Fidelity Freedom Index Target-Date Fund Series Report

Morningstar Analyst Rating
Bronze

Key Features
Asset-Weighted Expense Ratio 0.11%
Active/Passive Exposure 0% Active
Open/Closed Architecture 28% Closed
Total Net Assets ($M) 27,091

Executive Summary

Process
The managers apply the same general glide-path approach as Fidelity Freedom here, but this series’ plain-vanilla approach does not reflect the managers’ prevailing best ideas for target-date investing. As such, the series retains its Neutral Process rating.

Price
Already one of the lowest-cost series of target-date funds available, fees for the Fidelity Freedom Index series came down even further in 2018. The series readily earns a Positive Price rating.

Performance
This series’ recent success has improved its longer-term standing versus peers, supporting an upgrade in its Performance rating to Positive from Neutral.

People
The addition of a comanager to this series reflects positively on the depth of Fidelity’s target-date team. Plus, both Geode and Fidelity have extensive index management experience, providing further support to the series’ Positive People rating.

Parent
Fidelity isn’t without challenges but remains well positioned enough to compete in a changing industry. The firm’s diversified asset mix has shielded it from steady outflows from its active U.S. equity funds, with its taxable bond, international equity, and low-priced index offerings attracting 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
Gold Silver Bronze Neutral Negative

Morningstar Opinion

Jeff Holt
02-05-2019

The Fidelity Freedom Index series of target-date funds serves effectively as a stripped-down, low-cost alternative to the firm’s more established Freedom Funds. Fidelity began managing target-date funds in the mid-1990s, though it didn’t launch this Freedom Index series until 2009. The same team runs both series and sticks to a common approach, but the nuances between them cause results to diverge. This series keeps costs low for investors, but the plain-vanilla approach only partially benefits from the firm’s renewed commitment to and abundant resources in asset-allocation research. The series retains its Morningstar Analyst Rating of Bronze.

Like all target-date series, this series’ managers make active decisions in designing the asset-allocation glide path. In 2018, the series’ managers removed a small stake in commodities, added constant exposure to long-term U.S. Treasuries, and increased the allocation to Treasury Inflation-Protected Securities for investors near or in retirement. They made these moves to address both the risk of inflation and deflation, which lowered equity exposure by up to 4 percentage points for investors in retirement. The 2018 changes were far less dramatic than when the managers ramped up exposure to equities across the board in late 2013.

The fund’s passive aspect stems from its underlying holdings, as the series invests across a concise set of index-based funds. Fidelity spin-off Geode Asset Management subadvises the series’ two underlying equity funds. Fidelity manages four underlying fixed-income funds. The use of passive funds keeps costs low: the series’ expense ratios were already among the lowest among target-date funds even before a slight fee reduction in 2018.

Despite the notable cost advantage, each Freedom Index fund lagged its Freedom series counterpart since the Freedom Index series’ late-2009 launch through December 2018; the funds underperformed by 15-73 basis points annualized. The absence of active management and certain subasset classes, like high-yield bonds, from Freedom Index contributed to these results.
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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 criteria with the following key points being considered.

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 ob-
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.

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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