

American Funds Target Date Rtmt Target-Date Fund Series Report

Morningstar Analyst Rating



Key Features

Asset-Weighted Expense Ratio	0.63%
Active/Passive Exposure	100% Active
Open/Closed Architecture	100% Closed
Total Net Assets (\$M)	104,365

Executive Summary

Rating:

Process

Neutral

This series' oversight committee largely uses an objectives-based approach that allocates assets to broad categories such as "growth" and "income." About six years ago, the committee started incorporating tools such as mean-variance optimizers into its allocation considerations. Overall, the approach is adequate, leading to a Neutral Process rating.

Price

Positive

Fees for this series remain attractive versus the target-date universe, supporting a Positive Price rating.

Performance

Positive

In the more than 10 years since their launch in early 2007 through the end of 2018, funds in this target-date series delivered impressive results: Within the group of more than two dozen target-date series with histories as long as this series', returns from all but one of these target-date funds take the top spot within their respective categories.

People

Positive

Management at the series' underlying funds strongly supports its Positive People rating. The underlying funds all use a multi-manager system that has worked particularly well for the firm's equity offerings.

Parent

Positive

Capital Group, American Funds' parent, is a strong steward of investor capital, with long-tenured management, long-term performance incentives, and avoidance of gimmicky funds. Fees are low, and the board overseeing its target-date funds is independent. The underlying funds are behemoths, but the firm's multi-manager system has successfully handled the assets.

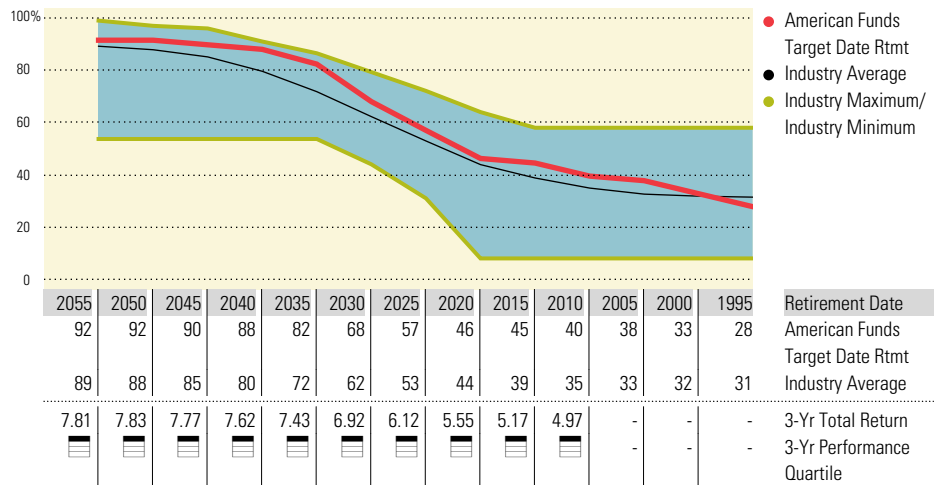
Morningstar Analyst Rating

Morningstar evaluates mutual funds based on five key pillars, which its analysts believe lead to funds that are more likely to outperform over the long term on a risk-adjusted basis.

Analyst Rating Spectrum



Strategic Glide Path Total Equity Exposure



Available Funds

2010 Fund	2025 Fund	2040 Fund	2055 Fund
2015 Fund	2030 Fund	2045 Fund	2060 Fund
2020 Fund	2035 Fund	2050 Fund	

Morningstar Opinion

Leo Acheson

02-05-2019

American Funds Target Date Retirement series remains a strong choice thanks to its impressive underlying funds and low fees, solidifying its Morningstar Analyst Rating of Silver.

The series boasts one of the target-date industry's best rosters of underlying managers. We rate all 13 of its underlying equity funds; each is a Morningstar Medalist, and 10 receive Gold ratings. The series' four allocation funds garner Silver ratings. The bond fund lineup isn't as impressive but has improved recently thanks to increased resources and process enhancements. We rate six of the eight underlying bond funds; four earn Bronze ratings, and two are Neutral.

An oversight committee of seven guides the series. The committee relies primarily on an objectives-based asset-allocation framework, emphasizing funds that target "growth" in an investor's early years and shifting to funds that seek "income" as the investor nears retirement. The committee also leverages its quantitative group, which uses more-common analytical tools such as Monte Carlo simulations, to inform

the process, but such insights take a back seat to the objectives-based approach.

This process led to a glide path that's typically more aggressive than the average peer. Another notable differentiator is a persistent giant-cap bias within the equity sleeve. That's been a good call, as large caps have outperformed small caps in recent years, but it's likely that large underlying fund sizes have also contributed to that bias. Since the series' inception through the end of 2018, the 2040 fund's average market cap has ranged from 30% to 70% higher than the industry norm, and the series had the industry's highest average market cap over half of that time.

Despite the series' aggressive glide path, most of its vintages ranked in their respective Morningstar Categories' top decile in 2018. Strong results by the underlying managers, a large-cap bias, and conservative bond portfolios helped drive those results. Performance over the trailing 10 years and since inception look similarly impressive. Low fees have provided a persistent tailwind.

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The date shown next to the Morningstar Analyst Rating is the date on which the Morningstar Manager Research Analyst assigned or reaffirmed the current rating for the target-date fund series based on the analyst's latest review and research report for the target-date fund series.

The Five (5) Pillars

Morningstar has identified five key areas that we believe are crucial to predicting the future success of funds: People, Parent, Process, Performance, and Price. Each pillar is evaluated when assessing a fund as well as the interaction between the pillars, which we believe is crucial to understanding a fund's overall merit.

People

The overall quality of a target-date fund series' investment team is a significant key to its ability to deliver superior performance relative to its benchmark and/or peers. Evaluating a target-date fund series' investment team requires that analysts assess several relevant items including how key decisions are made.

Parent

We believe the parent organization is of utmost importance in evaluating a target-date fund series. The target-date fund series' management set the tone for key elements of our evaluation, including capacity management, risk management, recruitment and retention of talent, and incentive pay. Beyond these operational areas, we prefer firms that have a culture of stewardship and put investors first to those that are too heavily weighted to salesmanship.

Process

We look for target-date fund series with a performance objective and investment process (for both security selection and portfolio construction) that is sensible, clearly defined, and repeatable. In addition, the portfolio should be constructed in a manner that is consistent with the investment process and performance objective.

Performance

We do not believe past performance is necessarily predictive of future results, and this factor accordingly receives a relatively small weighting in our evaluation process. In particular, we strive not to anchor on short-term performance. However, we do believe that the evaluation of long-term return and risk patterns is vital to determining if a target-date fund series is delivering to our expectations.

Price

To reflect actual investor experience, price is evaluated within the context of the relevant market or cross-border region—for example, the United States, Australia, Canada, or Europe. In recognition of differences in scale and distribution costs in various markets, the level at which a target-date fund series is penalized for high fees or rewarded for low fees can vary with region. In Europe, for example, target-date fund series are penalized if they land in the most expensive quintile of their Morningstar category and are rewarded if they land in the cheapest quintile. The assessment is made using prospectus expense ratios, but in the case of target-date fund series with performance fees, expenses are evaluated excluding any performance fees and then the structure of the performance fee is evaluated separately.

Morningstar Analyst Ratings

Morningstar Analyst Ratings are assigned on a five-tier scale running from Gold to Negative. The top three ratings, Gold, Silver, and Bronze, all indicate that our analysts think highly of a target-date fund series; the difference between them corresponds to differences in the level of analyst conviction in a target-date fund series' ability to outperform its benchmark and peers through time, within the context of the level of risk taken.

Gold

Represents target-date fund series that our analyst has the highest-conviction in for that given investment mandate. By giving a target-date fund series a Gold rating, we are expressing an expectation that it will outperform its relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years). To earn a Gold rating, a target-date fund series must distinguish itself across the five pillars that are the basis for our analysis.

Silver

Represents target-date fund series our analyst has high-conviction in, but not in all of the five pillars. With those fundamental strengths, we expect these target-date fund series will outperform their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

Bronze

Represents target-date fund series that have advantages that clearly outweigh any disadvantages across the pillars, giving analyst the conviction to award them a positive rating. We expect these target-date fund series to beat their relevant performance benchmark and/or peer group within the context of the level of risk taken over the long term (defined as a full market cycle or at least five years).

Neutral

Represents target-date fund series in which our analysts don't have a strong positive or negative conviction. In our judgment, these target-date fund series are not likely to deliver standout returns, but they aren't likely to seriously underperform their relevant performance benchmark and/or peer group either.

Negative

Represents target-date fund series that possess at least one flaw that our analysts believe is likely to significantly hamper future performance, such as high fees or an unstable management team. Because of these faults, we believe these target-date fund series are inferior to most competitors and will likely underperform their relevant performance benchmark and/or peer group, within the context of the level of risk taken, over a full market cycle.

Morningstar Research Services may also use two other designations in place of a rating:

Under Review

This designation means that a change that occurred with the target-date fund series or at the target-date fund series company requires further review to determine the impact on the rating.

Not Ratable

This designation is used only where we are providing a Report on a new strategy or on a strategy where there are no relevant comparators, but where investors require information as to suitability.

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Equity-Related Data Points

The Report lists the top ten holdings in the target-date fund series as of the date noted. For each underlying holding, a series of data points is provided including, where applicable, that security's Economic Moat rating as of the date noted.

Economic Moat

The concept of an economic moat plays a vital role in our equity analyst's qualitative assessment of a firm's long-term investment potential, but also in the actual calculation of its fair value estimate. An economic moat is a structural feature that allows a firm to sustain excess profits over a long period of time. We define economic profits as returns on invested capital (or ROIC) over and above our estimate of a firm's cost of capital, or weighted average cost of capital (or WACC). Without a moat, profits are more susceptible to competition. We have identified five sources of economic moats: intangible assets, switching costs, network effect, cost advantage, and efficient scale.

Companies with a *narrow moat* are those we believe are more likely than not to achieve normalized excess returns for at least the next 10 years. *Wide-moat* companies are those in which we have very high confidence that excess returns will remain for 10 years, with excess returns more likely than not to remain for at least 20 years. The longer a firm generates economic profits, the higher its intrinsic value. We believe low-quality, *no-moat* companies will see their normalized returns gravitate toward the firm's cost of capital more quickly than companies with moats.

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