American Century One Choice Series Target-Date Fund Series Report

Morningstar Analyst Rating  Neutral

Key Features
Asset-Weighted Expense Ratio  0.79%
Active/Passive Exposure  100% Active
Open/Closed Architecture  100% Closed
Total Net Assets ($M)  15,179

Executive Summary  Rating:
Process  Neutral
American Century takes investors on a unique glide path, one that is flatter than most. The series’ equity exposure moves from a below-average position leading up to retirement into an above-average stance throughout the retirement phase. The funds invest in a varied, though undistinguished, mix of about 20 American Century funds.

Price  Neutral
This series lacks a cost edge versus the competition. The series’ cheapest share class has a median expense ratio of 0.50%, which roughly matches the median fee of its average peers’ cheapest share class.

Performance  Positive
This series held up relatively well in the down markets of 2008, 2011, and 2018 while also keeping pace in all but the fiercest equity bull markets. This has translated into solid long-term risk-adjusted results. The series’ relatively modest equity stake across most of the glide path has helped when equities have lagged.

People  Neutral
In July 2017, this series’ longtime lead manager, Scott Wittman, unexpectedly left the firm. Comanager Rich Weiss, who joined the roster in May 2010, then took over the lead role. Dave MacEwen, another comanager of the series as well as the firm’s fixed-income CIO, retired at the end of 2018. Additionally, there has been significant turnover among the portfolio managers of a number of underlying funds in recent years.

Parent  Neutral
Despite a long-term orientation and an increasing employee stake in the firm, American Century is clouded by manager-retention issues. The July 2017 departure of multi-asset group CIO Scott Wittman and the 2018 retirement of fixed-income CIO Dave MacEwen serve as the most recent in a trickle of exits in the past five years. The firm’s continued turnover, combined with subpar manager investment and above-average fees, contributes to its Neutral Parent rating.

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.

Available Funds
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<th>Retirement Income Fund</th>
<th>2030 Fund</th>
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<td>2020 Fund</td>
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<td>2025 Fund</td>
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Morningstar Opinion
The American Century One Choice series of target-date funds lacks competitive advantages over peers in its personnel, investment process, and fees. This series earns a Morningstar Analyst Rating of Neutral.

The size of the team that oversees the series is modest, and it has seen turnover recently. Lead manager Scott Wittman, CIO of American Century’s multi-asset team, unexpectedly left the firm in 2017. And in December 2018, co-manager Dave MacEwen, the firm’s fixed-income CIO, retired. Richard Weiss, a co-manager of the series since he joined the firm in 2010, took Wittman’s CIO role. (Equity CIO Victor Zhang now chairs the asset-allocation committee but isn’t a manager on the series.) The team hired Vidya Rajappa in early 2018 to co-manage the series, meet with clients, and oversee the underlying holdings (which are all managed by the firm). The team now has eight members, including two client portfolio managers, and none are solely dedicated to vetting the holdings and their portfolio managers. Those holdings have also seen significant manager turnover in recent years and are of fairly average quality overall; 11 of the 20 holdings have Morningstar Analyst Ratings, and just two of those are Morningstar Medalists.

The series retains its fairly flat glide path, holding a lower equity stake than the peer average nearly until it reaches the target date. The managers gained the flexibility in 2017 to tactically shift the funds away from that strategic allocation to varying degrees along the glide path but have made only slight changes thus far. The oversight and selection process of the series’ underlying holdings are unimpressive, as past performance plays a sizable role and the series missed out on owning the firm’s best-performing large-growth strategy over the past decade. Few strong options to choose from also hamstrings the team; of the 20 American Century strategies that have Morningstar Analyst Ratings other than this series, only six are medalists.

The series’ fees are also merely average—the median expense ratio of the cheapest share class roughly matches the peer median.
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The date shown next to the Morningstar Analyst Rating is the date on which the Morningstar 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 issues including how key decisions are made.

Parent

We believe the parent organization is of utmost importance in evaluating a target-date fund series. The parent of a 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 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 analysts have 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

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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