

Target Date Funds

Fiduciary Perspectives

Save & Protect

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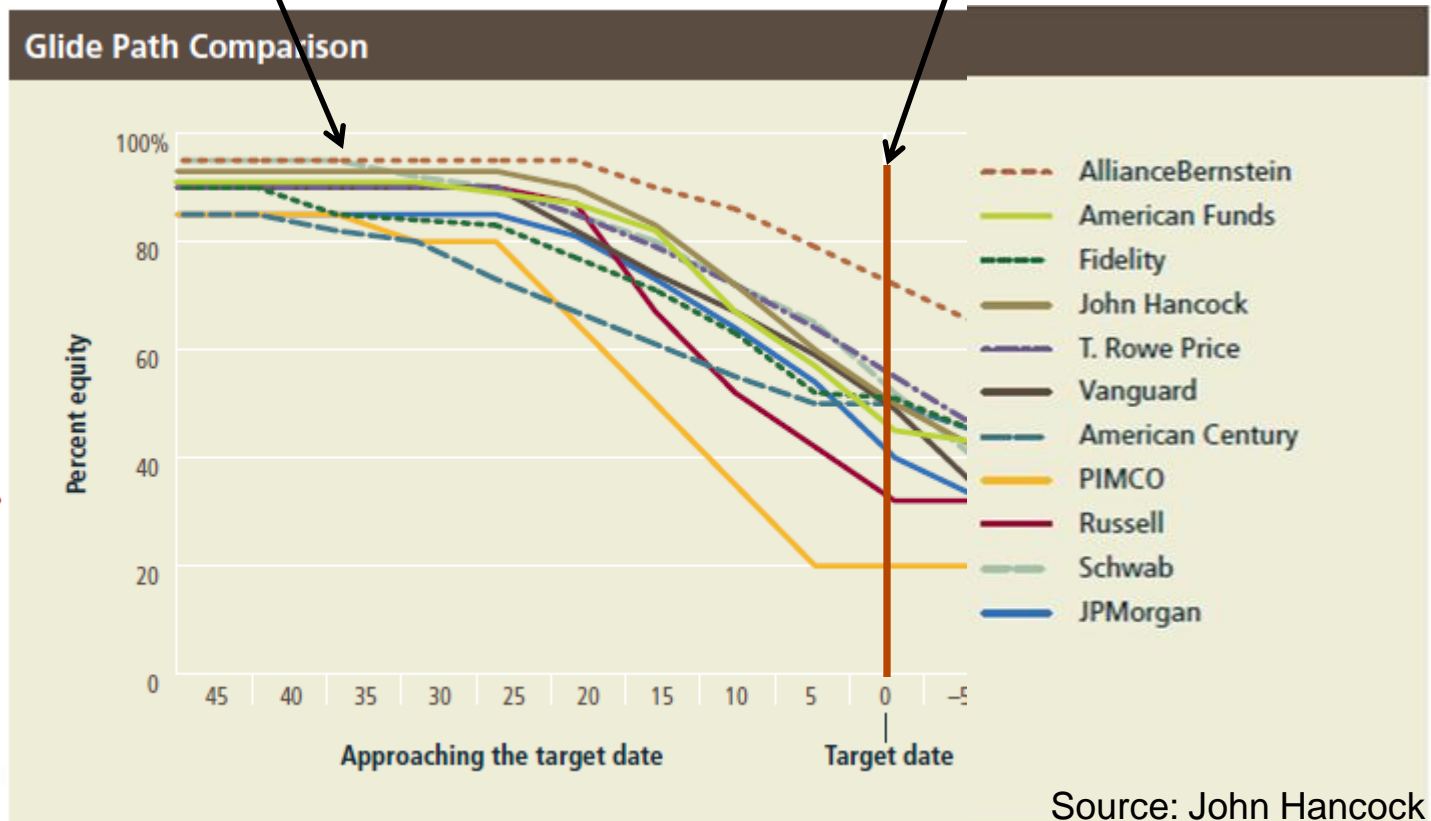


3 Things That Actually Matter

- (1) **Fees:** Less than 50 bps all-in
- (2) **Diversification:** Global Stocks, Global Bonds, Global Real Estate, Commodities, Natural Resources, etc

(3) Defend at Target Date:

No Risk



Source: John Hancock



Choosing a Prudent Target Date Fund



Diversification



Risk Control



Low Fees



Sound Design



= Patented Safe Landing Glide Path[®]

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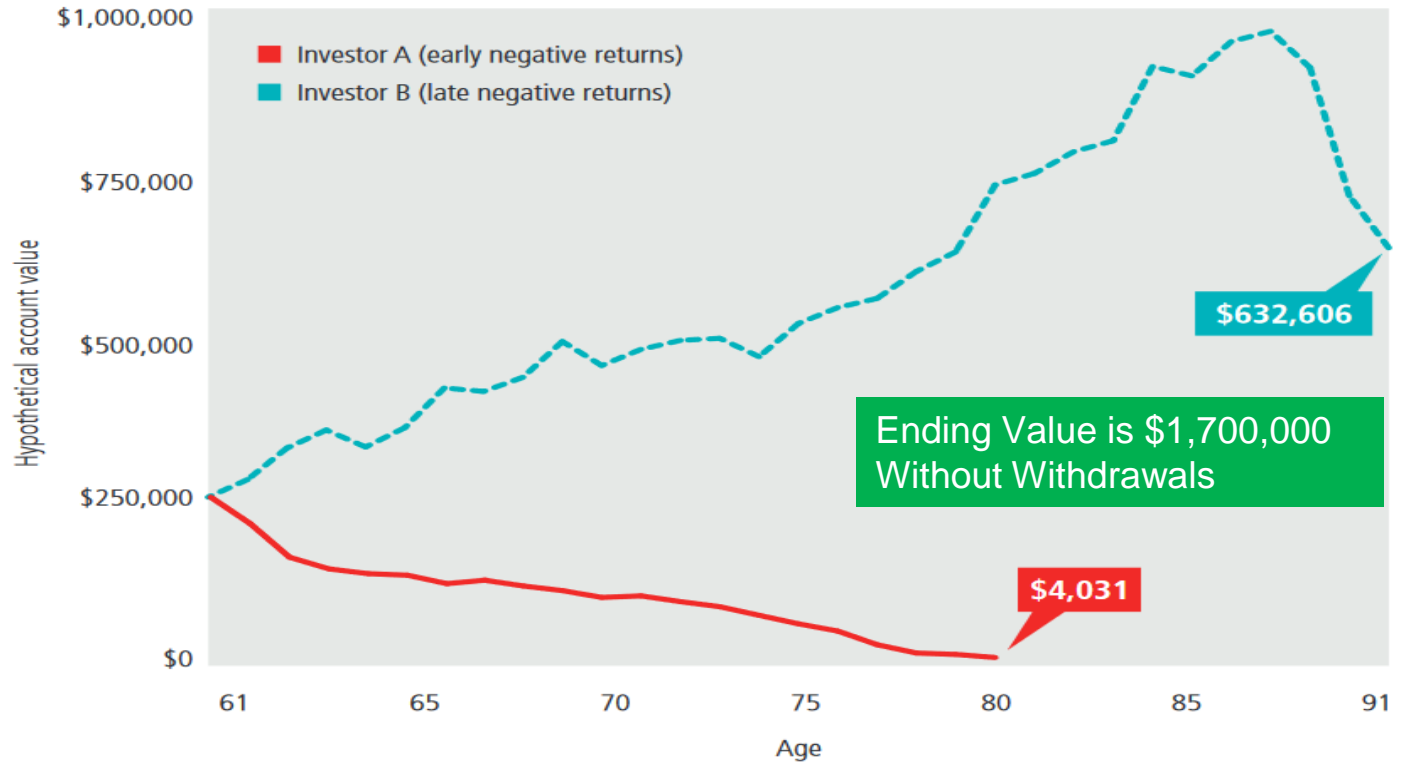


8 Reasons for no risk at the target date

1. Most withdraw
2. Buy a Lifetime Annuity
3. Prior to PPA, Cash/Stable Value was default
4. Professor Daniel Kahneman pain of loss
5. Risk zone: lifestyles, sequence of return risk
6. Demographics
7. No Fiduciary Upside
8. Once in a lifetime



Sequence of Return Risk

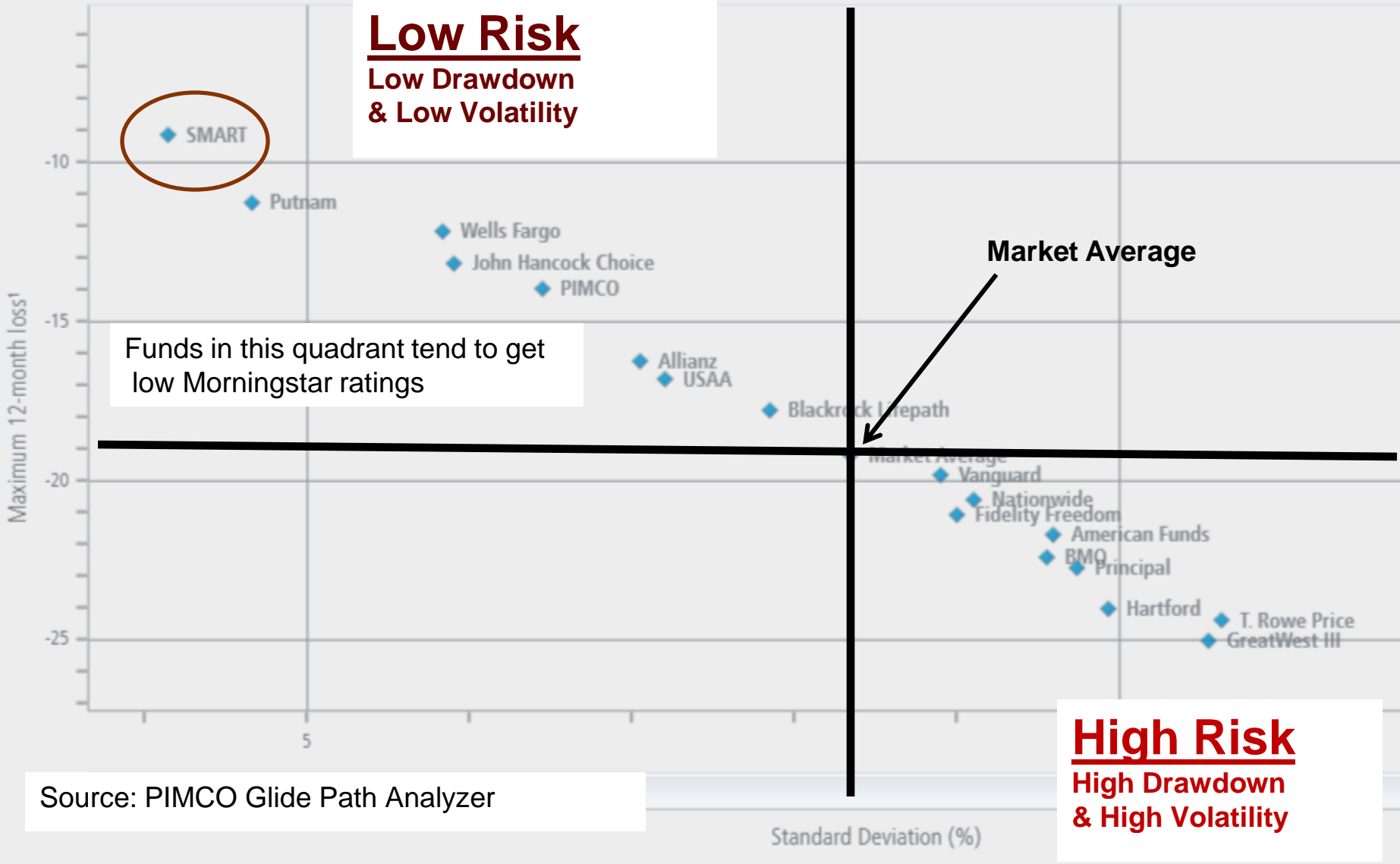


This chart shows two 30-year income scenarios. The solid line shows a withdrawal plan that started off with three years of negative returns in a row. The dotted line represents a withdrawal plan with the negative years at the end. Both plans started with \$250,000 and both took out \$12,500 per year inflated by 3% for inflation. No other actions were taken to manage income withdrawals. Both plans had a 6.6% average annual rate of return on the underlying investment for the 30-year period.

Source: MFS Research



Risk at the Target Date: Only a Handful Defend



Low Risk
Low Drawdown
& Low Volatility

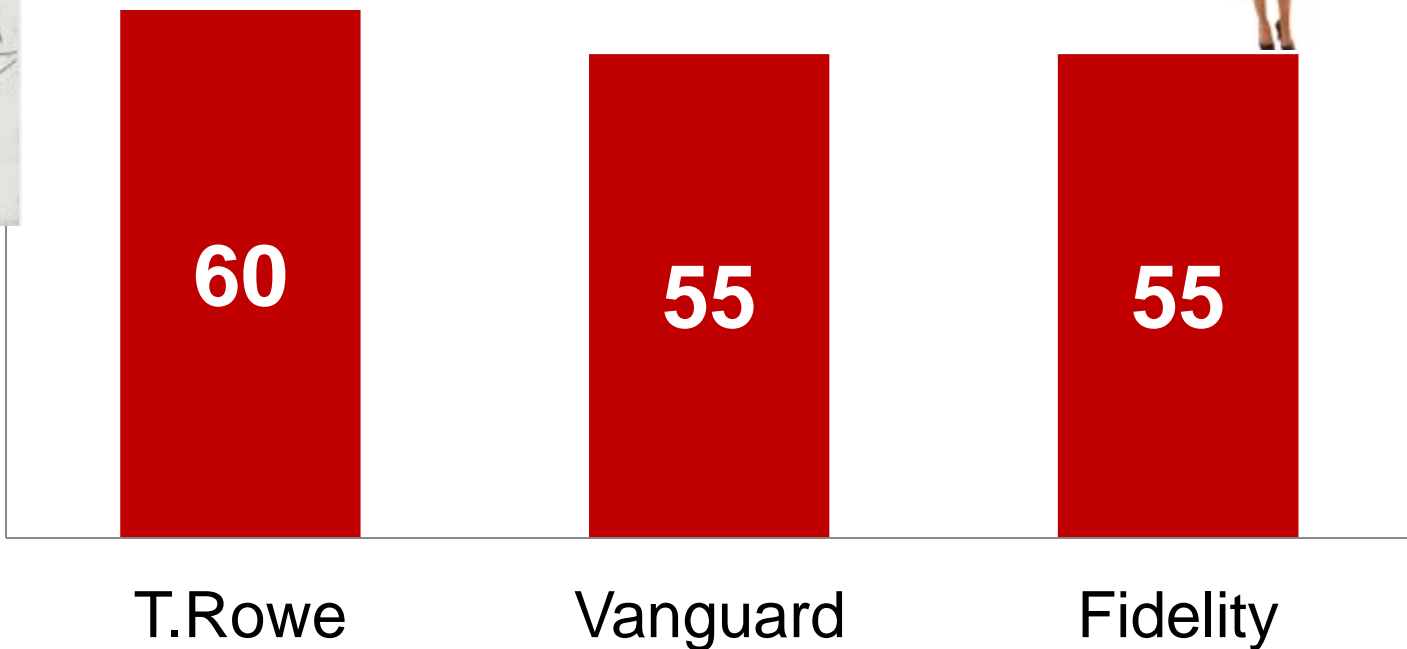
High Risk
High Drawdown
& High Volatility

Funds in this quadrant tend to get low Morningstar ratings

Source: PIMCO Glide Path Analyzer

Standard Deviation (%)

Risk at Target Date: Equity Allocations of Big 3 are Way Too High



65% of Total TDF Assets are With These 3 Bundled Service Providers.

There is little or no vetting.

Have Fiduciaries Really Embraced This Much Risk at Target Date?

Choosing a Prudent Target Date Fund



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Risk Control



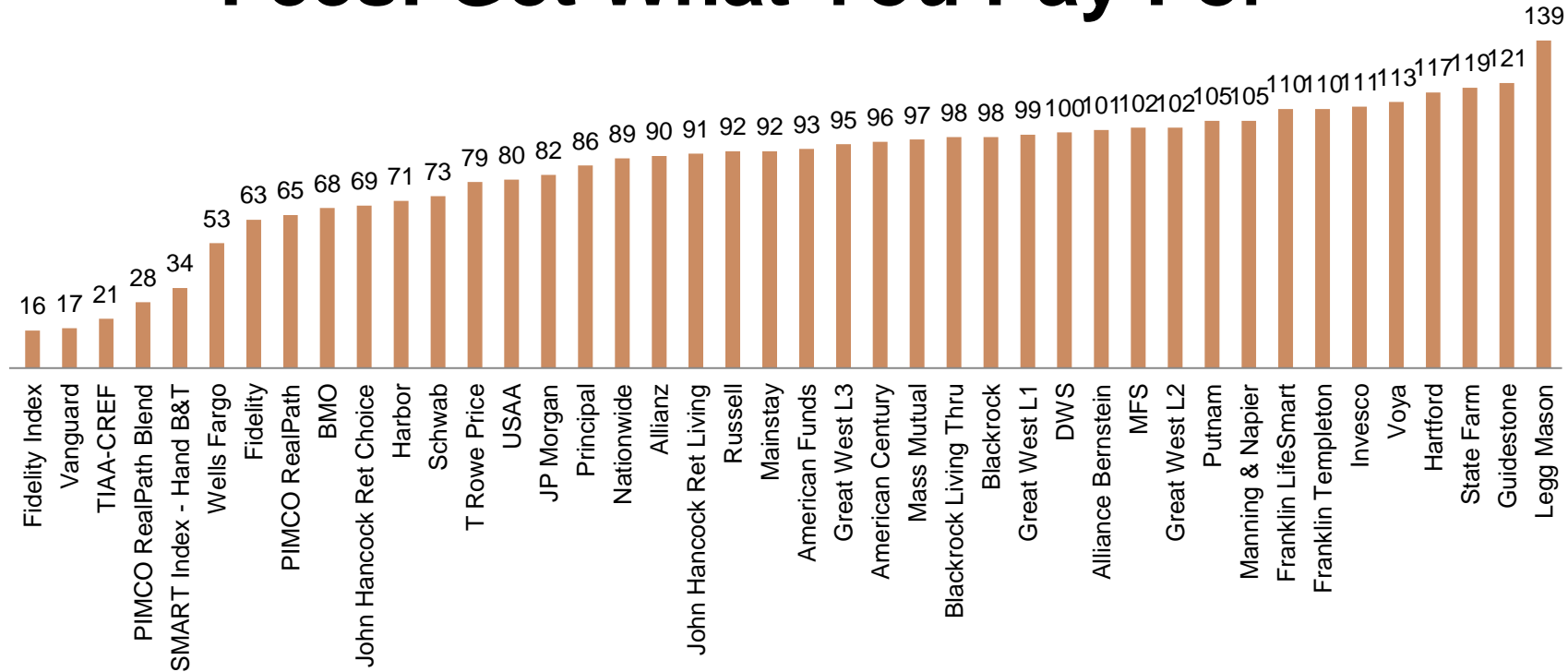
Low Fees



Sound Design



Fees: Get What You Pay For



Source: Morningstar

Challenge: Control costs AND provide broad diversification



Choosing a Prudent Target Date Fund



Diversification



Risk Control



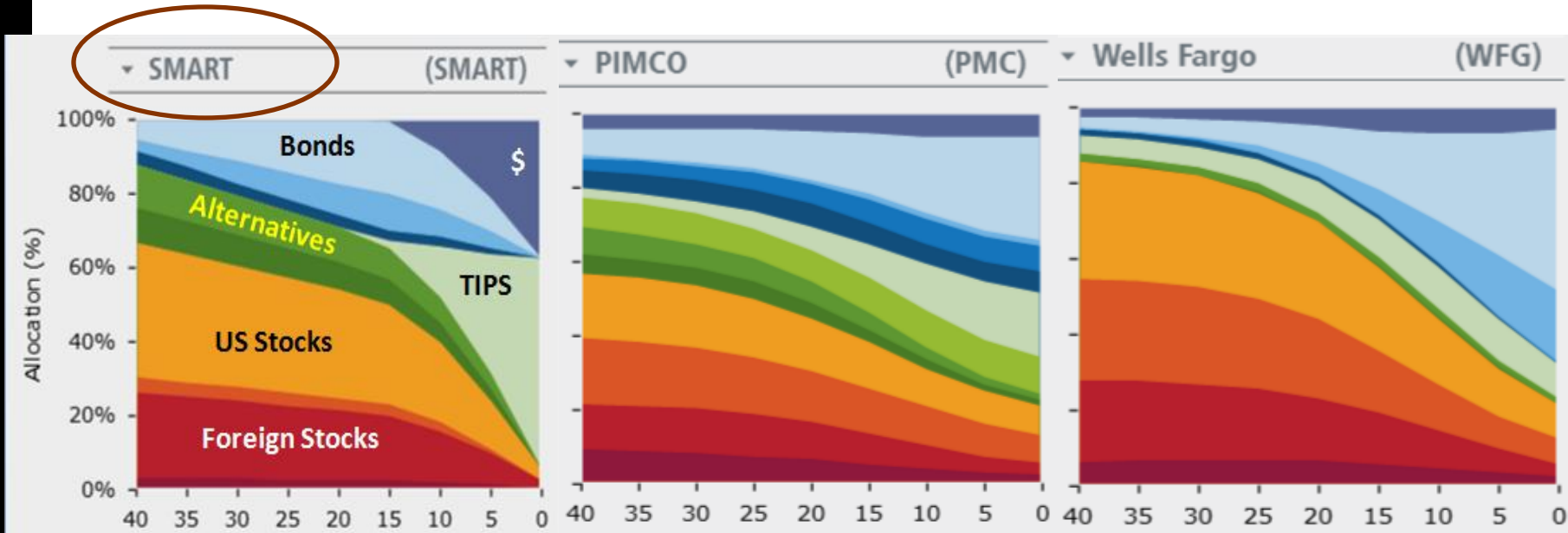
Low Fees



Sound Design



Examples of Broadly Diversified



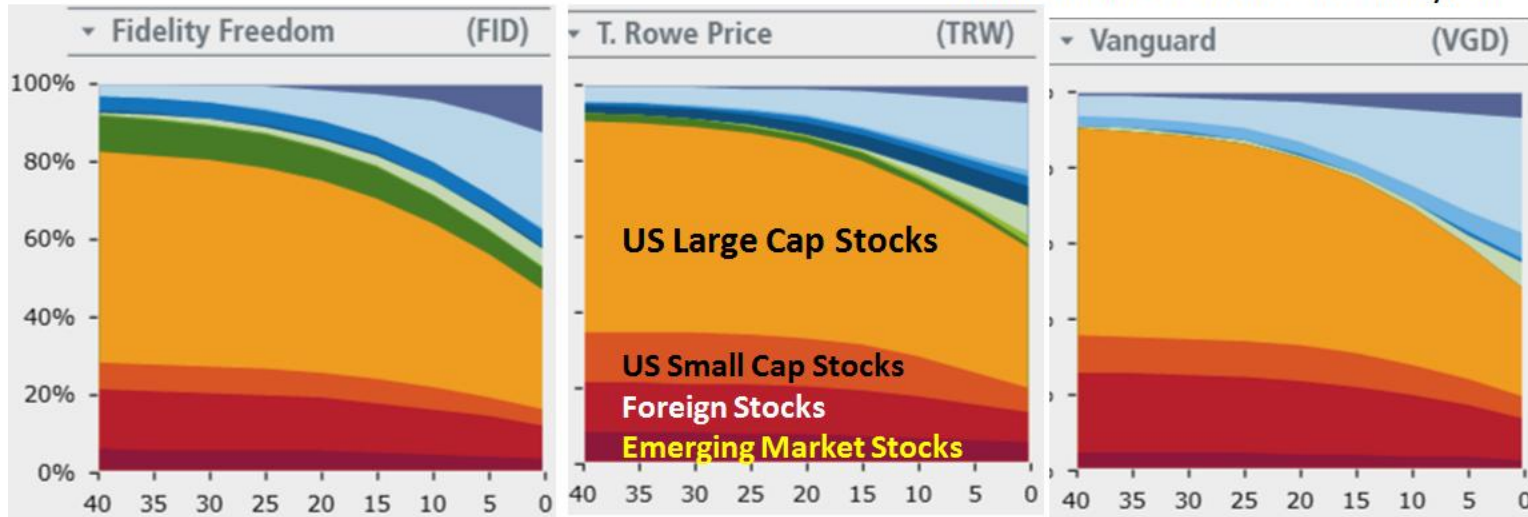
Source: PIMCO Glide Path Analyzer



The Most Popular Are Concentrated in US Stocks

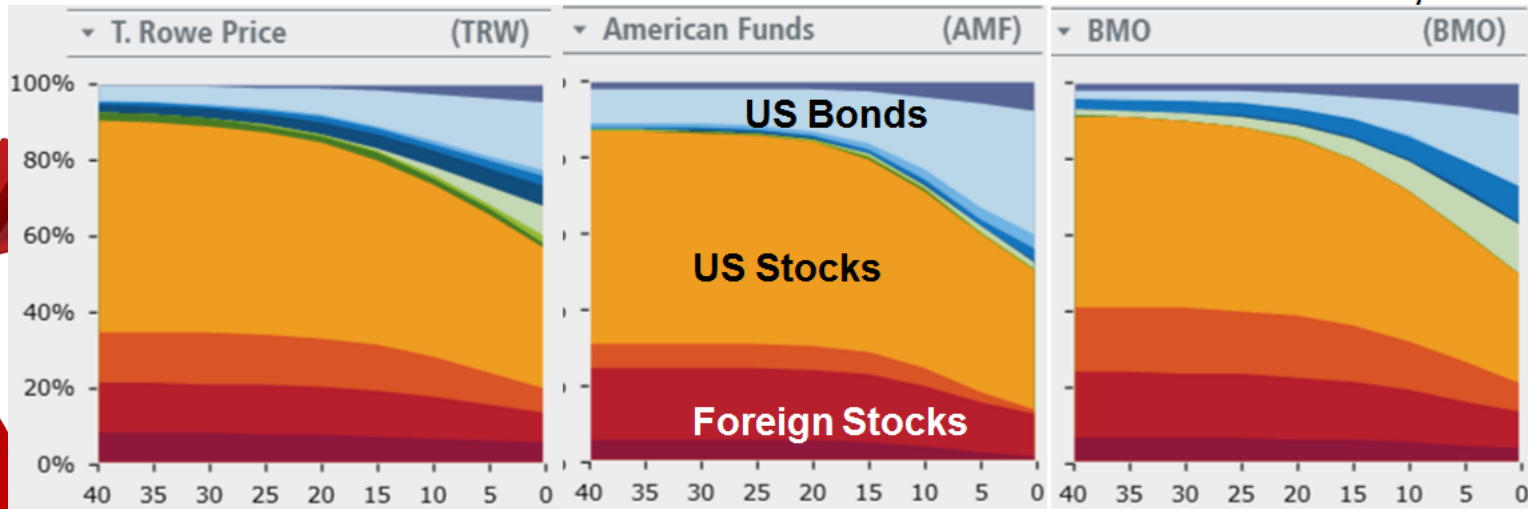
The Big 3

Source: PIMCO Glide Path Analyzer



High Morningstar Ratings

Source: PIMCO Glide Path Analyzer



A NEW PRUDENCE SCORE

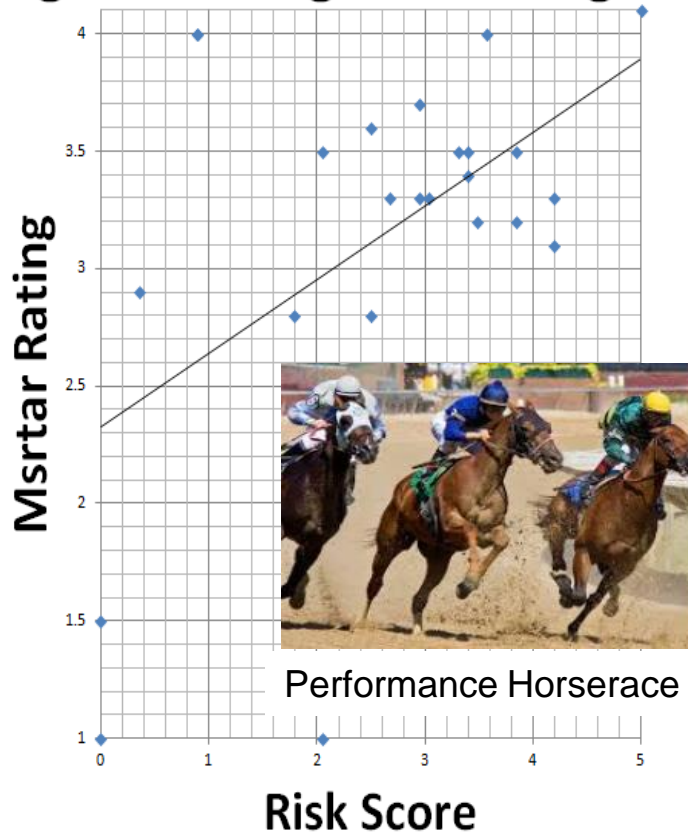
Combines Safety, Fees and Diversification



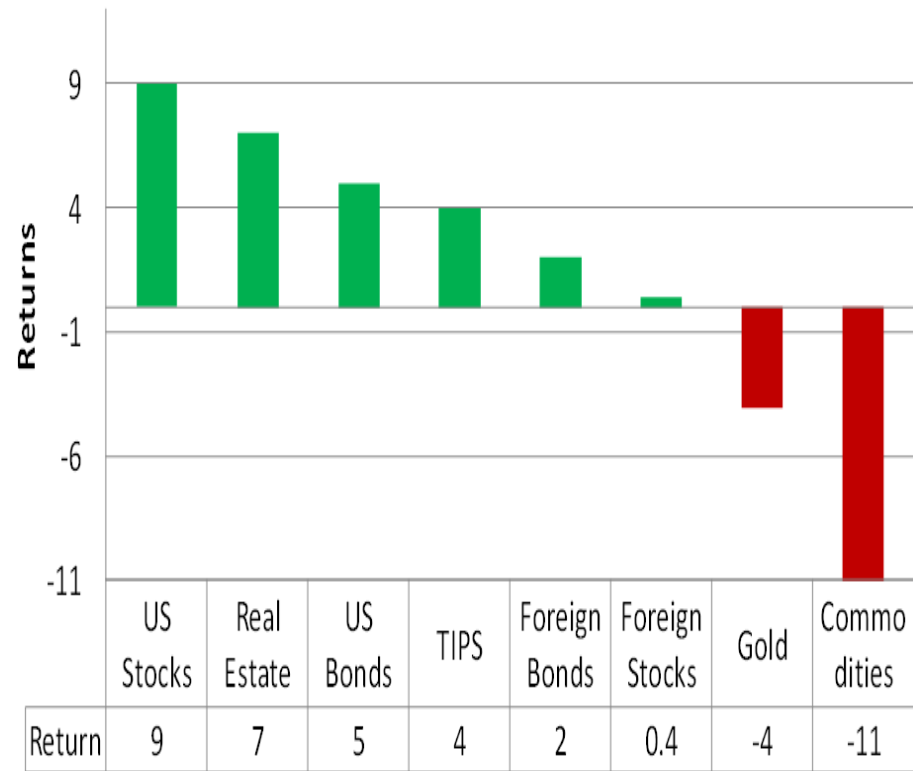
Morningstar Ratings Reward Risk Because Risky U.S. Equities Have Performed Best

Funds with High Risk Scores get

High Morningstar Ratings



Asset Class Returns for 8 Years Ending June, 2016



Source: The Capital Spectator

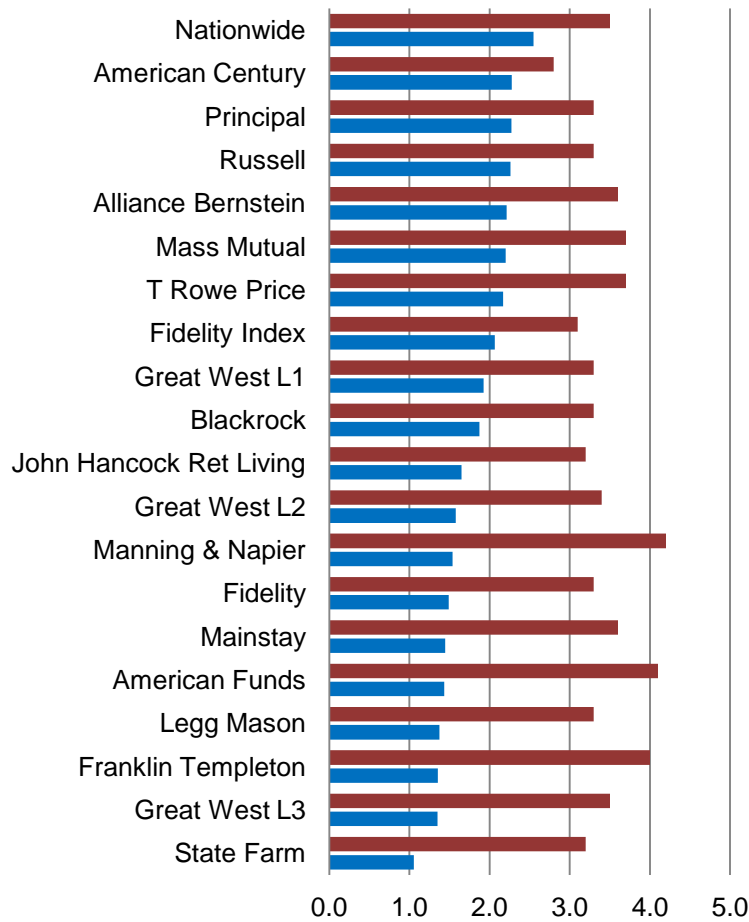
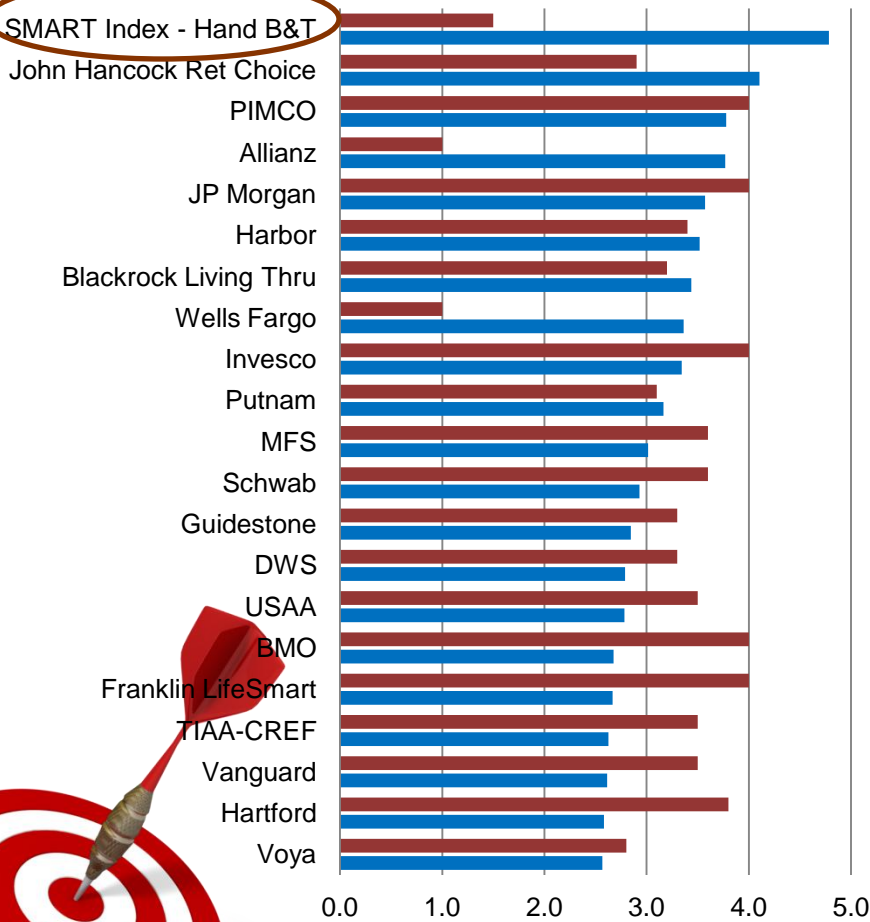
Prudence Scores versus Morningstar Ratings

Top 20

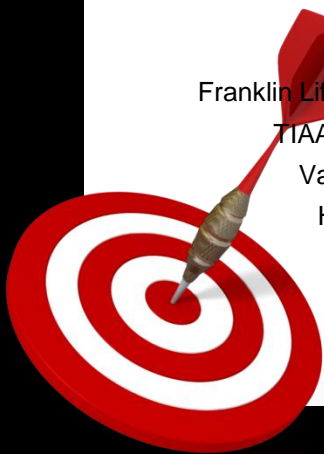
Mstar Prudence

Bottom 20

SMART Index - Hand B&T



Source: Target Date Solutions



Choosing a Prudent Target Date Fund



Diversification



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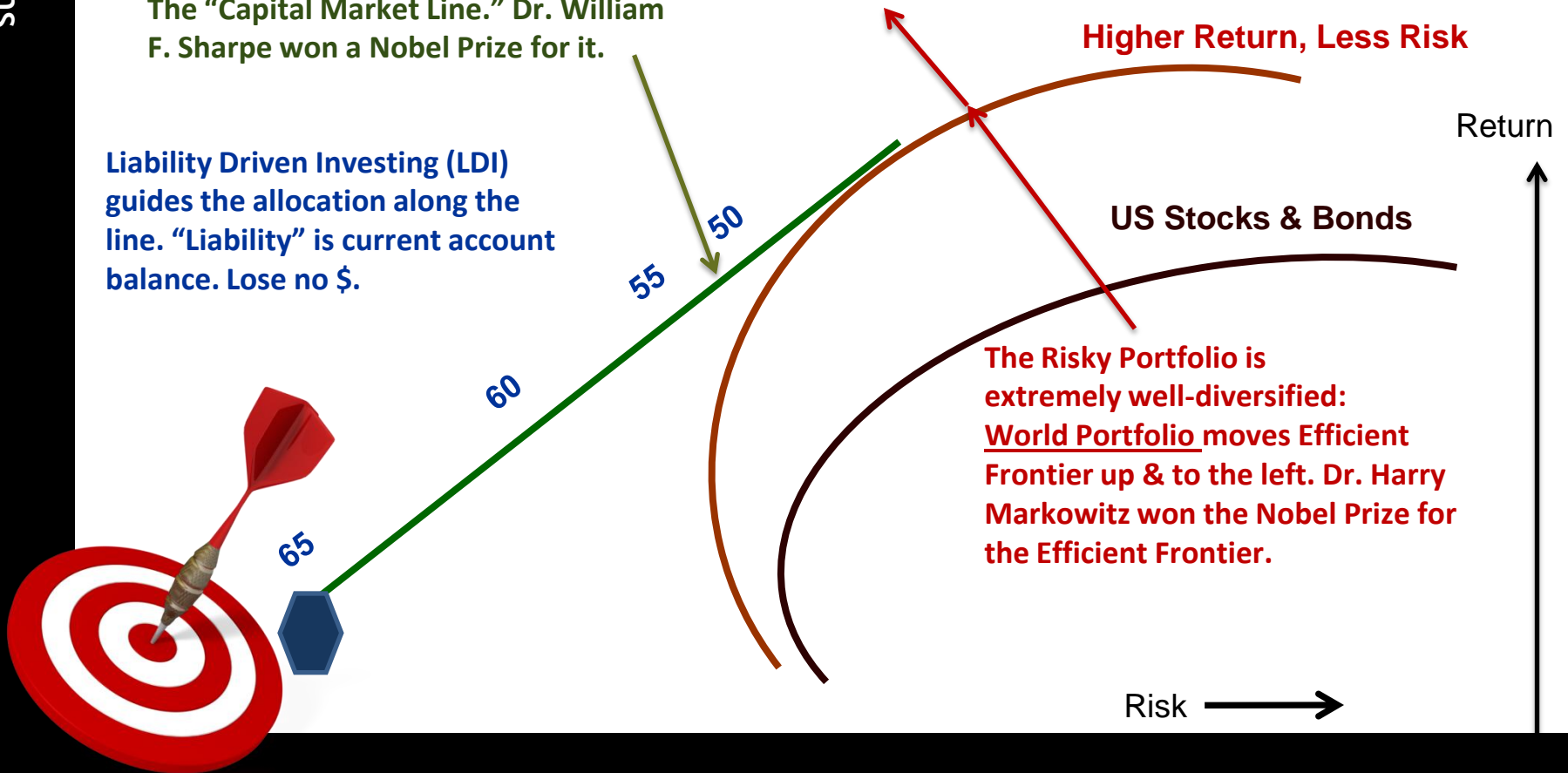
Patented Safe Landing Glide Path[®]

Unique Investment Structure: [Patent 8352349](#)

Integrates 2 Nobel prize (1990) winning discoveries with principles of modern finance

The "Capital Market Line." Dr. William F. Sharpe won a Nobel Prize for it.

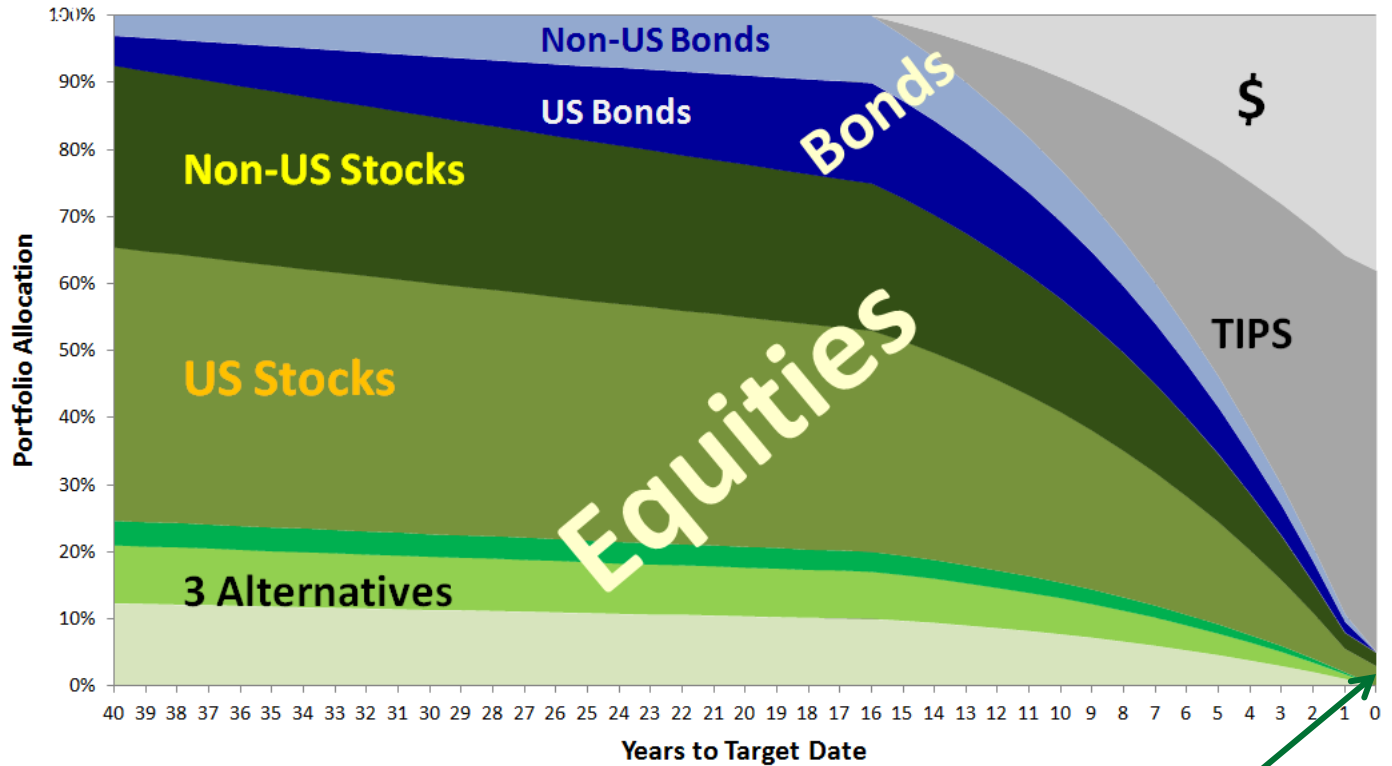
Liability Driven Investing (LDI) guides the allocation along the line. "Liability" is current account balance. Lose no \$.



Patented Safe Landing Glide Path[®] Asset Allocation

[Patent 8352349](#)

Target Date Solutions



Defend at Target Date



We recommend this book.

IFEBP Reading List



- RIA 3(38) TDF Manager
- ERISA Attorney
- Professional Ethicist

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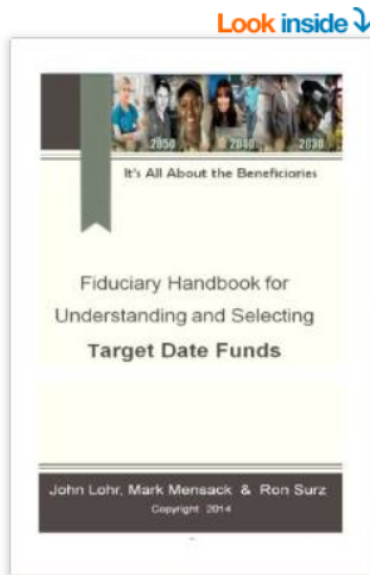
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Fiduciary Handbook for Understanding and Selecting Target Date Funds: It's All About the Beneficiaries Paperback

– 2014

by Ron Surz (Author), John Lohr (Contributor), Mark Mensack (Contributor)

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We believe that target date funds are a good idea that can and should be more protective and productive, so we've written a book to educate fiduciaries. Most assets in TDFs are there by default. Employers (fiduciaries) are choosing TDFs, not employees. Our book is directed to fiduciaries. We challenge the status quo that profits fund companies at the expense of plan participants. The most menacing problem is that TDFs have become more risky at the target

