Title: **TARGET DATE FUNDS: CHARACTERISTICS PERFORMANCE**

Speaker: **Edwin J. Elton and Martin Gruber, NYU**

Importance: Why this matters:

The evidence shows that many participants make sub-optimal choices in their 401k plans. Target date funds provide better options, yet are increasingly criticized. Elton/Gruber conclude that they are not as bad as the popular press would have you believe, and provide significant advantage to many participants.

Investigation: "Speakers analyzed XXX data to address the questions yyy, zzz, etc."

Speakers gathered monthly holdings and expense data on 20-25 year horizon target date funds from 50 fund families utilizing 229 different share classes.

Innovation: Are there new techniques of interest in the data or approach to the problem?

Long term evaluations of target date funds can be confounded because the funds may experience systemic changes in portfolio composition. E/G address this problem by estimating fund betas from their portfolio components.

Insights: 1-2-3, what are the three most important things the speaker offered?

1. Given the use of lower cost share classes, the incremental cost of target date funds over a do it yourself variant is modest. There was no evidence of skill in the choice of funds inside of the target date funds. Deviations of the funds' asset mix from the glidepath detracted value.
2. The investor world is better off using a buy and hold strategy in the five major investment types, and still better off using index funds.
3. Investors suffer when the target fund sponsors restrict fund selection to funds in their own stable, the usual agency problem. The problem is compounded by target fund managers directing flows to newly established funds and inferior family funds. Index funds are often not included, suggesting that target funds tend to choose higher fee active funds.

Audience rating: 3.59