

Target-Date Deep Dive: T. Rowe Price

The firm has one of top teams for asset-allocation research and execution in the industry.

July 21, 2021 | by Jason Kephart, CFA, Susan Dziubinski

Susan Dziubinski: Hi, I'm Susan Dziubinski with Morningstar. This is our third video in a series taking a deep dive into some of the more popular target-date providers. Target-date series are the default option in many retirement plans and therefore play key roles in the portfolios of many investors. Today, we're diving into T. Rowe Price's target-date series with Jason Kephart. Jason is a strategist in Morningstar's multi-asset manager research team.

Hi, Jason, thanks for being here today.

Jason Kephart: Thanks for having me.

Dziubinski: How does T. Rowe Price rank in terms of assets when it comes to target-date series providers?

Kephart: T. Rowe Price has long been the third-largest provider. We have seen some outflows from their mutual fund, but they mostly have been making up for those outflows in their collective investment trusts. And then we've also seen some more demand for their Retirement Blend series, which is a newer series in both collective investment trusts. And they'll also be launching a mutual fund version of it later this summer.

Dziubinski: As you alluded to, Jason, T. Rowe Price offers several different series, but the one that has the most assets in it is the Retirement Series. So, let's start by talking about that one.

Kephart: Yeah, 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. It's currently led by Wyatt Lee, who's a long-term industry veteran. We think they're just very thoughtful about the way they construct portfolios. They've recently revisited the glide path and found they want a little bit more equity further away from retirement when time is really on your side. And what we've seen is that investors in target-date funds

further from retirement tend to be a little bit less scared off by volatility, like you would see maybe close to retirement when your nest egg is going to be larger. So, it seems like you could actually take a little bit more risk there. And their research kind of proves that out a little bit. So 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, I think, in the industry.

Dziubinski: Are there any negatives or things that investors in this particular series should be aware of?

Kephart: I think you have to be prepared for a little bit more volatility, not just because the glide path tends to be a little bit more on the aggressive side, the bond side tends to be a little bit more adventurous. T. Rowe Price New Income is kind of the core bond fund or plays the role of a core bond fund in this series. And it had a pretty rough 2020. But it did bounce back when the market bounced back. But I think if you can stomach those kind of shortfalls over short time periods, the long-term outlook for the series is very strong.

Dziubinski: And then we also cover the T. Rowe Price Retirement Blend series. Tell us a little bit about what exactly it's blending and what we think of that one.

Kephart: Yeah, so that's one we cover in the collective investment trust right now. But it's also coming to mutual funds later this summer. And it's basically their attempt at bringing a lower-cost version of their series to market. So, you add in some index funds, like an S&P 500 index fund, to get some beta exposures or some general market exposure, which is going to really bring costs down. The blend series costs around 20 basis points, 20, 25, whereas the all-active series is around 50. And we've seen is that the litigation risk for plan sponsors owning mostly active target-date funds with higher fees has been very high lately. So that's been kind of a

headwind, I think, for series like T. Rowe Price that, over the last 10 years, no matter which way you cut it, they're either the first- or second- or third-best-performing target-date fund, but their mutual funds have still seen pretty steady outflows since like 2017, which we mainly attribute to that litigation risk. So, this is, I think, a way to meet the market demand for lower costs, but you're still getting that T. Rowe Price security selection that is really going to help drive returns.

Dziubinski: And that they're known for.

Kephart: Yeah.

Dziubinski: Well, Jason, thank you so much for your time today and this deep dive into T. Rowe Price's target-date series. We appreciate it.

Kephart: Thanks for having me.

Dziubinski: I'm Susan Dziubinski with Morningstar. Thanks for tuning in.

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