

# Set it and stay on track: How target date funds work



**Target date funds are designed to provide a simple, all in one approach to investing for long-term goals, most commonly retirement.** They are especially useful for individuals who have little to no prior experience with investing and who prefer a more hands off approach.

**Target date funds invest in a diversified mix of investments, primarily stocks and bonds, into a single fund that is managed by professionals.** Each target date fund is labeled with a specific year, such as 2040 or 2060, which represents the approximate year an investor expects to retire or begin withdrawing their savings. From that point forward, the fund manager handles the investment decisions, adjusting the underlying investment mix over time to align with that retirement timeline. This automatic adjustment of risk over time is a key feature of a target date fund and is referred to as a “glide path”.

Early in an investor’s career, when retirement is many years away, the fund is typically invested more heavily in **stocks**. Stocks have historically offered higher growth potential, although they can be more volatile in the short term. As the investor gets closer to retirement, the fund gradually shifts its underlying investment allocation toward more conservative investments, such as **bonds**, which tend to be less volatile and are intended to help preserve accumulated savings. This shift happens automatically, without any action required from the investor. The target date fund may invest in other **mutual funds**<sup>1</sup> (called “funds of funds”). In a fund of funds structure, the target date fund gains exposure to a wide range of asset classes by holding a collection of underlying mutual funds, each with its own specific focus, such as U.S. stocks, international equities, or fixed income.

**In summary, a target date fund is a straightforward investment solution that combines diversification,<sup>2</sup> professional management, and automatic risk adjustment into a single fund.** By aligning the investment strategy with a specific retirement date, it allows investors, especially beginners, to focus on consistently saving for the future rather than managing the details of their portfolio.



## ✓ The importance of asset allocation

Research has shown that how your investments are divided, known as asset allocation,<sup>3</sup> plays a major role in how your overall portfolio performs over time. While this concept may sound complex, the idea is simple. Instead of putting all your money into one type of investment, you spread it across a few different types, such as stocks, bonds, and cash. By spreading your money across different types of investments, you are helping to manage risk and reduce large swings in value. For example, if stocks experience a downturn, bonds or more stable investments may help offset some of that decline. In simpler terms, asset allocation means not putting all your money in one place.

By spreading your investments across different types, no single investment has too much impact on your overall savings. This can help keep your portfolio more stable over time and reduce the risk of a big loss if one area of the market performs poorly. This is exactly where target date funds come into play. A key benefit of a target date fund is that it automatically applies asset allocation and diversification for you. Instead of having to decide how much to invest in stocks, bonds, or cash, the fund does this on your behalf.

## ✓ Not all funds are alike

While target date funds are designed to make investing easier, it's important to understand that they still involve risk. Like any investment, the value of a target date fund can go up and down over time. This means there is no guarantee that you will have a certain amount saved by the time you reach retirement, even on the fund's target date. It's also important to know that not all target date funds are the same. Even if two funds have the same retirement year, they may invest differently. Some may take on more risk than others, which can lead to different results. Because of this, their performance can vary, sometimes significantly. In addition, target date funds do not all become more conservative at the same pace. Some funds shift to safer investments earlier, while others wait until closer to the fund's target date. This can affect how much your account balance rises and falls over time and may result in lower earnings potential as you approach the actual target date.

Before choosing a target date fund, it's helpful to understand how it works, including what it invests in, how it changes over time, and what costs or fees may apply. Speaking with a financial professional can also help you decide if a particular fund fits your retirement goals. In simple terms, while target date funds offer convenience, they are not risk-free, and taking a little time to understand them can help you feel more confident in your investment choices.

<sup>1</sup> You should consider the fund's investment objectives, charges, expenses, and risks carefully before you invest. The fund's prospectus, which can be obtained from your financial representative, contains this and other information about the fund. Read the prospectus carefully before you invest or send money. Shares, when redeemed, may be worth more or less than their original cost.

<sup>2</sup> Diversification does not ensure a profit or protect against loss in a declining market.

<sup>3</sup> Asset allocation does not guarantee a profit or protect against losses.

Target date funds are intended as long-term investments which involve risk, including the possible loss of principal. The principal value of the fund(s) is not guaranteed at any time, including at the target date.