volatility than those of larger, more established companies; and high-yield bonds are subject to additional risks, such as increased risk of default. Owning an ETF generally reflects the risks of owning the underlying securities it is designed to track, which may cause lack of liquidity, more volatility, and increased management fees. Hedging and other strategic transactions may increase volatility of a portfolio and could result in a significant loss. Each portfolio's name refers to the approximate retirement year of the investors for whom the portfolio's asset allocation strategy is designed. The portfolios with dates further off initially allocate more aggressively to stock funds. As a portfolio approaches or passes its target date, the allocation will gradually migrate to more conservative, fixed-income funds. The principal value of each portfolio is not guaranteed and you could lose money at any time, including at, or after, the target date. Liquidity—the extent to which a security may be sold or a derivative position closed without negatively affecting its market value, if at all—may be impaired by reduced trading volume, heightened volatility, rising interest rates, and other market conditions. Please see the portfolios' prospectuses for additional risks.

Request a prospectus or summary prospectus from your financial professional, by visiting jhinvestments.com, or by calling us at 800-225-5291. The prospectus includes investment objectives, risks, fees, expenses, and other information that you should consider carefully before investing.

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