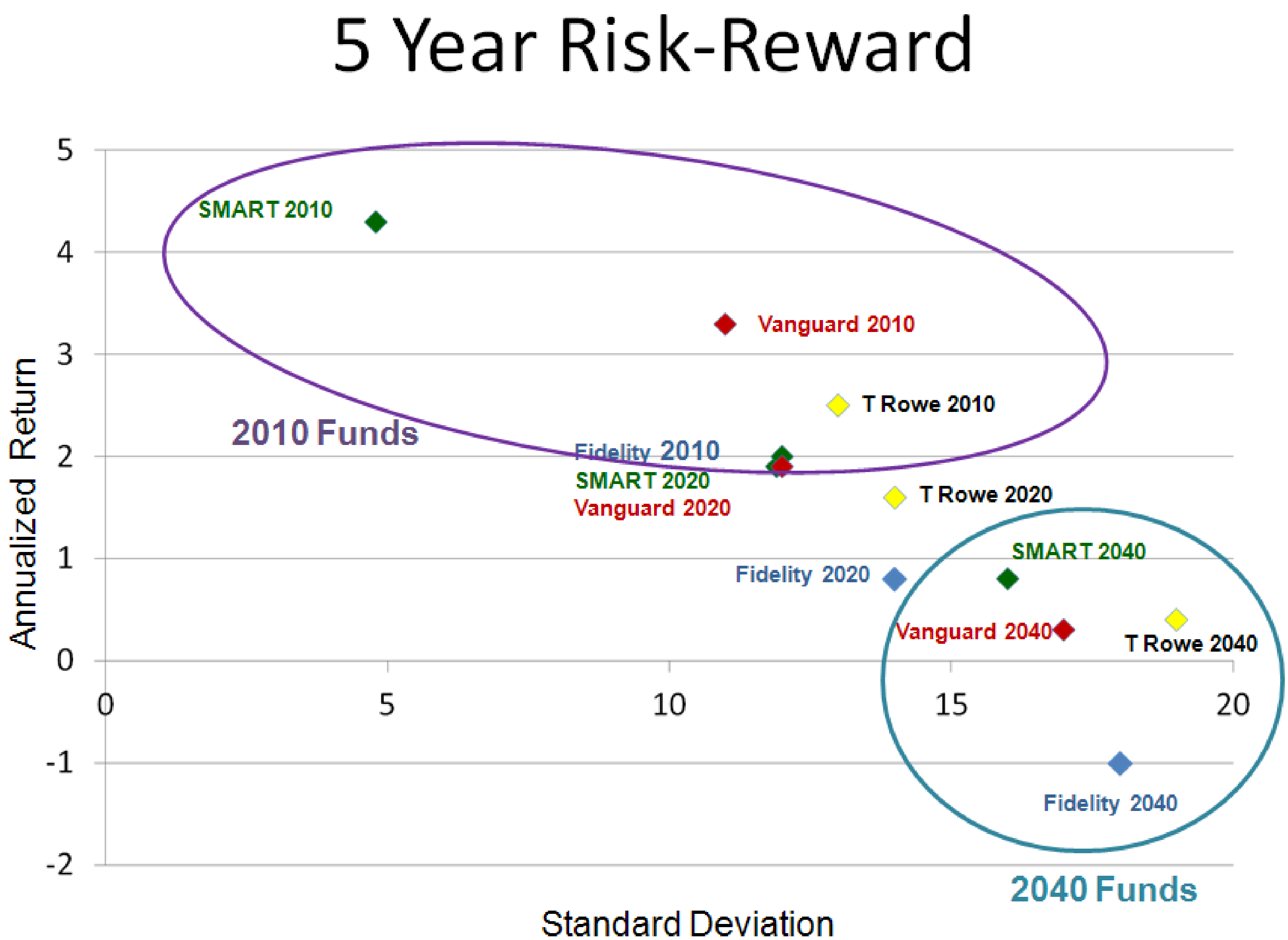
Target Date Fund Scorecard for the 5 Years ending December, 2011

Ron Surz Ron@TargetDateSolutions.com (949)488-8339

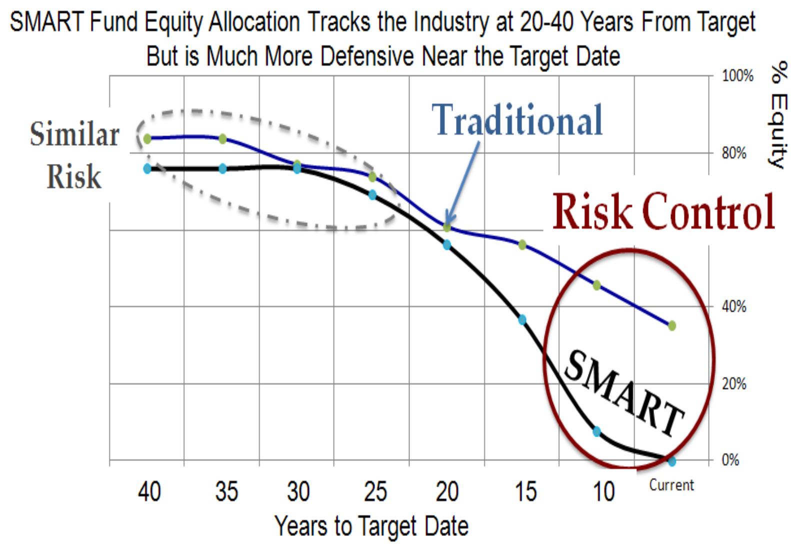
Target date funds are difficult to evaluate because they gradually reduce risk, i.e. equity exposure, through time, so 2 questions are relevant: (1) what is the "right" amount of risk at a point in time? and (2) has that risk been rewarded? Or at least you'd think that these would be the important questions. The reality is that few questions are asked when choosing a target date fund because most select their bundled service providers without vetting them. Fidelity, T. Rowe and Vanguard "own" 75% of this $400 Billion industry, which would be just fine if there were no better choices, but there are. The following scorecard compares & contrasts the risk-reward results for the "Big 3" to each other and to an alternative – the SMART Funds®. SMART Funds dominate with higher returns and less risk.



Source: Morningstar and Target Date Solutions (Performance for SMART prior to 11/08 is the Brightscope On-Target Index that follows the Safe Landing Glide Path® followed by SMART)

The SMART Story

SMART Funds are collective investment funds (CIFs) on Hand Benefit & Trust, Houston. The benefits of CIFs are competitive fees (SMART Institutional funds are 58 basis points all in) plus the trust company serves as a fiduciary to the 401(k) plan, unlike mutual funds. SMART Funds use the patent-pending Safe Landing Glide Path® that integrates the tenets of Modern Portfolio Theory (MPT) with the disciplines of Liability Driven Investing (LDI), emphasizing safety at the target date. Other target date funds are far more aggressive at the target date, averaging 40% in equities versus the SLGP's 5%. <u>There is no fiduciary upside to taking risk at the target date – only downside</u>.



At longer dates, the SLGP equity allocation is similar to other glide paths except the risky asset allocation is substantially more broadly diversified, encompassing global stocks, bonds, commodities and real estate. So here's what we see in the past 5 years, and expect to see going forward. Near-dated SMART funds have outperformed in the past 5 years because of their rigorous risk controls. In normal (positive) stock market environments near-dated SMART Funds will lag in performance. This is the opportunity cost of emphasizing safety near the target date. Longer-dated SMART Funds have outperformed in the past 5 years because of their broad diversification, and we expect this to continue into the future. The usual risk-reward trade-offs will apply to all SMART Funds, so we expect that the reward-to-risk ratios of the SMART Funds will dominate those of the industry at all target dates. We also think that over a full market cycle the longer-dated SMART Funds will continue to dominate the industry on both a return basis and a reward-to-risk basis because of the broader diversification employed by the SMART Funds.

There are better target date funds. Please see our humorous video at Satire and Bloomberg's report at Bloomberg .