Launch Alert: T. Rowe Price Retirement Blend Funds

By David Snowball, publisher

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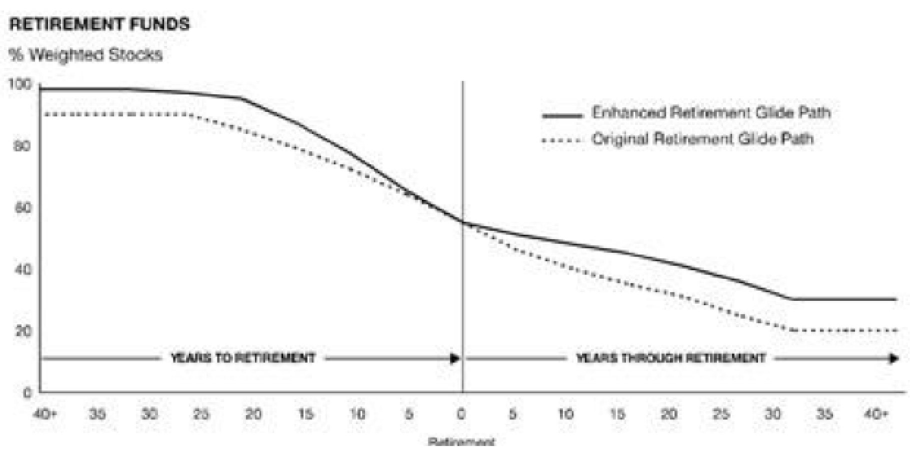
On July 28, 2021, T. Rowe Price launched its fourth set of target-date funds, the Retirement Blend Series. The Retirement Blend strategy has been in operation since 2018 but has been available only through collective investment trusts. The new fund series complements the existing Retirement and Target Series (as well as the Retirement Hybrid series that's available only through a collective investment trust). All four series invest, primarily, in other T. Rowe Price funds. Retirement and Target invest, primarily but not exclusively, in actively managed funds. According to Morningstar, T. Rowe Price is the largest manager of active target-date products in the U.S., with over $300 billion in active target-date strategy assets under management, as of March 31, 2021.

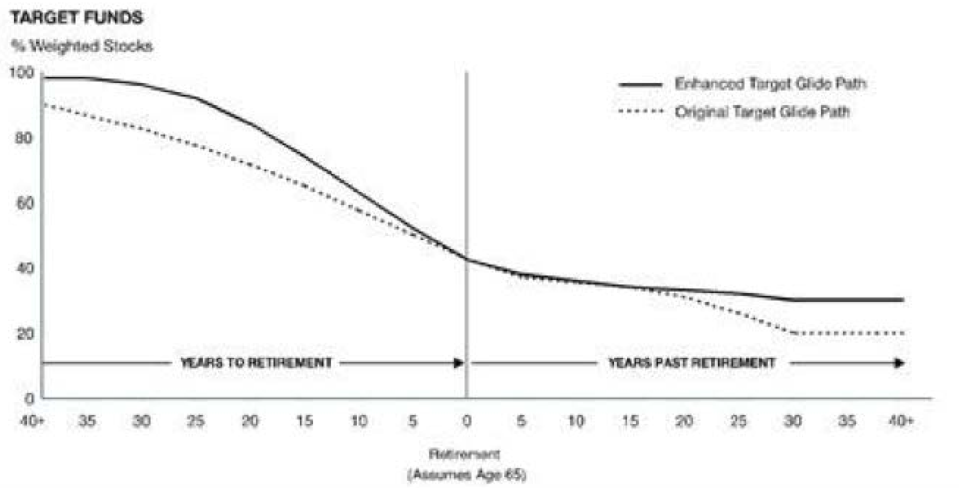
The new Series will be managed by Wyatt Lee (with whom we spoke in June), Kimberly DeDominicis, and Andrew Jacobs Van Merlen, who share responsibility for the other series as well.

Retirement and Target series differ in their glide paths, that is, their long-term asset allocation plan. The Retirement and new Retirement Blend funds have a more aggressive allocation and the Target funds a slightly less aggressive one.

Retirement / Retirement Blend



Target



The glide path stipulates only the very broadest allocation decisions: stocks versus bonds. One Investment Committee has the responsibility for strategic allocations (domestic vs. international, small versus large, value versus growth) within those broad bands and for choosing the funds (e.g., New Horizon, Small Cap Index or Small Cap Value) which offers the most attractive risk-return profile for implementing the team's judgments. Another, the Asset Allocation Committee, makes the shorter-term tactical decisions about overweighting asset classes or sectors.

At their target date, the Retirement and Blend funds have a neutral weighting of 55% equity while Target will sit at 42.5%. That neutral weight is subject to change, either because T. Rowe Price's research convinces them that a different long-term allocation should be applied across the entire Series, as happened in 2020 when equity exposure was broadly raised to account for the effects of greater longevity, or a different short-term tactical allocation is implemented to account for some market disruption or another. The tactical shifts can increase or reduce exposure to an asset class by up to 5%.

The distinctiveness of the Retirement Blend Series is its greater reliance on passive funds and corresponding lower expense ratio.

Manager Wyatt Lee explained during a June interview that he has "four levers to add value

1. The broad, long-term allocations within the glide path
2. Diversification with glide path
3. Some tactical changes in the normal allocation
4. Selecting of the underlying investments."

Retirement and Retirement Blend will be identical on levers 1 – 3. On level 4, Retirement Blend will rely on passive products to gain their Core Equity, Investment Grade Bond, and Treasury exposures. That will allow for somewhat lower expense ratios while preserving the ability of active managers to add value in diversifying areas where they have a record of outperforming their passive benchmarks. Within the fixed income sleeve, diversifying areas include high yield and emerging market debt.

Mr. Lee believes that, over time, the more active approach of the Retirement series will lead to higher returns than the more passive approach of the Retirement Blend series but there's no guarantee of that and the leadership of one approach over the other will likely vary with time. Since the inception of the Retirement Blend strategy as a collective trust, for example, the more active funds have outperformed by about 60 bps but over the past twelve months, it's been a draw.

Here's the snapshot of the three series, through the lens of a single target-date fund.

	Equity exposure	Expense ratio
T. Rowe Price Target 2025	50%	0.58% on $490 million
T. Rowe Price Retirement 2025	65%	0.61% on $17 billion
T. Rowe Price Retirement Blend 2025	65%	0.38% at launch

Price is really good at this game

In a July 2021 discussion of T. Rowe Price's target-date funds, Morningstar's Jason Kephart made this observation:

T. Rowe Price Retirement is their flagship target-date fund series. It's overseen by what we consider one of the top teams for asset-allocation research and execution in the industry … we're pretty confident in that team overseeing it, and it's also including a collection of T. Rowe Price's really well-regarded active equity funds, active bond funds. So, really, what's going to drive this series is that stock selection and bond selection, and they're among one of the best stock-selecting firms in the industry.

Morningstar's faith in the strength of the T. Rowe Price teams led them to upgrade the target-date series to an analyst rating of Gold, a judgment likely strengthened by subsequent fee reductions.

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. (An Upgrade for the T. Rowe Price Retirement Target-Date Series, 3/10/2021)

Price has the only Gold-rated target-date funds investing primarily in active underlying funds, including their own and the MassMutual funds they subadvise. As of July 2021, 30 of Price's 40 target-date funds have earned four- or five-star ratings from Morningstar; the remainder are three-star or too young to be rated. Twelve of them have earned MFO's Great Owl designation for consistently top-decile risk-adjusted returns.

Bottom line

T. Rowe Price has also been an innovator with research-driven solutions driving their asset allocation funds. Some of that research centered on asset class performance, some on investor needs and preferences.

The Retirement Series offered the prospect of additional gains driven by the skill of its active investment management team. The Retirement Blend series offers the guarantee of lower expenses for returns that might modestly lag those of its Retirement siblings. Both offer fundamentally attractive packages, with the choice between them driven by simple investor preference.

Website: T. Rowe Price Retirement Funds, which gives you access to the series.

EXPLANATORY NOTES—ARTICLE REPRINT

Mutual Fund Observer, "Launch Alert: T. Rowe Price Retirement Blend Funds"

When considering mutual funds, investors should look beyond historical performance. They should consider factors such as the fund's investment objective, the types of securities in which it invests, and its level of risk compared with other types of investments. There are inherent risks associated with investing in the stock market, including possible loss of principal.

The principal value of target date strategies is not guaranteed at any time, including at or after the target date, which is the approximate date when investors plan to retire (assumed to be age 65). These target date strategies invest in a diversified portfolio of other T. Rowe Price stock and bond strategies that represent various asset classes and sectors and are therefore subject to the risks of different areas of the market. The allocations of the target date strategies with a stated retirement date among these underlying strategies will change over time to reflect the target date strategies changing emphasis from capital appreciation to income and less volatility as investors approach and enter retirement. The target date strategies are not designed for a lump-sum redemption at the target date and do not guarantee a particular level of income.

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.

Over 63% of our target date funds earned 4- or 5-star Overall Morningstar Ratings as of 6/30/22. Morningstar gives its best ratings of 5 or 4 stars to the top 32.5% of all funds (of the 32.5%, 10% get 5 stars and 22.5% get 4 stars) based on their risk-adjusted returns. The Overall Morningstar Rating™ is derived from a weighted average of the performance figures associated with a fund's 3-, 5-, and 10-year (if applicable) Morningstar Rating™ metrics. As of 6/30/22, 17 of 26 of our rated target date funds (Investor Class only) received an overall rating of 5 or 4 stars.

The Morningstar RatingTM for funds, or "star rating," is calculated for funds with at least a three-year history. Exchange-traded funds and open-ended mutual funds are considered a single population for comparative purposes. It is calculated based on a Morningstar Risk-Adjusted Return measure that accounts for variation in a managed product's monthly excess performance, placing more emphasis on downward variations and rewarding consistent performance. The top 10% of products in each product category receive 5 stars, the next 22.5% receive 4 stars, the next 35% receive 3 stars, the next 22.5% receive 2 stars, and the bottom 10% receive 1 star.

The Morningstar Analyst Rating is not a credit or risk rating. It is a subjective evaluation performed by the mutual fund analysts of Morningstar, Inc. Morningstar evaluates funds based on five key pillars, which are process, performance, people, parent, and price. Morningstar's analysts use this five-pillar evaluation to identify funds they believe are more likely to outperform over the long term on a risk-adjusted basis. Analysts consider quantitative and qualitative factors in their research, and the weighting of each pillar may vary. The Analyst Rating ultimately reflects the analyst's overall assessment and is overseen by Morningstar's Analyst Rating Committee. The approach serves not as a formula but as a framework to ensure consistency across Morningstar's global coverage universe. The Analyst Rating scale ranges from Gold to Negative, with Gold being the highest rating and Negative being the lowest rating. A fund with a "Gold" rating distinguishes itself across the five pillars and has garnered the analysts' highest level of conviction. A fund with a "Silver" rating has notable advantages across several, but perhaps not all, of the five pillars—strengths that give the analysts a high level of conviction. A "Bronze"-rated fund has advantages that outweigh the disadvantages across the five pillars, with a sufficient level of analyst conviction to warrant a positive rating. A fund with a "Neutral" rating isn't seriously flawed across the five pillars, nor does it distinguish itself very positively. A "Negative"-rated fund is flawed in at least one, if not more, pillars and is considered an inferior offering to its peers. Analyst Ratings are reevaluated at least every 14 months. For more detailed information about Morningstar's Analyst Rating, including its methodology, please go to *corporate.morningstar.com/us/documents/MethodologyDocuments/ AnalystRatingforFundsMethodology.pdf.*

The Morningstar Analyst Rating should not be used as the sole basis in evaluating a mutual fund. Morningstar Analyst Ratings are based on Morningstar's current expectations about future events; therefore, in no way does Morningstar represent ratings as a guarantee nor should they be viewed by an investor as such. Morningstar Analyst Ratings involve unknown risks and uncertainties, which may cause Morningstar's expectations not to occur or to differ significantly from what we expected.

The Great Owl designation has two components: (1) a fund's Martin Ratio and (2) on consistently top quintile performance. Martin Ratio is a measure of the depth and duration of drawdowns in prices from earlier highs. For additional information, please go to mutualfundobserver.com.

The T. Rowe Price Retirement Trusts, Retirement Hybrid Trusts, Retirement Blend Trusts, Target Trusts, Target Blend Trusts, and their underlying trusts (the "Trusts") are not mutual funds. They are common trust funds established by T. Rowe Price Trust Company under Maryland banking law, and their units are exempt from registration under the Securities Act of 1933. Investments in the Trusts are not deposits or obligations of, or guaranteed by, the U.S. government or its agencies or T. Rowe Price Trust Company and are subject to investment risks, including possible loss of principal.

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