

An Upgrade for the T. Rowe Price Retirement Target-Date Series

The series' cheapest share classes now earn a Morningstar Analyst Rating of Gold.

03-10-2021 | by Bobby Blue

The topnotch management team on the T. Rowe Price Retirement target-date series has capably begun the transition to its new equity glide path, the result of an exhaustive research effort that demonstrated the firm's vast capabilities. Confidence in the team's execution drives a Morningstar Analyst Rating upgrade to Gold for the series' two cheapest share classes, while the two more expensive are rated Bronze.

This series has always stood out from peers. The team has consistently advocated for higher equity allocations for investors, and in 2020 announced that the series would start with a 98% allocation to equities, up from 90%. It took advantage of stock market volatility in April 2020 to begin to increase the weighting, and it is now more than halfway to the new starting point. Underlying that conviction in equities has been work from the firm's research group that shows investors are able to tolerate higher volatility, which has given the team the confidence to boost allocations to stocks.

Lead manager Wyatt Lee brings the team's research to bear in this series. The 20-plus year T. Rowe Price veteran stepped into the lead role following Jerome Clark's departure at the start of 2021, a move that had been telegraphed far in advance. Kim DeDominicis and Andrew Jacobs van Merlen join him as comanagers; each has more than 15 years of experience at the firm. A deep and well-credentialed multi-asset research team of more than 25 investment professionals support them here.

The team allocates to some of T. Rowe Price's best funds: 78% of series assets are in Morningstar Medalist funds, the majority being equity funds. Less proven are the fixed-income holdings, including Neutral-rated T. Rowe Price New Income (PRCIX). This core holding fell 3.0% in the first quarter of 2020, which, combined with the high equity exposure, led to bottom-quartile performance for the fixed-income-heavy vintages. The team made up for that underperformance in the subsequent rebound, but note that this series' upside potential comes with slightly more risk than peers.

EXPLANATORY NOTES—ARTICLE REPRINT

Morningstar, "An Upgrade for the T. Rowe Price Retirement Target-Date Series," March 10, 2021

Retirement 2005-2060 Funds Investor Class Gold Ratings as of February 19, 2021. Analyst Ratings for other share classes or other T. Rowe Price target date series may differ. The 2065 vintage has not been rated due to its limited history.

The Morningstar Analyst Rating™ is not a credit or risk rating. It is a subjective evaluation performed by Morningstar's manager research group, which consists of various Morningstar, Inc. subsidiaries ("Manager Research Group"). In the United States, that subsidiary is Morningstar Research Services LLC, which is registered with and governed by the U.S. Securities and Exchange Commission. The Manager Research Group evaluates funds based on five key pillars, which are process, performance, people, parent, and price. The Manager Research Group uses this five-pillar evaluation to determine how they believe funds are likely to perform relative to a benchmark over the long term on a risk adjusted basis. They consider quantitative and qualitative factors in their research. For actively managed strategies, people and process each receive a 45% weighting in their analysis, while parent receives a 10% weighting. For passive strategies, process receives an 80% weighting, while people and parent each receive a 10% weighting. For both active and passive strategies, performance has no explicit weight as it is incorporated into the analysis of people and process; price at the share-class level (where applicable) is directly subtracted from an expected gross alpha estimate derived from the analysis of the other pillars. The impact of the weighted pillar scores for people, process and parent on the final Analyst Rating is further modified by a measure of the dispersion of historical alphas among relevant peers. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, the modification by alpha dispersion is not used.

The Analyst Rating scale is Gold, Silver, Bronze, Neutral, and Negative. For active funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that an active fund will be able to deliver positive alpha net of fees relative to the standard benchmark index assigned to the Morningstar category. The level of the rating relates to the level of expected positive net alpha relative to Morningstar category peers for active funds. For passive funds, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will be able to deliver a higher alpha net of fees than the lesser of the relevant Morningstar category median or 0. The level of the rating relates to the level of expected net alpha relative to Morningstar category peers for passive funds. For certain peer groups where standard benchmarking is not applicable, primarily peer groups of funds using alternative investment strategies, a Morningstar Analyst Rating of Gold, Silver, or Bronze reflects the Manager Research Group's expectation that a fund will deliver a weighted pillar score above a predetermined threshold within its peer group. Analyst Ratings ultimately reflect the Manager Research Group's overall assessment, are overseen by an Analyst Rating Committee, and are continuously monitored and reevaluated at least every 14 months.

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As of 12/31/21, the T. Rowe Price New Income Fund's 1-, 5-, and 10-year average annual total returns were -0.57%, 3.49%, and 2.94%, respectively. The fund's gross expense ratio is 0.41% as of the most recent prospectus.

Current performance may be higher or lower than the quoted past performance, which cannot guarantee future results. Share price, principal value, and return will vary, and you may have a gain or loss when you sell your shares. To obtain the most recent month-end performance, please visit our website or contact a T. Rowe Price representative at 1-877-804-2315. The average annual total return figures include changes in principal value, reinvested dividends, and capital gain distributions.

The principal value of the Retirement Funds is not guaranteed at any time, including at or after the target date, which is the approximate year an investor plans to retire (assumed to be age 65) and likely stop making new investments in the fund. If an investor plans to retire significantly earlier or later than age 65, the funds may not be an appropriate investment even if the investor is retiring on or near the target date. The funds' allocations among a broad range of underlying T. Rowe Price stock and bond funds will change over time. The funds emphasize potential capital appreciation during the early phases of retirement asset accumulation, balance the need for appreciation with the need for income as retirement approaches, and focus on supporting an income stream over a long-term postretirement withdrawal horizon. The funds are not designed for a lump-sum redemption at the target date and do not guarantee a particular level of income. The funds maintain a substantial allocation to equities both prior to and after the target date, which can result in greater volatility over shorter time horizons.

Consider the investment objectives, risks, and charges and expenses carefully before investing. For a prospectus or, if available, a summary prospectus containing this and other information, call 1-877-804-2315. Read it carefully.

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