

TARGET DATE FUND COMMENTARY

3RD QUARTER, 2021

CHARLIE MACBAIN

ANALYST, MANAGER RESEARCH

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



BLACKROCK LIFEPATH INDEX

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

BlackRock is adjusting LifePath Index's fixed income portfolio through a process it is calling disaggregation. The firm is splitting up the five underlying sectors in the Bloomberg U.S. Aggregate Bond Index into individual building blocks. The sectors in the index are long-term credit, intermediate credit, securitized debt, long-term government bonds, and intermediate government bonds. Currently, the series' fixed income portfolio is made up of a single investment in the Bloomberg U.S. Aggregate Bond Index. Going forward, LifePath Index's fixed income portfolio will be made up of a mix of these underlying building blocks and the mix will vary across the glidepath.

In BlackRock's target date fund philosophy, the main goal of the fixed income portfolio is to offset equity risk with a secondary goal of seeking return. Through disaggregation, BlackRock aims to have more specific fixed income exposures so that it can target these goals in a way that better aligns with participants' objectives based on their age. For example, in the further-dated vintages where participants have higher risk tolerances and wealth accumulation is a higher priority, the fixed income portfolio will be allocated mostly to long-term credit, which has more return-seeking characteristics than equity risk diversification. As the glidepath approaches retirement, the fixed income portfolio will shift into larger allocations to intermediate government bonds, securitized debt, and intermediate credit, which have more downside protection.

BlackRock is still in the process of defining the new strategic allocation targets for each vintage. We will provide an update once those details are available. BlackRock plans to begin moving to the new allocations in the first quarter of 2022 and expects to be finished by the end of that quarter.

We are not recommending any client action at this time. Although the composition of LifePath Index's fixed income portfolio will be different, the new approach is consistent with BlackRock's overall philosophy and the role of fixed income in the portfolio. The further-dated vintages will have slightly more emphasis on seeking returns, but given the low starting allocation to fixed income, we would not expect a meaningful change in their risk profiles. The near-dated vintages will place greater emphasis on offsetting equity risk, which is appropriate given participants' objectives at that stage. Overall, we are comfortable with the changes BlackRock is making. The changes are in line with the team's existing philosophy, and the more granular approach should allow for finer control of risk management.

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



BLACKROCK LIFEPath INDEX

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

BlackRock LifePath Index Performance Update:

BlackRock LifePath Index had a mixed performance in the third quarter as the series underperformed the benchmark but posted solid results relative to peers.

- The delta variant of COVID-19, slowing growth, concerns of rising interest rates, as well as adverse policy developments in China, all weighed on market sentiment during the third quarter.
- This environment resulted in elevated volatility across equity markets and negative returns for U.S. small-caps and international stocks and modestly positive to flat returns for U.S. large- and mid-cap stocks.
- Global real estate also experienced slightly negative returns.
- Given LifePath Index is a passively managed series, this amount of volatility combined with flat to negative returns across market indices weighed on the series' performance, especially in the further-dated vintages that have above average equity allocations.
- In the vintages near and at retirement, LifePath Index was aided by its more conservative posturing as it has a larger fixed income allocation than most peers.
- The series also benefited from its allocation to TIPS in its inflation-hedging portfolio as TIPS performed well during the quarter on higher inflation.

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

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



BLACKROCK LIFEPATH INDEX CIT

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

BlackRock is adjusting LifePath Index CIT's fixed income portfolio through a process it is calling disaggregation. The firm is splitting up the five underlying sectors in the Bloomberg U.S. Aggregate Bond Index into individual building blocks. The sectors in the index are long-term credit, intermediate credit, securitized debt, long-term government bonds, and intermediate government bonds. Currently, the series' fixed income portfolio is made up of a single investment in the Bloomberg U.S. Aggregate Bond Index. Going forward, LifePath Index CIT's fixed income portfolio will be made up of a mix of these underlying building blocks and the mix will vary across the glidepath.

In BlackRock's target date fund philosophy, the main goal of the fixed income portfolio is to offset equity risk with a secondary goal of seeking return. Through disaggregation, BlackRock aims to have more specific fixed income exposures so that it can target these goals in a way that better aligns with participants' objectives based on their age. For example, in the further-dated vintages where participants have higher risk tolerances and wealth accumulation is a higher priority, the fixed income portfolio will be allocated mostly to long-term credit, which has more return-seeking characteristics than equity risk diversification. As the glidepath approaches retirement, the fixed income portfolio will shift into larger allocations to intermediate government bonds, securitized debt, and intermediate credit, which have more downside protection.

BlackRock is still in the process of defining the new strategic allocation targets for each vintage. We will provide an update once those details are available. BlackRock plans to begin moving to the new allocations in the first quarter of 2022 and expects to be finished by the end of that quarter.

We are not recommending any client action at this time. Although the composition of LifePath Index CIT's fixed income portfolio will be different, the new approach is consistent with BlackRock's overall philosophy and the role of fixed income in the portfolio. The further-dated vintages will have slightly more emphasis on seeking returns, but given the low starting allocation to fixed income, we would not expect a meaningful change in their risk profiles. The near-dated vintages will place greater emphasis on offsetting equity risk, which is appropriate given participants' objectives at that stage. Overall, we are comfortable with the changes BlackRock is making. The changes are in line with the team's existing philosophy, and the more granular approach should allow for finer control of risk management.

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



BLACKROCK LIFEPATH INDEX CIT

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

BlackRock LifePath Index CIT Performance Update:

BlackRock LifePath Index CIT had a decent performance in the third quarter as the series had mixed performance relative to the benchmark and mostly outperformed peers.

- The delta variant of COVID-19, slowing growth, concerns of rising interest rates, as well as adverse policy developments in China, all weighed on market sentiment during the third quarter.
- This environment resulted in elevated volatility across equity markets and negative returns for U.S. small-caps and international stocks and modestly positive to flat returns for U.S. large- and mid-cap stocks.
- Global real estate also experienced slightly negative returns.
- As a result of this backdrop, LifePath Index CIT's equity portfolio weighed on performance given that it is a passively managed series.
- On a relative basis, these losses were offset by the series' glidepath design and portfolio construction.
- In the vintages near and at retirement, LifePath Index CIT was aided by its more conservative posturing as it has a larger fixed income allocation than most peers.
- The series also benefited from its inflation-hedging portfolio, which includes TIPS and commodities as both asset classes performed well during the quarter on higher inflation.

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

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



BLACKROCK LIFEPATH DYNAMIC

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Organizational Update

COMMENTARY

There were no changes to the target date portfolio management team during the quarter.

Investments Update

COMMENTARY

BlackRock is adjusting the underlying strategic asset allocation for LifePath Dynamic's fixed income portfolio in accordance with changes it is making to the LifePath Index series. The firm is splitting up the five underlying sectors in the Bloomberg U.S. Aggregate Bond Index into individual building blocks. The sectors in the index are long-term credit, intermediate credit, securitized debt, long-term government bonds, and intermediate government bonds. Currently, the series' fixed income portfolio is made up of a single investment in the Bloomberg U.S. Aggregate Bond Index. Going forward, the strategic fixed income portfolio will be made up of a mix of these underlying building blocks and the mix will vary across the glidepath.

The Index version of LifePath serves as the strategic asset allocation for LifePath Dynamic. However, Phil Green, the portfolio manager for LifePath Dynamic has the flexibility to allocate the portfolio to various asset classes and strategies, including actively managed strategies in his pursuit of earning alpha above the benchmark. Given the design of LifePath Dynamic, BlackRock does not expect a meaningful change to the series' risk profile or actual asset allocations.

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



BLACKROCK LIFEPATH DYNAMIC

MEETING DATE: OCTOBER 20, 2021

FOCUS AREA

Performance and Positioning Update

COMMENTARY

BlackRock LifePath Dynamic Performance Update:

BlackRock LifePath Dynamic struggled in the third quarter as it underperformed peers and the benchmark.

- The primary detractors during the quarter were LifePath Dynamic's active managers and tactical positioning.
- At the underlying manager level, the series' equity managers weighed on results, with BlackRock Advantage Emerging Markets detracting the most.
- The strategy was challenged by a difficult market environment in which policy changes in China weighed on general business sentiment throughout emerging markets.
- As LifePath Dynamic has been positioned for global growth to continue at a higher rate with a bias towards international markets, its tactical positioning was hurt by the pause experienced in the third quarter.
- LifePath Dynamic is overweight European equities relative to the U.S. This weighed on results as the U.S. outperformed during the quarter.
- The series was also hurt by its underweight position in longer duration fixed income as this sector was a top performer.
- LifePath Dynamic's glidepath design helped offset some of these losses in the near-dated vintages.
- In these vintages the series benefited from its more conservative posturing as it has a larger fixed income allocation than most peers.

Positioning Update:

BlackRock made a slight adjustment to LifePath Dynamic's tactical positioning and broad macro themes during the third quarter. The macro themes focus primarily on fiscal and monetary policy and the tactical positions stem from these views.

- During the third quarter, BlackRock added a Fed Normalization theme to its existing European Resilience, ECB Targeted Easing, and Global Reflation themes.
- **European Resilience** – Economic growth indicators have been positive following a substantial loosening of fiscal and monetary policy. In addition, vaccine roll-outs have been successful. BlackRock believes the combination of these factors will support European equities and the euro. As such, LifePath Dynamic is overweight European stocks versus the U.S. and overweight the euro versus the U.S. dollar.
- **ECB Targeted Easing** – The ECB has focused its support on more impacted areas by providing credit to the periphery and liquidity to the banking sector. BlackRock believes this will be supportive of Italian and Spanish risk assets, as such LifePath Dynamic has targeted Italian and Spanish equities within its overweight to Europe.
- **Global Reflation** – Global growth remains robust, and BlackRock believes there is still room to run given continued monetary and fiscal stimulus. The team expresses this view through an overweight position in Japanese equities and an underweight to U.S. 30-year bonds.
- **Fed Normalization** – BlackRock believes there is the potential for the Fed to taper its bond purchasing under a compressed timeline, which would open the door for an earlier rate hiking cycle than previously expected. As such, LifePath Dynamic is underweight U.S. five-year bonds given the upward pressure on near-term interest rates.

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

