

TARGET DATE FUND COMMENTARY 2ND QUARTER, 2021

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Our mission is to enrich the lives of our clients, colleagues and communities through sound financial advice, integrity, and commitment to service beyond expectation.



VANGUARD TARGET RETIREMENT

MEETING DATE: JULY 15, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no material changes to the target date investment team during the quarter.

Investments Update

COMMENTARY

As we wrote last quarter, Vanguard made a change to its portfolio rebalance policy. Previously, anytime the Target Retirement portfolios drifted more than 75 basis points from the strategic allocation targets, the team automatically rebalanced them back to within 50 basis points. Going forward, the threshold will be 200 basis points, at which point Vanguard will rebalance the portfolios back to within 100 basis points. Vanguard made this change with the goal of reducing the number of rebalancing trades during times of market stress.

The team also implemented the use of futures for a portion of the rebalancing trades. They expect this should reduce trading costs as futures are less expensive to trade compared to the underlying building block funds.

Additionally, Vanguard changed the frequency of the glidepath rolldown from quarterly to monthly. This should result in smaller overall trade sizes when the vintages are rolled down.

We believe each of these changes are prudent enhancements by Vanguard. Compared to peers, Vanguard had one of the tightest rebalance policies, and these changes bring them more in-line with the market. In addition, these changes address the issues Vanguard experienced with elevated trading activity and trading costs during market swings of the first quarter of 2020 and should limit these issues going forward.



VANGUARD TARGET RETIREMENT

MEETING DATE: JULY 15, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Vanguard Target Retirement Performance Update:

Vanguard Target Retirement's performance improved in the second quarter as it outperformed the benchmark and was broadly in line with peers.

- Target Retirement's glidepath was a mixed contributor to performance as it added value in the middle- and near-dated vintages where Vanguard has slightly more equities than peers but weighed on performance in retirement where Vanguard is a bit more conservative.
- Large-cap stocks and growth sectors rebounded in the second quarter, and this helped Vanguard as these areas make up the largest collective weights of the underlying index Vanguard uses.
- In a reversal from last quarter, Target Retirement's fixed income portfolio was a contributor to absolute performance as interest rates moved lower in the second quarter.
- However, it was a detractor from peer-relative performance as Vanguard excludes high yield bonds, which continued to outperform investment grade.

There were no changes made to the series' strategic asset allocation during the quarter.

Note: Benchmark relative performance refers to the series' performance compared the S&P Target Date Indices.



VANGUARD TARGET RETIREMENT CIT

MEETING DATE: JULY 15, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no material changes to the target date investment team during the quarter.

Investments Update

COMMENTARY

As we wrote last quarter, Vanguard made a change to its portfolio rebalance policy. Previously, anytime the Target Retirement CIT portfolios drifted more than 75 basis points from the strategic allocation targets, the team automatically rebalanced them back to within 50 basis points. Going forward, the threshold will be 200 basis points, at which point Vanguard will rebalance the portfolios back to within 100 basis points. Vanguard made this change with the goal of reducing the number of rebalancing trades during times of market stress.

The team also implemented the use of futures for a portion of the rebalancing trades. They expect this should reduce trading costs as futures are less expensive to trade compared to the underlying building block funds.

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VANGUARD TARGET RETIREMENT CIT

MEETING DATE: JULY 15, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Vanguard Target Retirement CIT Performance Update:

Vanguard Target Retirement CIT's performance improved in the second quarter as it outperformed the benchmark and was broadly in line with peers.

- Target Retirement CIT's glidepath was a mixed contributor to performance as it added value in the middle- and near-dated vintages where Vanguard has slightly more equities than peers but weighed on performance in retirement where Vanguard is a bit more conservative.
- Large-cap stocks and growth sectors rebounded in the second quarter, and this helped Vanguard as these areas make up the largest collective weights of the underlying index Vanguard uses.
- In a reversal from last quarter, Target Retirement CIT's fixed income portfolio was a contributor to absolute performance as interest rates moved lower in the second quarter.
- However, it was a detractor from peer-relative performance as Vanguard excludes high yield bonds, which continued to outperform investment grade.

There were no changes made to the series' strategic asset allocation during the quarter.

Note: Benchmark relative performance refers to the series' performance compared the S&P Target Date Indices.



VANGUARD INSTITUTIONAL TARGET RETIREMENT

MEETING DATE: JULY 15, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no material changes to the target date investment team during the quarter.

Investments Update

COMMENTARY

As we wrote last quarter, Vanguard made a change to its portfolio rebalance policy. Previously, anytime the Institutional Target Retirement portfolios drifted more than 75 basis points from the strategic allocation targets, the team automatically rebalanced them back to within 50 basis points. Going forward, the threshold will be 200 basis points, at which point Vanguard will rebalance the portfolios back to within 100 basis points. Vanguard made this change with the goal of reducing the number of rebalancing trades during times of market stress.

The team also implemented the use of futures for a portion of the rebalancing trades. They expect this should reduce trading costs as futures are less expensive to trade compared to the underlying building block funds.

Additionally, Vanguard changed the frequency of the glidepath rolldown from quarterly to monthly. This should result in smaller overall trade sizes when the vintages are rolled down.

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VANGUARD INSTITUTIONAL TARGET RETIREMENT

MEETING DATE: JULY 15, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

Vanguard Institutional Target Retirement Performance Update:

Vanguard Institutional Target Retirement's performance improved in the second quarter as it outperformed the benchmark and was broadly in line with peers.

- Institutional Target Retirement's glidepath was a mixed contributor to performance as it added value in the middle- and near-dated vintages where Vanguard has slightly more equities than peers but weighed on performance in retirement where Vanguard is a bit more conservative.
- Large-cap stocks and growth sectors rebounded in the second quarter, and this helped Vanguard as these areas make up the largest collective weights of the underlying index Vanguard uses.
- In a reversal from last quarter, Institutional Target Retirement's fixed income portfolio was a contributor to absolute performance as interest rates moved lower in the second quarter.
- However, it was a detractor from peer-relative performance as Vanguard excludes high yield bonds, which continued to outperform investment grade.

There were no changes made to the series' strategic asset allocation during the quarter.

Note: Benchmark relative performance refers to the series' performance compared the S&P Target Date Indices.

