

## TARGET DATE FUND COMMENTARY 2<sup>ND</sup> 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.



## T. ROWE PRICE RETIREMENT

MEETING DATE: JULY 22, 2021

### FOCUS AREA

#### Organizational Update

##### COMMENTARY

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

#### Investments Update

##### COMMENTARY

T. Rowe Price continues to make progress on implementing the glidepath changes that were announced in February 2020. The team is on track to have the changes completed by the planned deadline of mid-2022.



## T. ROWE PRICE RETIREMENT

MEETING DATE: JULY 22, 2021

## FOCUS AREA

## Performance and Positioning Update

## COMMENTARY

**T. Rowe Price Retirement Performance Update:**

T. Rowe Price Retirement posted decent performance in the second quarter as it outperformed benchmark but produced mixed results relative to peers.

- The series' strategic glidepath and underlying managers were accretive to performance, but its tactical positioning was a detractor.
- The middle vintages of Retirement benefited from their larger glidepath equity allocations as equity markets continued to move higher over the second quarter.
- While T. Rowe Price is in the process of increasing the equity allocation at the beginning of the glidepath, the series' further-dated vintages still have an average equity allocation, so the glidepath was not as much of a contributor for these vintages relative to peers.
- T. Rowe Price's large-cap equity managers added value, driven by T. Rowe Price Value and T. Rowe Price Large Cap Growth, which both outperformed their benchmarks and peers.
- Retirement's inclusion of high yield bonds within the fixed income portfolio was also a contributor, as high yield continued to outperform investment grade in the second quarter.
- Somewhat offsetting these gains was Retirement's tactical positioning, which was negatively affected by the reversal of many trends from the first quarter.
- Within equities, T. Rowe Price held overweight positions in U.S. and international stocks relative to growth stocks, which hurt performance as growth stocks rebounded in the second quarter.
- In addition, Retirement continued to be negatively impacted by its underweight to broad equities.
- Lastly, an underweight to long-term U.S. Treasury bonds hurt performance as interest rates fell due to concerns about a more hawkish Fed and the spread of the delta variant.

**Positioning Update:**

While T. Rowe Price had been cautiously optimistic, its outlook has been tempered somewhat as the team feels that the probability of a negative surprise is greater than a positive surprise over the second half of the year. The team is concerned about the increased spread of the delta variant and the end of federal relief programs in September. In addition, it believes that most of the equity gains from higher corporate earnings have already been priced in. This outlook is the reason for the more conservative positioning at the broad portfolio level. However, the team still believes there are opportunities at the sub-asset class level.

- T. Rowe Price increased Retirement's equity underweight from 0.50% to 1.50% during the quarter.
- However, the team placed the majority of this position in cash, to give itself more flexibility to initiate new positions as opportunities become clearer.
- The team continues to have conviction in the reopening/reflation trade and maintained its overweight to U.S. value stocks versus U.S. growth stocks and its overweight to international value versus international growth.
- The team also maintained overweight positions in U.S. small-cap equities and emerging markets equities as it believes these sectors will also benefit from the reopening trade.
- Within fixed income, T. Rowe Price is very mindful of its duration position and does not want to extend it given the possibility of interest rates continuing to move higher as economic growth continues to expand.
- Given this stance, the team has held an underweight position to investment grade bonds in favor of floating rate bonds and high yield debt, which are less sensitive to rising rates.
- The series is also overweight short-term TIPS as a hedge against rising inflation.

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



## T. ROWE PRICE RETIREMENT TRUST

MEETING DATE: JULY 22, 2021

### FOCUS AREA

#### Organizational Update

##### COMMENTARY

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

#### Investments Update

##### COMMENTARY

T. Rowe Price continues to make progress on implementing the glidepath changes that were announced in February 2020. The team is on track to have the changes completed by the planned deadline of mid-2022.



## T. ROWE PRICE RETIREMENT TRUST

MEETING DATE: JULY 22, 2021

## FOCUS AREA

## Performance and Positioning Update

## COMMENTARY

**T. Rowe Price Retirement Trust Performance Update:**

T. Rowe Price Retirement Trust posted decent performance in the second quarter as it outperformed benchmark but produced mixed results relative to peers.

- The series' strategic glidepath and underlying managers were accretive to performance, but its tactical positioning was a detractor.
- The middle vintages of Retirement Trust benefited from their larger glidepath equity allocations as equity markets continued to move higher over the second quarter.
- While T. Rowe Price is in the process of increasing the equity allocation at the beginning of the glidepath, the series' further-dated vintages still have an average equity allocation, so the glidepath was not as much of a contributor for these vintages relative to peers.
- T. Rowe Price's large-cap equity managers added value, driven by T. Rowe Price Value and T. Rowe Price Large Cap Growth, which both outperformed their benchmarks and peers.
- Retirement Trust's inclusion of high yield bonds within the fixed income portfolio was also a contributor, as high yield continued to outperform investment grade in the second quarter.
- Somewhat offsetting these gains was Retirement Trust's tactical positioning, which was negatively affected by the reversal of many trends from the first quarter.
- Within equities, T. Rowe Price held overweight positions in U.S. and international stocks relative to growth stocks, which hurt performance as growth stocks rebounded in the second quarter.
- In addition, Retirement Trust continued to be negatively impacted by its underweight to broad equities.
- Lastly, an underweight to long-term U.S. Treasury bonds hurt performance as interest rates fell due to concerns about a more hawkish Fed and the spread of the delta variant.

**Positioning Update:**

While T. Rowe Price had been cautiously optimistic, its outlook has been tempered somewhat as the team feels that the probability of a negative surprise is greater than a positive surprise over the second half of the year. The team is concerned about the increased spread of the delta variant and the end of federal relief programs in September. In addition, it believes that most of the equity gains from higher corporate earnings have already been priced in. This outlook is the reason for the more conservative positioning at the broad portfolio level. However, the team still believes there are opportunities at the sub-asset class level.

- T. Rowe Price increased Retirement Trust's equity underweight from 0.50% to 1.50% during the quarter.
- However, the team placed the majority of this position in cash, to give itself more flexibility to initiate new positions as opportunities become clearer.
- The team continues to have conviction in the reopening/reflation trade and maintained its overweight to U.S. value stocks versus U.S. growth stocks and its overweight to international value versus international growth.
- The team also maintained overweight positions in U.S. small-cap equities and emerging markets equities as it believes these sectors will also benefit from the reopening trade.
- Within fixed income, T. Rowe Price is very mindful of its duration position and does not want to extend it given the possibility of interest rates continuing to move higher as economic growth continues to expand.
- Given this stance, the team has held an underweight position to investment grade bonds in favor of floating rate bonds and high yield debt, which are less sensitive to rising rates.
- The series is also overweight short-term TIPS as a hedge against rising inflation.

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



## T. ROWE PRICE TARGET

MEETING DATE: JULY 22, 2021

### FOCUS AREA

#### Organizational Update

##### COMMENTARY

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

#### Investments Update

##### COMMENTARY

T. Rowe Price continues to make progress on implementing the glidepath changes that were announced in February 2020. The team is on track to have the changes completed by the planned deadline of mid-2022.



## T. ROWE PRICE TARGET

MEETING DATE: JULY 22, 2021

### FOCUS AREA

#### Performance and Positioning Update

##### COMMENTARY

#### T. Rowe Price Target Performance Update:

T. Rowe Price Target had somewhat disappointing performance in the second quarter as most of its vintages underperformed the peer group and had mixed results relative to the benchmark.

- Relative to the benchmark, the vintages closer to retirement slightly underperformed due to a combination of the series' strategic glidepath and its tactical positioning.
- T. Rowe Price Target has a lower-than-average equity allocation, and this weighed on its results as equity markets appreciated in the second quarter.
- The series' tactical positioning detracted from performance across the glidepath.
- As market trends from the first quarter reversed in the second quarter, positions that had helped performance turned into detractors.
- Within equities, T. Rowe Price held overweight positions in U.S. and international stocks relative to growth stocks, which hurt performance as growth stocks rebounded in the second quarter.
- The series was also overweight small-cap stocks relative to large-caps, and this was also a detractor as large-caps generally outperformed small-caps during the quarter.
- In addition, Target continued to be negatively impacted by its underweight to broad equities.
- Within fixed income, an underweight to long-term U.S. Treasury bonds hurt performance as interest rates fell due to concerns about a more hawkish Fed and the spread of the delta variant.
- Somewhat offsetting these losses were positive contributions by the series' active U.S. equity managers, especially T. Rowe Price Value and T. Rowe Price Large Cap Growth, which both outperformed their peers and benchmark.
- Target's inclusion of high yield bonds within the fixed income portfolio was also a contributor, as high yield continued to outperform investment grade in the second quarter.

#### Positioning Update:

While T. Rowe Price had been cautiously optimistic, its outlook has been tempered somewhat as the team feels that the probability of a negative surprise is greater than a positive surprise over the second half of the year. The team is concerned about the increased spread of the delta variant and the end of federal relief programs in September. In addition, it believes that most of the equity gains from higher corporate earnings have already been priced in. This outlook is the reason for the more conservative positioning at the broad portfolio level. However, the team still believes there are opportunities at the sub-asset class level.

- T. Rowe Price increased Target's equity underweight from 0.50% to 1.50% during the quarter.
- However, the team placed the majority of this position in cash, to give itself more flexibility to initiate new positions as opportunities become clearer.
- The team continues to have conviction in the reopening/reflation trade and maintained its overweight to U.S. value stocks versus U.S. growth stocks and its overweight to international value versus international growth.
- The team also maintained overweight positions in U.S. small-cap equities and emerging markets equities as it believes these sectors will also benefit from the reopening trade.
- Within fixed income, T. Rowe Price is very mindful of its duration position and does not want to extend it given the possibility of interest rates continuing to move higher as economic growth continues to expand.
- Given this stance, the team has held an underweight position to investment grade bonds in favor of floating rate bonds and high yield debt, which are less sensitive to rising rates.
- The series is also overweight short-term TIPS as a hedge against rising inflation.

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## T. ROWE PRICE RETIREMENT HYBRID TRUST

MEETING DATE: JULY 22, 2021

### FOCUS AREA

#### Organizational Update

##### COMMENTARY

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

#### Investments Update

##### COMMENTARY

T. Rowe Price continues to make progress on implementing the glidepath changes that were announced in February 2020. The team is on track to have the changes completed by the planned deadline of mid-2022.





## T. ROWE PRICE RETIREMENT HYBRID TRUST

MEETING DATE: JULY 22, 2021

## FOCUS AREA

## Performance and Positioning Update

## COMMENTARY

**T. Rowe Price Retirement Hybrid Trust Performance Update:**

T. Rowe Price Retirement Hybrid Trust produced mixed results in the second quarter as it outperformed the benchmark, but generally underperformed peers.

- Relative to the benchmark, Retirement Hybrid Trust's strategic asset allocation was the primary driver of results.
- Within fixed income, the series' inclusion of high yield and floating rate bonds was a contributor, as these sectors outperformed core fixed income in the second quarter.
- The series' dedicated exposure to growth and value strategies within the equity portfolio also added to performance over the benchmark, which just uses core equities.
- Relative to peers, Retirement Hybrid Trust's tactical positioning was the main detractor.
- As market trends from the first quarter reversed in the second quarter, positions that had helped performance turned into detractors.
- Within equities, T. Rowe Price held overweight positions in U.S. and international stocks relative to growth stocks, which hurt performance as growth stocks rebounded in the second quarter.
- The series was also overweight small-cap stocks relative to large-caps, and this was also a detractor as large-caps generally outperformed small-caps during the quarter.
- In addition, Retirement Hybrid Trust continued to be negatively impacted by its underweight to broad equities.
- Within fixed income, an underweight to long-term U.S. Treasury bonds hurt performance as interest rates fell due to concerns about a more hawkish Fed and the spread of the delta variant.

**Positioning Update:**

While T. Rowe Price had been cautiously optimistic, its outlook has been tempered somewhat as the team feels that the probability of a negative surprise is greater than a positive surprise over the second half of the year. The team is concerned about the increased spread of the delta variant and the end of federal relief programs in September. In addition, it believes that most of the equity gains from higher corporate earnings have already been priced in. This outlook is the reason for the more conservative positioning at the broad portfolio level. However, the team still believes there are opportunities at the sub-asset class level.

- T. Rowe Price increased Retirement Hybrid Trust's equity underweight from 0.50% to 1.50% during the quarter.
- However, the team placed the majority of this position in cash, to give itself more flexibility to initiate new positions as opportunities become clearer.
- The team continues to have conviction in the reopening/reflation trade and maintained its overweight to U.S. value stocks versus U.S. growth stocks and its overweight to international value versus international growth.
- The team also maintained overweight positions in U.S. small-cap equities and emerging markets equities as it believes these sectors will also benefit from the reopening trade.
- Within fixed income, T. Rowe Price is very mindful of its duration position and does not want to extend it given the possibility of interest rates continuing to move higher as economic growth continues to expand.
- Given this stance, the team has held an underweight position to investment grade bonds in favor of floating rate bonds and high yield debt, which are less sensitive to rising rates.
- The series is also overweight short-term TIPS as a hedge against rising inflation.

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