BlackRock LifePath Dynamic Target-Date Fund Series Report

Morningstar Analyst Rating: Bronze

Key Features
- Asset-Weighted Expense Ratio: 0.88%
- Active/Passive Exposure: 89% Active
- Open/Closed Architecture: 100% Closed
- Total Net Assets ($M): 1,081

Executive Summary

Process:
In 2016, BlackRock overhauled this series’ strategy to give it the flexibility to use the full range of tools at the firm, including active, passive, and tactical-allocation strategies. Management employs a research-intensive asset-allocation process and executes a thoughtful approach to manager selection and tactical asset-allocation tilts.

Price:
Fee cuts in November 2016 made this series competitively priced, but it is no bargain. The cuts coincided with notable changes to the series’ approach.

Performance:
Recent changes to the approach can be expected to alter its performance pattern going forward, but the series is off to a strong start. It earns a Neutral rating for Performance while it builds a track record under the new strategy.

People:
This series’ November 2016 manager roster change coincided with an overhaul to its approach. Matt O’Hara has long been involved with the research backing these funds; Phil Green’s tactical approach is a new addition. Both are experienced, and the series is off to a strong start. It earns a Neutral rating for Performance while it builds a track record under the new strategy.

Parent:
BlackRock has used its size and operational savvy to clients’ benefit. Its investment fees continue to fall, and managers invest more in their strategies. The firm invests heavily in technology and people.

Morningstar Analyst Rating: Bronze

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:
- Gold
- Silver
- Bronze: Neutral
- Negative

Strategic Glide Path Total Equity Exposure

Available Funds

Morningstar Opinion

The BlackRock LifePath Dynamic target-date fund series has clear advantages in both its management team and its distinctive process. Its Morningstar Analyst Rating has been upgraded to Bronze from Neutral. A longer track record of solid execution and lower costs would further boost our confidence in the strategy.

This target-date series is underpinned by one of the most forward-thinking glide-path and asset allocation teams in target-date funds; its glide path and strategic asset allocation are the same as Gold-rated BlackRock LifePath Index. BlackRock’s global tactical asset-allocation team, led by Phil Green, handles the underlying strategy selection and tactical moves away from the strategic allocation. Green has the full suite of active and passive strategies at BlackRock to choose from, which gives him one of the widest tool kits of any proprietary target-date fund series, a clear positive for the series’ long-term prospects. The series benefits from its structure, which allows for investment in mutual funds, exchange-traded funds, separate accounts, or derivatives. That’s a greater degree of flexibility than many peers that are confined to mutual funds. This allows the series to get access to BlackRock managers not available in the United States, such as its REITS manager who is based in Europe and runs a separate account for the series, and the derivatives allow Green to tailor the overall exposures, ensuring there are no unintended bets at the portfolio level from the underlying funds.

The underlying funds are a mix of well-regarded quantitatively oriented funds, index funds, multifactor equity ETFs, and a pair of complementary active bond funds. Green and team will make tactical changes to the asset allocation, typically through futures contracts. The average asset-class tilt has been around 2% compared with the strategic target, although after big market moves, like the nearly 20% sell-off in the fourth quarter of 2018, it can be larger; the series was 6% overweight equities as of Dec, 2018, its largest tilt since its 2016 makeover.
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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 research and review 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 areas including how key decisions are made.

Parent
We base 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 objectives.
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 analysts have 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.

Gold
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.

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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
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