

# BlackRock LifePath Index Target-Date Fund Series Report

**Morningstar Analyst Rating**



**Key Features**

Asset-Weighted Expense Ratio	0.19%
Active/Passive Exposure	0% Active
Open/Closed Architecture	100% Closed
Total Net Assets (\$M)	26,851

**Executive Summary**

**Rating:**

**Process**

**Positive**

BlackRock's ability to retain a forward-thinking, research-intensive approach over the years drives this series' Positive Process rating. In November 2014, BlackRock increased this series' equity stake across the glide path. Previously, most of the longer-dated funds had lower equity allocations compared with peers, but now they have more.

**Price**

**Positive**

This series' K shares are among the lowest priced in the target-date mutual fund space. Its Institutional share class is just a few basis points more expensive. However, while the Investor A share class may be better priced than other competitors as a whole, they are pricey for an index-based series.

**Performance**

**Positive**

Over the five-year period through December 2018, the funds outpaced 80% of peers on average. Both the shortest-dated Retirement fund and the 2055 fund--the longest-dated fund with a five-year record--beat more than 90% of Morningstar Category peers over that period.

**People**

**Positive**

A deep and experienced team with ample resources leads this series. Matt O'Hara joined the manager roster in November 2016 to better reflect his long-standing influence over the series' design. BlackRock is one of the largest index managers, and it manages the series' underlying strategies in-house, either under its own banner or that of its iShares subsidiary.

**Parent**

**Positive**

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.

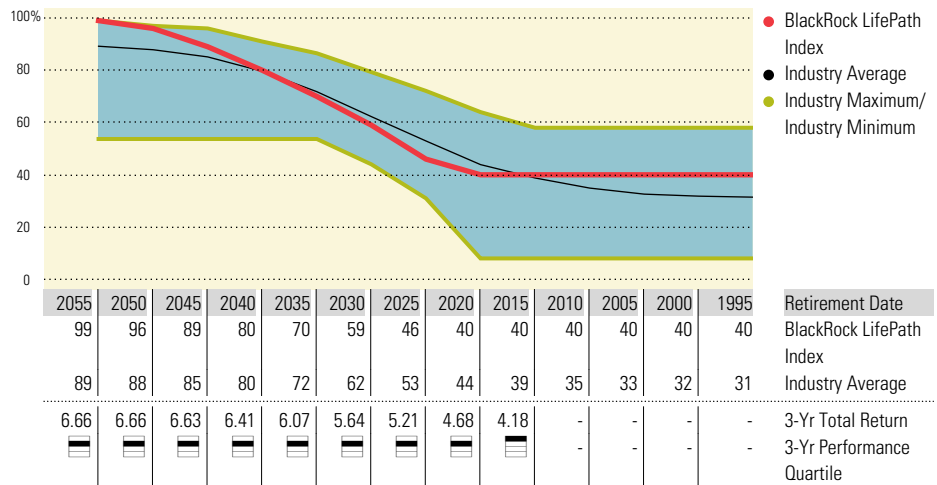
**Morningstar Analyst Rating**

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**

Retirement Income Fund	2030 Fund	2045 Fund	2060 Fund
2020 Fund	2035 Fund	2050 Fund	
2025 Fund	2040 Fund	2055 Fund	

## Morningstar Opinion

**Jason Kephart**

02-05-2019

BlackRock LifePath Index's forward-thinking management team, research-intensive process, extremely low costs, and high-quality building blocks place this series among the industry's very best options. It continues to earn a Morningstar Analyst Rating of Gold.

on research into investor preferences and behavior, as well as a review of its long-term capital market assumptions. The longest-dated funds remained unchanged, with 99% of assets in equities, considerably more than the typical peer. The other funds in the series had previously been equity-light compared with peers, but they now have more or a similar amount.

BlackRock's history with target-date funds stretches back to the 1990s, but most importantly, the firm has remained steadfast in evolving its target-date options over the decades, often exploring new areas of research before peers. The firm's target-date glide path and asset-allocation research, led by Matt O'Hara since 2014, has led to some significant changes and unique aspects. Management's active research agenda and its willingness to enact meaningful changes--including those that put it at odds with most peers--to improve participant outcomes gives us confidence in the team staying at the forefront of the target-date industry over the long term.

There are two distinguishing features to the series' strategic asset allocation. The funds furthest from retirement have sizable overweights to REITs compared with peers, and, as the series gets closer to retirement, its allocation to small company equities increases. The former is due to the long-term inflation-hedging properties of real estate, and the latter is due to small caps having better diversification benefits when paired with bonds than large companies. It also notably does not include international bonds because of the costs of currency hedging.

The most recent significant change occurred in November 2014, when management upped the series' equity allocation across most of the glide path based

The series' low costs cement this strategy as a top-notch long-term holding for investors.

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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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