POPPING THE HOOD IV, 2011

AN ANALYSIS OF TARGET DATE FUND FAMILIES

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You should consider the fund's investment objectives, risks, and charges and expenses carefully before you invest. The fund's prospectus or summary prospectus, which can be obtained at americancentury.com, contains this and other information about the fund, and should be read carefully before investing.

Past performance is no guarantee of future results. Investment return and fund share value will fluctuate and it is possible to lose money by investing in these funds.

The BrightScope and Target Date Analytics "2011 Popping the Hood" study grades target date mutual fund families on five criteria, including performance, fees, risk, organizational structure and strategy. Each fund series receives an overall score and ranking. Researchers analyzed 48 fund companies, but ranked only 34; those were the fund series old enough to have three years of operating performance data. The study uses 2010 performance data. The study is based on the lowest price share class offered by each fund family, typically the institutional share class.

American Century Investment Services, Inc. has entered into an agreement with the Lance Armstrong Foundation® for rights to use the LIVESTRONG® name. For more information about the foundation, visit LIVESTRONG.org.

The performance of the portfolios is dependent on the performance of their underlying American Century Investments funds and will assume the risks associated with these funds. The risks will vary according to each portfolio's asset allocation, and a fund with a later target date is expected to be more volatile than one with an earlier target date.

A LIVESTRONG Portfolio's target date is the approximate year when investors plan to start withdrawing their money. The principal value of the investment is not guaranteed at any time, including at the target date.

Each target-date LIVESTRONG portfolio seeks the highest total return consistent with its asset mix. Each year, the asset mix and weightings are adjusted to be more conservative. In general, as the target year approaches, the portfolio's allocation becomes more conservative by decreasing the allocation to stocks and increasing the allocation to bonds and money market instruments. By the time each fund reaches its target year, its target asset mix will become fixed and will match that of LIVESTRONG Income Portfolio.

Table of Contents

Fund Family Reports

Appendix

Introduction

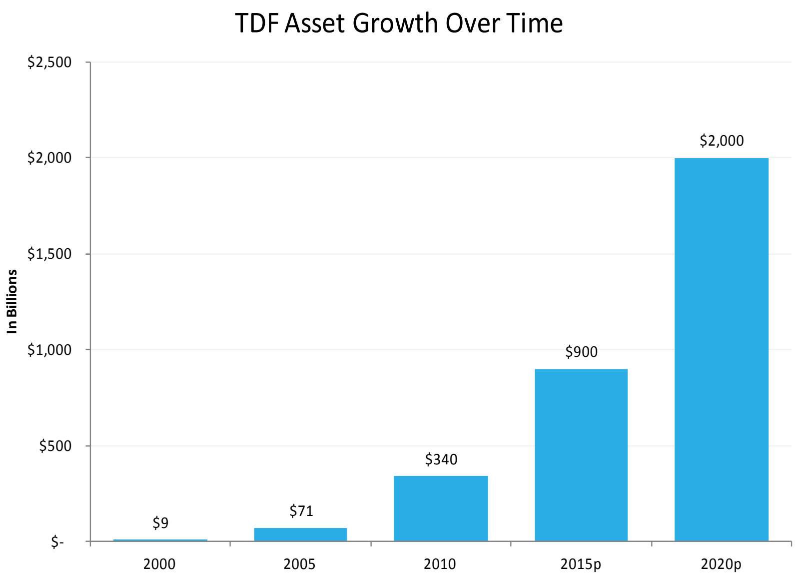
POPPING THE HOOD IV, AN ANALYSIS OF TARGET DATE FUND FAMILIES

PURPOSE AND SCOPE OF THE PRESENT STUDY

Over the past decade target date funds (TDFs) have risen to prominence in the mtutual fund marketplace – driven by their strong asset growth in defined contribution retirement plans. The turning point came with the Pension Protection Act (2006) allowing automatic-enrollment into retirement plans and a Labor Department regulation designating TDFs as a qualified default investment[1]. TDFs quickly became the primary retirement investment for millions of American workers, which should continue to fuel their meteoric rise. Indeed, TDFs currently hold nearly $400 billion in assets, which BrightScope expects to grow to $2 trillion in assets by 2020.

Popping the Hood IV is a comprehensive analysis of target date fund families. Plan Sponsors and their advisors are charged with selecting and monitoring target date funds, and this study is designed to help them complete their due diligence. To that end, and unlike many research reports that focus on individual funds, Popping the Hood IV analyzes target date fund families and companies, not just individual funds. We analyze, score and rank 34 fund families, from 40 different fund companies including 400 distinct target date funds. Each fund series receives an Overall Score and Ranking as well as a detailed evaluation in five major categories: Company/Organization, Strategy, Performance, Risk and Fees.

With this clear and concise data, asset managers can determine if their target date funds are competitive with their peers; plan sponsors can determine if their target date funds are delivering the value expected for plan participants; and advisors/consultants can analyze product lines.



Source: Investment Company Institute (ICI), BrightScope, Inc.

[1]Default Investment Alternatives Under Participant Directed Individual Account Plans; Final Rule. 72 FR 60452 (Oct. 24, 2007)

Executive Summary

POPPING THE HOOD IV

Target date funds (TDFs) have come a very long way since their introduction in March of 1994.

In the three years since we released our last report, major changes have taken place in the field of target date funds. The disastrous performance of most 2010 funds in 2008 (average loss of 23.5%) spawned congressional and regulatory hearings, an endless number of opinion pieces and demands for reform. Target date detractors came out in force. Fund companies insisted everything was fine, and that the only problem was a lack of understanding by plan sponsors and investors in their funds. Regulatory bodies used a lot of time and ink to draft requirements for increased disclosure, but have very consciously complied with fund companies' demands that the actual management of TDFs not be subject to regulation.

In the meantime some real changes have been quietly taking place. A number of fund companies have changed their approach, from the overly aggressive style of 2007 to a more prudent management style that recognizes the need for a lower risk profile as the target date approaches. In December of 2007, 12 of 39 (31%) fund companies brought their glidepath to its most conservative position as of the date in the funds' name. By December of 2010, that number has changed to 20 of 48 fund companies (42%). On the other hand, the percentage equity at the target date, the other major indicator of TDF risk, appears to have increased from approximately 40% in December 2007 to approximately 43% in December 2010. While their has been some progress, many fund managers learned very little from the TDF debacle of 2008.

On the fee front, some major fund companies have acknowledged the Vanguard fee challenge and have launched their own 100% passive, low cost target date funds. Both Fidelity and TIAA-CREF launched new TDFs with an average expense ratio of 19 basis points.

Increasingly, employers seem intent on breaking free from the market dominance of a few big players and their registered (mutual fund) products. Changes include broader diversification, lower fees, open architecture, an increased use of passive underlying holdings and, in a move in the opposite direction, more tactical discretion granted to management to deviate from the glidepath mandated allocations. The manifestation of this liberation from market dominators can be further seen in the increasing interest in glidepath licensing, and in the use of target date strategies in both collective investment trusts and managed portfolios.

If TDF assets as a share of all defined contribution assets are going to continue to grow as they have, we in the industry have a duty to make sure that they are very high quality investment options, rather than the largely mediocre instruments they have been thus far.

There are some positive developments in the TDF world:

- Some managers have significantly improved the prospectus language describing their funds. In particular, we acknowledge those fund companies whose prospectuses clearly identify the participants for whom their TDFs are intended. For example, some prospectuses now state that their funds are intended for participants expecting to take a lump sum withdrawal at or near the target date, while others state that their funds are intended for those participants intending to begin periodic withdrawals at the target date. In either case, the clarity and specificity is an improvement.
- Some TDF managers are returning to the fundamental objectives of TDFs—getting participants safely to their retirement with their accumulated contributions intact, focusing on portfolio growth only in the earlier years of the life cycle while it is safe to do so.
- Fee competition is finally having an impact; there are now three registered mutual fund TDF series with average expense ratios below 20 basis points.

Executive Summary

There remain significant areas for improvement:

- The target date industry as a whole continues to pay too little attention to risk, and is too aggressive, especially just prior to and at the target date. Many fund companies failed to learn from the 2008 debacle, which failure will surely hurt participants again.
- Most fund companies still fail to link the fixed income side of the portfolio to the glidepath. The optimal approach is to adjust the duration of the fixed income portfolio as time passes and the target date approaches. Instead of attenuating the riskiness of the portfolio they simply provide more of it in the naïve belief that a replication of the Aggregate Bond Index will provide portfolio protection.
- The use of "circular" objectives in fund prospectuses has grown over the past three years. By "circular" we mean describing the objective as being dependent on the fund's allocation, even though logically the allocation must be a function of the fund's objective.
- The industry continues sacrificing returns in their preference for 100% active management in all asset classes. The cost for this preference in the face of contrary evidence is borne by individual investors in target date funds. A handful of companies have seen the opportunity and have jumped into the target date investment fray with significant allocations to passive underlying securities.
- Fees and expenses for target date funds continue to remain high. As we noted above, there has been some competitive movement at the low end of the spectrum. But the average expense ratio for all the institutionally priced funds remains at 75 basis points, which is far too high.

The table on page vi shows the grades for each of the major components and the overall grade for each of the 34 families in the study. The table on page vii shows the 14 families that lack the required 3 year return history to receive an overall grade in this study, but will be included in future studies.

Target Date Fund Family Scoring

Rank (out of 34)[1]	Fund Family	Overall Grade	Company/ Organization	Strategy	Performance	Risk	Fees
1	American Century LIVESTRONG	**A**	A	C	B	A	B
2	Wells Fargo Advantage Dow Jones Target	**A**	B	C	A	A	B
3	MFS Lifetime	**A**	A	B	A	A	D
4	JP Morgan SmartRetirement	**A**	B	B	A	B	D
5	Vanguard Target Retirement	**A**	C	C	B	C	A
6	American Independence NestEgg	**B**	A	B	C	A	D
7	Invesco Balanced-Risk Retirement	**B**	C	A	C	A	C
8	BlackRock LifePath	**B**	C	B	B	A	D
9	TDX Independence	**B**	B	A	F	B	B
10	Nationwide Destination	**B**	A	D	C	D	B
11	TIAA-CREF Lifecycle	**B**	A	C	D	C	A
12	ING Solution	**B**	C	B	C	C	D
13	BlackRock Lifecycle Prepared	**C**	C	C	B	C	C
14	Vantagepoint Milestone	**C**	C	C	B	B	D
15	Franklin Templeton Retirement Target	**C**	D	A	A	C	F
16	Russell LifePoints Strategy	**C**	C	B	C	C	C
17	Putnam Retirement Ready	**C**	A	B	D	B	D
18	T. Rowe Price Retirement	**C**	B	F	B	C	C
19	Fidelity Freedom	**C**	A	D	C	C	C
20	State Farm LifePath	**C**	C	B	B	A	F
21	Schwab Target	**C**	D	D	B	C	C
22	American Funds Target Date Retirement	**C**	B	F	C	D	B
23	Hartford Target Retirement	**D**	C	F	B	D	D
24	MainStay Retirement	**D**	D	C	B	B	F
25	Fidelity Advisor Freedom	**D**	C	D	C	C	C
26	DWS LifeCompass	**D**	B	A	F	D	F
27	JHancock2 Lifecycle	**D**	D	D	C	F	D
28	MassMutual Select Destination Retirement	**D**	D	D	C	C	D
29	Principal LifeTime	**D**	C	D	D	D	C
30	Columbia Retirement Plus	**F**	F	F	F	F	D
31	Oppenheimer Transition	**F**	C	D	F	F	D
32	Goldman Sachs Retirement Strategy	**F**	F	C	F	F	D
33	Guidestone Funds MyDestination	**F**	F	F	C	D	F
34	AllianceBernstein Retirement Strategy	**F**	D	F	F	F	F

Target Date Fund Family Scoring

Rank *(out of 34)*[1]	Fund Company	Overall Grade	Company/ Organization	Strategy	Performance	Risk	Fees
-	Allianz Global Investors Solutions	-	A	A	-	-	D
-	Fidelity Freedom Index	-	D	D	-	-	A
-	Harbor Target Retirement	-	C	C	-	-	B
-	ING Index Solution	-	D	A	-	-	B
-	iShares S&P Target Date	-	C	C	-	-	A
-	JHFunds2 Retirement Portfolio	-	C	A	-	-	B
-	Legg Mason Target Retirement	-	B	D	-	-	C
-	Manning & Napier Target	-	F	D	-	-	D
-	Maxim Lifetime I	-	D	F	-	-	F
-	Maxim SecureFoundation Lifetime	-	D	C	-	-	C
-	PIMCO RealRetirement	-	C	A	-	-	D
-	Fidelity Freedom K	-	C	D	-	-	B
-	TIAA-CREF Lifecycle Index	-	C	C	-	-	A
-	USAA Target Retirement	-	D	A	-	-	B

[1]All fund families with at least three years of performance history as of December 31, 2010 are listed in order of Overall Score. Following those 34 fund families, we list the funds without a full three-year record in alphabetical order. These newer funds do not have grades for Performance, Risk or Overall.

Fund Family Report - American Century LIVESTRONG

Overall Grade: A | Ranked #1 out of 34 Fund Families

EXPENSES

INSTITUTIONAL FAMILY MEAN EXPENSE RATIO: 0.68%

OVERLAY FEE: ❑Yes ☑No

FUND PROFILE

FUNDS' OBJECTIVE: The fund seeks the highest total return consistent with its asset mix.

UNDERLYING SECURITIES: 100% Proprietary Mutual Funds

OPEN/CLOSED: ❑Open ☑Closed

PERCENTAGE OF UNDERLYING ACTIVE: 100%

TO/THROUGH: ☑To ❑Through

LANDING POINT: Target Date

EQUITY % AT TARGET DATE: 45%

FIRST INCEPTION DATE: August 31, 2004

AUM IN STRATEGY: $4 Billion

COMPANY PROFILE

ADVISOR: American Century Investment Management, Inc.

PARENT COMPANY: American Century

DAY-TO-DAY MANAGERS AND TENURE:

Irina Torelli, December, 2004
Scott Wilson, December, 2006
Enrique Chang, January, 2009
Scott Wittman, June, 2009
Richard A. Weiss, May 2010

INDEPENDENT CHAIR: ☑Yes ❑No

MANAGEMENT INVESTMENT IN FUNDS:

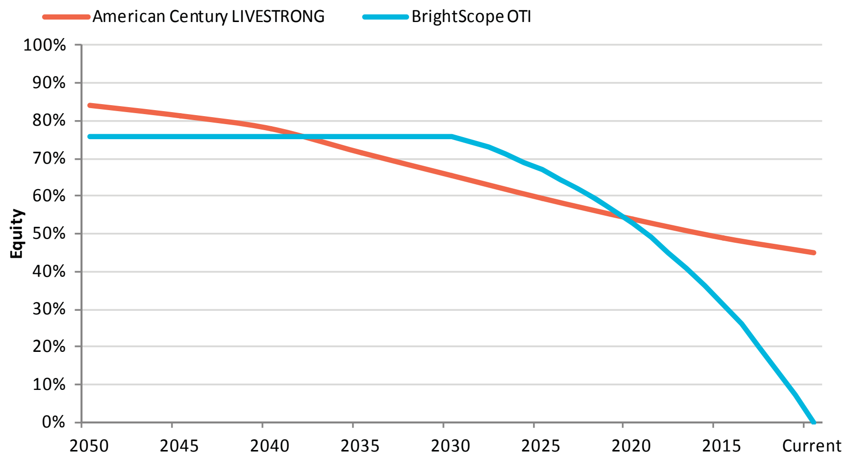
1 of 8 Board Members
5 of 5 Managers

Fund Family Grade

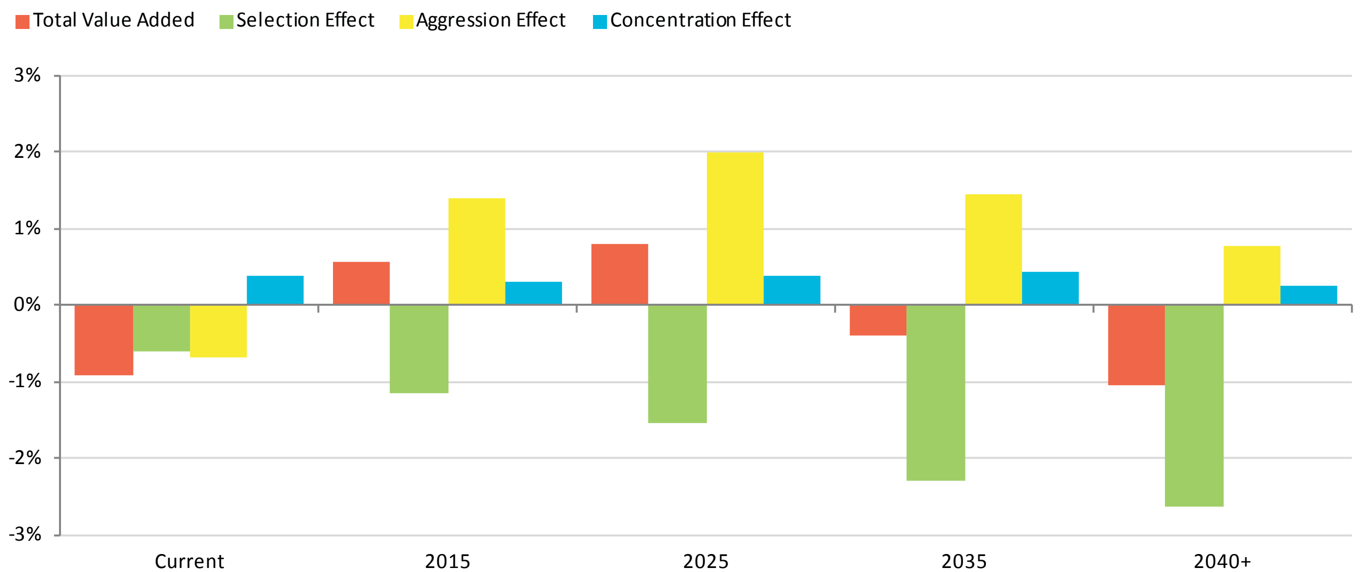
AMERICAN CENTURY LIVESTRONG	
OVERALL GRADE	**A**
ORGANIZATION	A
STRATEGY	C
PERFORMANCE	B
RISK	A
FEES	B

For more information on how the fund family grades were calculated please refer to Appendix 4 on page IX.

Glidepath: American Century LIVESTRONG

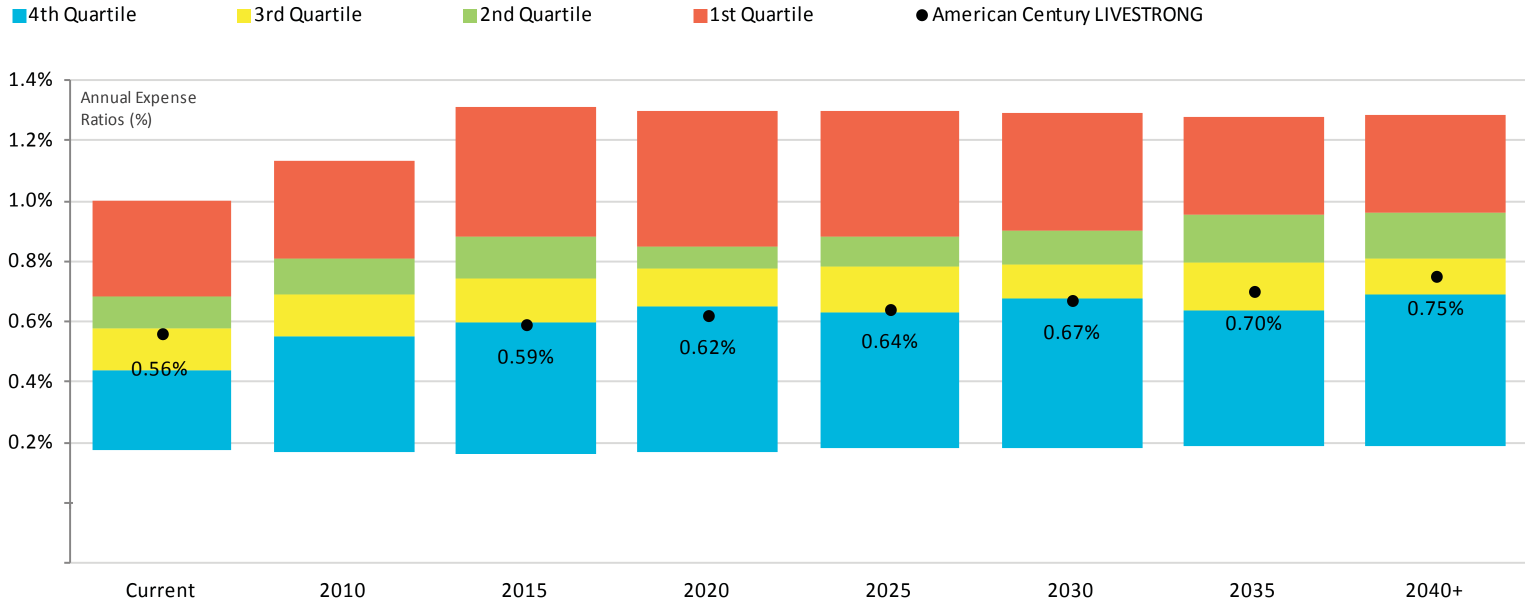


Performance Attribution (3-years): American Century LIVESTRONG

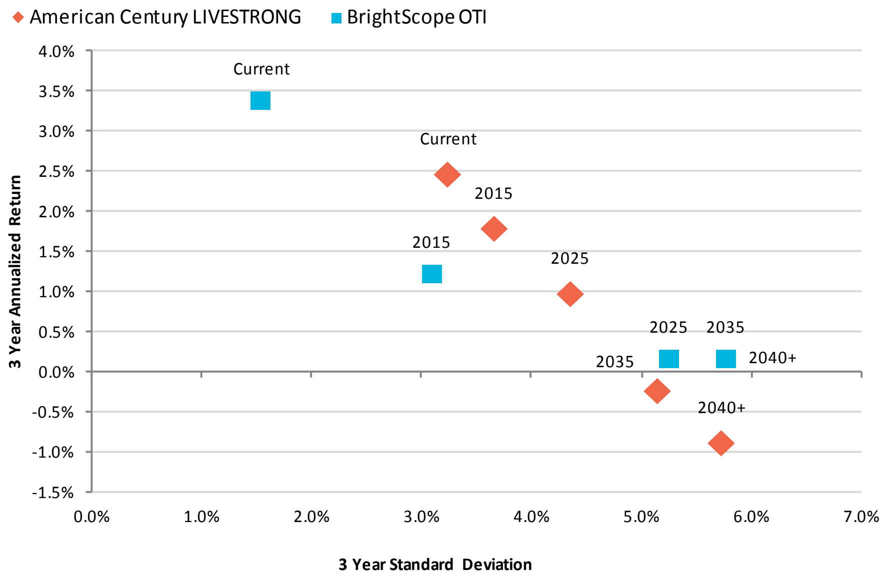


Fund Family Report - American Century LIVESTRONG

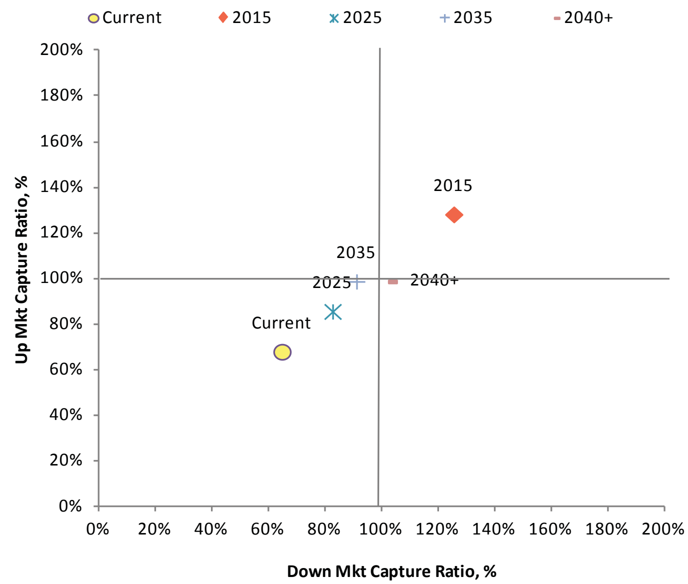
Expense Ratio - Institutional Shares American Century LIVESTRONG vs. Peer Group



3 Year Risk & Reward: American Century LIVESTRONG vs. BrightScope OTI

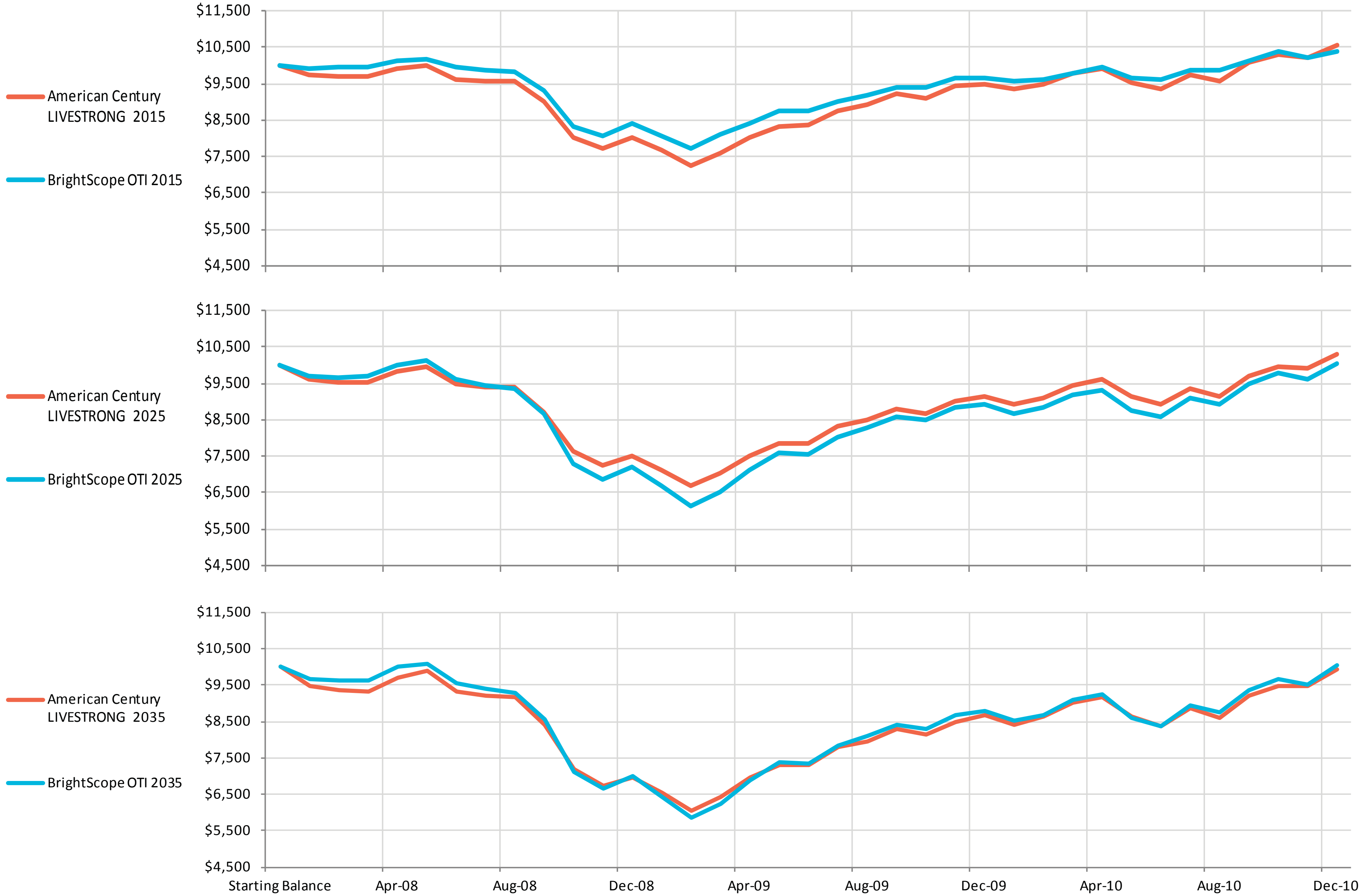


Upside / Downside Capture Ratios: American Century LIVESTRONG



Fund Family Report - American Century LIVESTRONG

Growth of $10,000: American Century LIVESTRONG vs. BrightScope OTI



Fund Family Report - American Century LIVESTRONG

Company Commentary

With the top overall score of all fund families in the study, the American Century LIVESTRONG Portfolios have a lot going for them. The LIVESTRONG Portfolios retain their top position from Popping the Hood III, proving their commitment to offer best in class target date portfolios to investors.

American Century earned the highest score for Company/Organization, our assessment of the quality of the organization behind the funds. For the three years ended December 31, 2010, the funds turned in excellent performance and scored near the top in risk control. Along with MFS, they were one of only two companies to finish in the top 5 in both measures. The institutional class carries an average expense ratio of just 0.68%, enough to earn them a "B", but still leaving room for improvement in fees. And they get the glidepath mostly right, bringing it down to its landing point at the target date, a strategy that has been called "truth-in-advertising" for TDFs; that is, the date in the name of the fund corresponds to the actual landing point of the strategy.

For a fund company to do so many things right and still use equivocating language for its objective is perplexing to us. The prospectus states, "The fund seeks the highest total return *consistent with its asset mix*" (italics ours). (See our note on "Circular Objectives" to read more about why we object to this popular language to describe the fund objective).

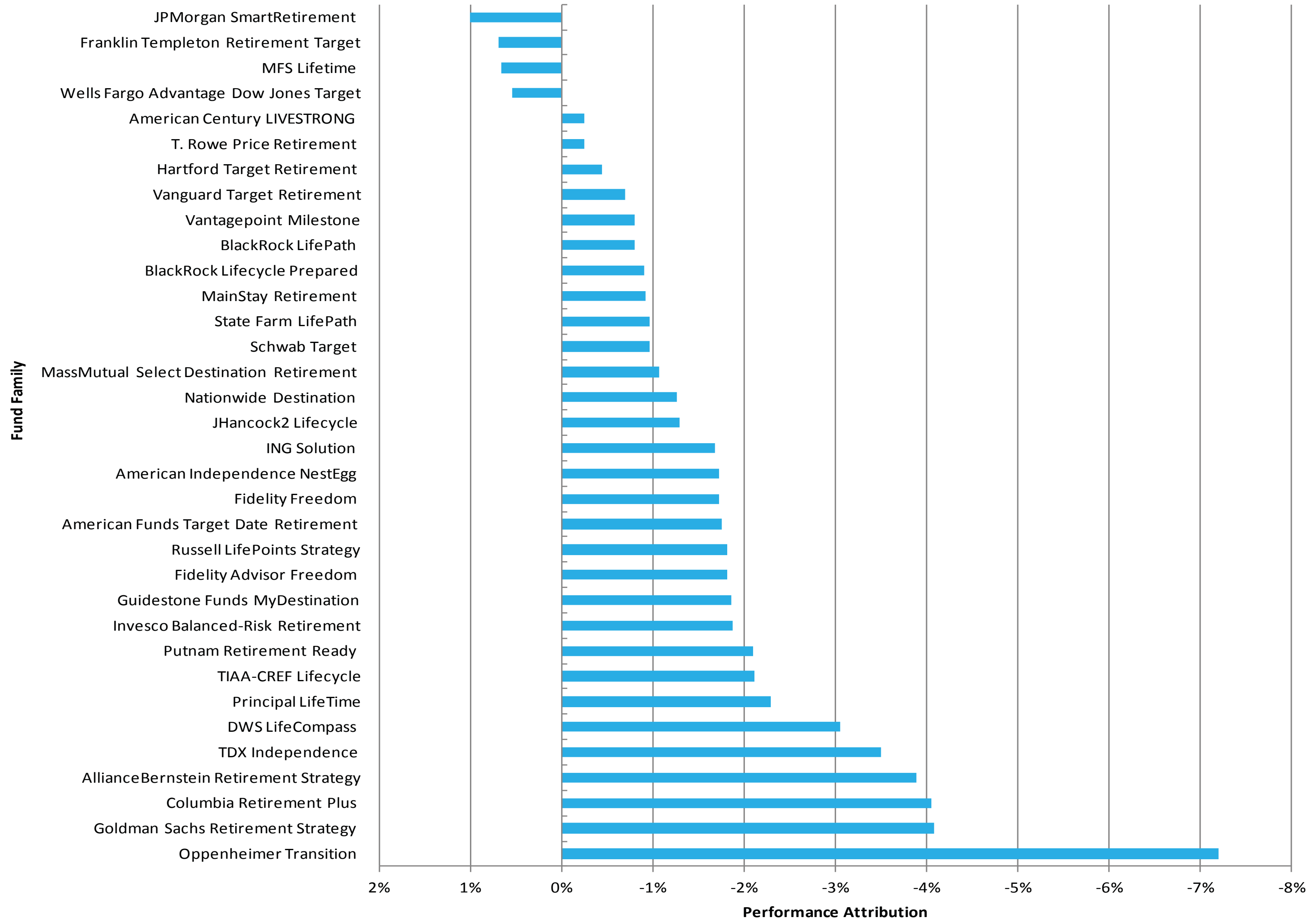
And while the funds use 100% proprietary funds and 100% active management, two characteristics that we believe create a drag on efficient performance, they have overcome that drag in the three-year period ended December 31, 2010.

First introduced in 2004 with funds "on the fives" (2015, 2025, 2035 and 2045), American Century added the decade ending funds (2020, 2030, 2040 and 2050) in 2008. The prospectus states that the company does not intend to deviate from the glidepath, except in extraordinary conditions. They specifically say they do not intend to engage in tactical asset moves—an interesting note to those who believe such moves are necessary for portfolio success.

The American Century LIVESTRONG Portfolios also scored at the top of all funds in our last comprehensive study, Popping the Hood III, with data through December 31, 2007. With so much going for them, it is easy to see how they have grown their assets under management to over $4 billion. We think more plan sponsors and consultants should be giving American Century a look.

Appendix 1

CHART OF TOTAL VALUE ADDED COMPARED TO BRIGHTSCOPE OTI, RANKED BY FUND FAMILY



Appendix 2

NOTE ON CIRCULAR OBJECTIVES

As of this writing, the prospectuses for nearly one half (23 of the 48) TDF families contain circular objectives. These circular objectives are typically written in the following way: "The fund seeks the highest total return consistent with its allocation." If the objective depends on the allocation strategy then one has to wonder where the allocation strategy came from. That's what we mean by "circular".

A prospectus is a legally required document intended to provide investors with important information about a fund, yet these circular objectives fail to provide any solid point of reference for investors seeking to learn what the funds hope to achieve and how. When something as critical as the fund's objective is ill-defined, it raises questions about the fund construction and delivery. If the portfolio managers do not understand their assignment any more clearly than a circular objective indicates, how can we expect them to maintain a coherent strategy? We believe that a more clearly defined objective tied to investor behavior is required to assist plan sponsors and advisors with their job of properly selecting and monitoring target date funds.

Appendix 3

METHODOLOGY

Popping the Hood is a comprehensive analysis of target date fund families. Unlike many research reports that focus on individual funds, Popping the Hood analyzes fund families. This section outlines how we accomplish the family-level analysis.

Data

The data used in the study were collected primarily from Xignite, Inc.'s database of mutual funds as of December 31, 2010. The current dataset consists of management information, fees, asset allocation, equity and fixed income characteristics on forty-eight target date fund ("TDF") families. Performance measurements are also considered for thirty-four of the fund families with at least three years of performance history. We also made use of the public information provided by the fund companies. Such information as name of the Adviser, parent company, manager turnover, and information about the board and the portfolio managers, etc., was gathered from Prospectuses, Quarterly and Annual Statements and Statements of Additional Information.

BrightScope OnTarget Index Series ("OTI")

The benchmarks in Popping the Hood IV are the BrightScope OnTarget Indexes. In 2007 we formed a new company, Target Date Analytics LLC, for the specific purpose of creating suitable indexes for benchmarking target date funds, and for licensing these indexes to those who wish to offer a fundamental indexed approach to target date investing. Please see Appendix 6, Working with the BrightScope OnTarget Indexes for more information about licensing our indexes, either for portfolio construction or for benchmarking. In 2009 a partnership was formed between BrightScope and Target Date Analytics to promote better benchmarking of TDFs. One result of that partnership is the BrightScope branding of the OnTarget Indexes. The BrightScope OnTarget Indexes were constructed using thorough and sound theoretical underpinnings. The indexes utilize investable index funds for their underlying assets. The series of target date indexes consists of Current, 2010 (now retired), 2015, 2020, 2025, 2030, 2035, 2040, 2045 and 2050. For more detailed information on the BrightScope OnTarget Index Series, please visit our website: www.ontargetindex.com.

Data constraints

Some assets—floating rate notes, commercial paper, convertible securities, options, etc.—seem to defy easy categorization into cash, bonds, equities, and other. The fund companies may view some of these sub-categories differently from our data provider. In addition, data provider's portfolio composition data is not necessarily updated each quarter, so there may be a lag between the composition reported by our data provider and the most recent composition reported by a fund company. We strive for consistency and would make corrections to the reported data if we felt it was consistent with our overall approach and would not in itself cause an inconsistency between how we reported one fund company and others.

Share Classes

The study is based on the lowest price share class offered by each fund family, typically the institutional share class. This allows us to compare each fund company's lowest price share class with all the other companies' lowest price share classes. Once you move away from that share class, the comparisons become uneven. With the lowest price share class we have the commonality of the floor. Readers of the study are cautioned that they may not be able to purchase the share class we used in our study, and higher priced share classes could merit a substantially lower grade. In some cases, when a new share class has been recently introduced with expense ratios lower than an older share class, we have continued to use the older share class, and will do so until the lower priced share class has enough performance history to justify its use in the study.

Peer Groups

The data on these fund families were organized into defined peer groups based on the investment horizon (timeframes) of these funds. The peer groups are organized as follows:

- **Current**: all retirement income funds and any funds, such as 2000, 2005, or 2010 already past their target date

- **2015:** all 2015 funds
- **2020:** all 2020 funds
- **2025:** all 2025 funds
- **2030:** all 2030 funds
- **2035:** all 2035 funds
- **2040:** all 2040 funds
- **2045:** all 2045 funds
- **2050:** all 2050 funds
- **2055:** all 2055 funds

***Notes on the peer groups**: most of the peer groups require no explanation. The Current peer group is defined as it is because we focus our measurement efforts on the "accumulation" phase—or that period of time prior to the target date. Funds past their target date are theoretically no longer accumulating but have entered the distribution phase. We measure all distribution products in one peer group. For more on this issue please visit our web site, www.ontargetindex.com.*

In some charts, because of space constraints, and because there is very little difference in the distant, or long-dated funds; such as the allocation difference between a 2045 fund and a 2050 fund, we have also collapsed the long-dated funds, 2040, 2045, 2050 and 2055, averaging them and expressing them as 2040+.

ORGANIZATION OF THE STUDY

We examine each fund family from a number of perspectives and present what we take to be the most relevant and critical findings and points of analysis. We group our findings into five major components for scoring. See the Scoring section below for details. With each edition of Popping the Hood we receive input and comments from our readers. We evaluate that input and make changes to the organization of the study where warranted and possible.

Final content and format

One comment we took to heart following our last study was a request for a summary commentary with our overall recommendation. You will find just such commentary in this year's study. In preparing for this year's report we created a number of new measures and consolidation techniques specifically designed for target date fund families. We have distilled our research and analytical findings into a 192 page report on the TDF industry. The reports for each fund family contain four pages of charts, tables, graphs and bullet points comparing the fund family to its peers and benchmarks, a commentary and explanatory notes.

Component #1: Company/Organization

A brief background of the target date family and its management company is provided. We list fund inception dates and assets under management. Portfolio manager tenure and turnover are considered. Does the current manager 'own' the performance history? Does the company use all proprietary mutual funds, or are there exceptions? Does the fund company use all proprietary instruments and charge an "overlay" fee; that is, a management fee in addition to the average weighted expense ratio of the underlying funds? Is the chair independent? Do portfolio managers and board members invest their own money in the target date funds? Are the statements of Fund Objective and Investment Strategy clearly articulated, or do they befuddle, confuse or mislead? The answers to these questions help us to form a picture of the company and their organizational approach to providing a series of TDFs. You will find the answers to most of these questions in each fund family's report.

Company/Organization Score

We establish quantitative scoring values for the range of possibilities for many of the characteristics listed in the preceding paragraph. Then we assign scores to each series for each of the quantified characteristics. The scores for each fund series are totaled to arrive at a Company/Organization score. The scores are then divided into five bands for assignment of letter grades, A to F. The Company/Organization Score counts for 10% of each company's total, or Overall score.

Component #2: Strategy

We also evaluate each series on the method or strategy they employ to manage their TDFs. Does the date in the name of the fund correspond to their strategy? Is the target date actually the landing point of the glidepath? Does the glidepath descend in a straight line from the beginning to the end? Is there any recognition in the curve of the path of the geometric increase in risk as the target date approaches? Is the fixed income portion of the target date fund the same when it is 40 years from the target vs. 5 years from the target (except for the amount of the fixed income allocation) or does management actually attempt to attenuate the risk of the holdings? For example, are the average weighted durations of the 2015 fund and the 2050 fund the same, or are they adjusted for the amount of remaining years to the stated target date?

Do they manage pools of individual securities, favor active management or use index funds or ETFs? When the target date is reached what is the equity risk exposure?

Strategy Score

We establish quantitative scoring values for the range of possibilities for many of the characteristics listed in the preceding paragraph. Then we assign scores to each series for each of the quantified characteristics. The scores for each fund series are totaled to arrive at a Strategy score. The scores are then divided into five bands for assignment of letter grades, A to F. The Strategy Score counts for 15% of each company's total, or Overall score.

Glidepath

For the glidepath comparison chart we track the line of equity allocations (plus equity-like securities, such as real estate and commodities) as that line descends from left to right, over time. For purposes of developing this line we assume that the allocation in a 2020 fund five years hence will approximate the allocation of a 2015 fund today. We recognize that some companies make broad use of tactical discretion in managing their allocations and in those instances the glidepath comparison chart will be less informative. Nevertheless, even the tactical companies attempt to establish a glidepath baseline, and the chart should be helpful in comparing the subject company's baseline glidepath to the OTI. A quick look at the chart lets readers see where the company is taking more or less risk than the OTI and thus more thoroughly inform themselves of the company's strategy.

Performance & Risk

The two most challenging aspects of TDFs for comparison purposes are performance and risk. For a number of reasons, the traditional measures are not adequate. Consider that we are comparing a family of funds, not a single fund. We are comparing funds that generally have a very limited performance history. We are also comparing funds across companies that have substantially different understandings of their mandates, and as a result, have substantially different allocations. Moreover, in most markets we expect that the returns of the long-dated funds, (2040, 2050, etc.) should be substantially different from the near-dated funds (2015, 2020, etc.). We are examining the performance and risk characteristics of "moving targets"—so to speak. By design, target date funds are dynamic. Because of their shifting allocations, the fund whose performance and risk we are measuring no longer exists. It has disappeared somewhere back on the glidepath. Yet plan sponsors and their advisors must make decisions about the future, armed only with information about the past. This problem is not unique to the assessment of TDFs; however it is magnified by the non-static nature of the glidepath (that is, the non-static asset allocation model that is characteristic of a target date fund).

Component #3: Performance

Return

Given the short performance history of the funds being studied, merely reporting raw unadjusted performance can be too nearsighted. It is a measure of "tail-wind" rather than performance generated by management. Reporting raw one-year returns may be worse than meaningless; it is potentially misleading. Fortunately, as of December 31, 2010, 34 of the 48 fund families in the study have three-year performance histories. Grateful as we are to finally have such a substantial base to work with, we are still aware that raw, three-year, total return history by itself would be a poor measure with which to evaluate the funds meant to stand as the comprehensive default investment strategy for millions of Americans.

Performance Attribution & the Glidepath

Knowing where returns come from is always preferable to merely comparing raw returns, but when a series of glidepath driven funds is being evaluated, it is even more important. If a major source of the return came from taking a lot risk in a long-term portfolio, such as a 2040 fund, the investor might not be too concerned. But if outperformance in a 2015 fund was accomplished simply by being more aggressive than its peers or its benchmark, a prudent investor would take note. Moreover, looking at differing attribution effects across the glidepath gives the prudent investor insight into skill versus luck. Were the returns earned by the market, or by the manager? Is a string of luck likely to be repeated by maintaining the manager's investment strategy?

Total Value Added

Our performance attribution calculations begin by measuring the difference between the actual return of the fund being evaluated and the return of the fund's benchmark, namely each TDF's corresponding index within the BrightScope On Target Index Series. We calculated Total Value Added for the 34 fund families with 3-year performance history as of December 31, 2010. Total Value Added is calculated for each fund in a TDF fund family.

Average Total Value Added

This is Total Value Added for the entire fund family. To make Total Value Added meaningful at the fund family level, we calculate a weighted average of Total Value Added across all funds in the fund family. The weighting schedule assigns a higher value to Current funds and funds close to their target dates than to long-dated funds such as 2040 funds. Note: shorter-term funds are more critical to investors since they tend to have the highest balances, and because of they are nearer to the point where they will be relied upon for retirement income. Implementing this weighting schedule inherently recognizes the glidepath and the tendency for each long-dated fund to eventually assume the performance and risk profile of the shorter dated funds. Current funds are weighted 2X; 2015 funds are weighted 1.5X; and, 2020 funds are weighted 1.25X. All other funds are un-weighted or 1X.

Average Total Value Added is the performance factor we use to grade fund families in Popping the Hood IV. The 34 funds families with three-year performance histories are arranged along a curve and assigned letter grades from A to F for their Average Total Value Added scores. These fund company grades are relative to their peers with three-year performance history. The Performance Score counts for 30% of each company's total, or Overall Score.

Components of Total Value Added

The return differential, Total Value Added, can be broken down into the sum of the following three component effects, Selection, Aggression and Concentration.

Selection Effect

For each fund with a three-year performance history we also calculate a Selection Effect. This is the difference between the fund's actual return and the return the fund would have earned had it implemented its asset allocation passively, using primarily index funds. *Simply put, we created a three-year (2008-2010), fund-specific, allocation-weighted return for each target date fund.* This fund-specific, Passive Return was then subtracted from the fund's three-year total return resulting in "Selection Effect", which could be positive, zero, or negative. The "Selection Effect" was calculated for each fund within every fund family if it had a three-year performance history as of 12/31/2010.

Average Selection Effect

This is the Selection Effect for the entire fund family. To make Selection Effect meaningful at the fund family level, we calculate a weighted average of the Selection Effects across all funds in the fund family. The weighting schedule assigns a higher value to Current funds and funds close to their target dates than to long-dated funds such as 2040 funds. Current funds are weighted 2X; 2015 funds are weighted 1.5X; and, 2020 funds are weighted 1.25X. All other funds are un-weighted or 1X. This weighting schedule recognizes the glidepath and the inherent increase in critical value of the near-term funds.

Aggression Effect

Once the Selection Effect has been isolated, the remaining return differential between a fund and its benchmark can be attributed to allocation. We break allocation down further into two components: Aggression and Concentration. The Aggression Effect is the value added or subtracted because the tdf has an equity allocation that is different from the BrightScope On Target Index.

Average Aggression Effect

This is the Aggression Effect for the entire fund family. To make Aggression Effect meaningful at the fund family level, we calculate a weighted average of the Aggression Effects across all funds in the fund family. The weighting schedule assigns a higher value to Current funds and funds close to their target dates than to long-dated funds such as 2040 funds. Current funds are weighted 2X; 2015 funds are weighted 1.5X; and, 2020 funds are weighted 1.25X. All other funds are un-weighted or 1X. This weighting schedule recognizes the glidepath and the inherent increase in critical value of the near-term funds.

Concentration Effect

The Concentration Effect is the value added or subtracted because the fund is less diversified than its benchmark, The BrightScope On Target Index. Together, Concentration Effect + Aggression Effect = Allocation Effect.

Average Concentration Effect

This is the Concentration Effect for the entire fund family. To make Concentration Effect meaningful at the fund family level, we calculate a weighted average of the Concentration Effects across all funds in the fund family. The weighting schedule assigns a higher value to Current funds and funds close to their target dates than to long-dated funds such as 2040 funds. Current funds are weighted 2X; 2015 funds are weighted 1.5X; and, 2020 funds are weighted 1.25X. All other funds are un-weighted or 1X. This weighting schedule recognizes the glidepath and the inherent increase in critical value of the near-term funds.

Component #4: Risk

As noted above, evaluating TDFs and fund families on relative risk is itself a daunting task. In the six years of reporting on target date funds in our Popping the Hood reports we have pressed ourselves to find or develop the most appropriate measure or measures to that purpose. Here we are faced with the same challenge as that of finding the appropriate performance measure; that is, most funds have too short of a history to adequately measure risk. Recognizing, as we did for performance, that we now have over 34 fund families with three years of performance history, and that particular three-year period (2008-2010) provides a variety of return behaviors, Downside Capture Ratio delivers the most meaningful measure of risk.

Downside Capture Ratio

Downside Capture Ratio is the percentage of performance, relative to the BrightScope OnTarget Index, that a particular fund captured during months when the BrightScope OnTarget Index return was negative, or "down." A low Downside Capture Ratio is more desirable.

Average Downside Capture Ratio

To make Downside Capture Ratio meaningful at the fund family level, we calculate a weighted average of Downside Capture Ratio across all funds in the fund family. The weighting schedule assigns a higher value to Current funds and funds close to their target dates than to long-dated funds such as 2040 funds. Note: shorter-term funds are more critical to investors since they tend to have the highest balances, and because of they are nearer to the point where they will be relied upon for retirement income. Implementing this weighting schedule inherently recognizes the glidepath and the tendency for each long-dated fund to eventually assume the performance and risk profile of the shorter dated funds. Current funds are weighted 2X; 2015 funds are weighted 1.5X; and, 2020 funds are weighted 1.25X. All other funds are un-weighted or 1X.

<u>Average Downside Capture Ratio</u> is the risk factor used to grade fund families in Popping the Hood IV. The 34 funds families with three-year performance histories are arranged along a curve according to their Average Downside Capture Ratio and assigned letter grades from A to F. These fund family Risk grades are relative to the other fund families with three-year histories. The Risk Score counts for 25% of each company's total, or Overall Score.

For fund families without a full three-year performance history, we provide a report of the Worst 3-Month Return, and although we can't use that measure in our Overall evaluation, we hope that it will prove helpful to readers who want a sense of the risk profile of a newer fund family.

Standard Deviation

Although we track standard deviation for all funds with three years of performance history, we recognize this measure has limited value for assessing risk in all TDFs across the glidepath. Nevertheless, it is an accepted measure of risk and is informative to many observers, so we do display this information. For each fund company with three years of history, we plot each of their funds on a traditional Risk & Reward plot, along with the BrightScope On Target Indexes.

Component #5: Fees and Expenses

Popping the Hood IV uses the Prospectus Net Expense Ratio, as reported by Xignite, Inc., as of the date of the study, for the expense standard. We supplement that with information obtained from the prospectus itself. We attempt to report the net, "out-the-door" expense to an investor. That includes the cost of the underlying funds (acquired fund cost) as well as any net overlay (whatever the fund company calls it). In nearly every case, our research focuses on the institutional share classes of target date funds. And in nearly every case we use the lowest expense fund available.

Expense Ratio

Where we do not specifically state "Prospectus Net Expense Ratio," that is what we are referring to. For brevity's sake, we may simply say, "expense ratio."

Institutional Family Mean Expense Ratio

The Institutional Family Mean Expense Ratio is the simple arithmetic mean of the Prospectus Net Expense Ratio as reported in Xignite, Inc. as of the date of the study, of all TDFs in the lowest price share class of the fund family. This number is the basis for company's fee score.

Overlay Fee

The overlay fee is the amount by which the Prospectus Net Expense Ratio exceeds the Acquired Fund Cost, cited in the prospectus. The Acquired Fund Cost is simply the weighted average expense of the underlying funds in the portfolio. If the Prospectus Net Expense Ratio of the target date fund is .80% (80 basis points) and the Acquired Fund Cost is .60% (60 basis points), then the amount of the overlay is .20% (20 basis points). Isolating this number helps investors see if their fund company is charging them once for the underlying fund and again for allocating the underlying funds into a glidepath driven portfolio.

Expense Bar Charts

For each fund company the institutional share classes of the entire series of target date funds is plotted (red dot) in cohort specific columns (or bars) to indicate where each particular fund in the series falls relative to its peers. The columns also provide the reader a quick view of the range of expenses by quartile, for each age cohort. As indicated above, for space purposes in this graphic, we have consolidated all funds past their target dates with all retirement income funds in target date series, and labeled this cohort, “Current.” At the other end of the spectrum, we have also combined all funds with dates of 2040 and higher (2045, 2050, etc.) and labeled this cohort, “2040+”. As noted, this information is provided for the institutional share classes (or lowest price) share class of all funds in the study.

Fees Score

All 48 companies in the study were ranked according to their Institutional Family Mean Expense Ratio. The Institutional Family Mean Expense Ratio is simply the un-weighted average of the Prospectus Net Expense Ratio of all funds in the series or “family.” The 48 fund families are arranged along a curve according to their Institutional Family Mean Expense Ratio and assigned letter grades from A to F. The Fees Score counts for 20% of each company’s total or Overall Score.

Appendix 4

SCORING

We remain some reservations about distilling all of our analysis into simple letter grades but we recognize that investors, plan sponsors and advisors need some means of getting quick answers, and so we bow to practical demand and provide a grade. We hope these grades will aid in decision making. Nevertheless, we encourage those interested in really understanding their funds to pore through the following analyses and understand the work behind the grades. For example, perhaps a particular plan sponsor considers risk of paramount importance; that plan sponsor will focus on our risk score and the other indications of risk contained in the study, such as Standard Deviation or Aggression Effect in the attribution analysis, and may devalue some of the other four components. We encourage that type of use of the information presented here.

The factors and the weighting or 'contribution to Overall Score' are the following:

- Company/Organization (10%)
- Strategy (15%)
- Performance (30%)
- Risk (25%)
- Fees (20%)
- **Overall (100%)**

Once again, this year we differ from our last report in our approach to scoring and ranking. We recognize there are many approaches to establishing and evaluating these components and many approaches to weighting them. This is our approach, developed by building on the knowledge we gain in evaluating TDFs with each passing year.

TDA Fund Family Score

Company/Organization Score

We establish quantitative scoring values for such factors as open or closed architecture, manager tenure, management and board investment in the funds, assessment of a management fee on an all-proprietary underlying menu, clarity of prospectus language for objectives and strategies, and other characteristics. Then we assign scores to each series for these quantified characteristics. The scores for each fund series are totaled to arrive at a Company/Organization score. The scores are then divided into five bands for assignment of letter grades, A to F. The Company/Organization Score counts for 10% of each company's total, or Overall score.

Strategy Score

We establish quantitative scoring values for factors such as the "truth" of the date in the name of the fund, the utilization of any passive underlying instruments, and the level of equity exposure at the target date. Then we assign scores to each series for each of the quantified characteristics. The scores for each fund series are totaled to arrive at a Strategy score. The scores are then divided into five bands for assignment of letter grades, A to F. The Strategy Score counts for 15% of each company's total, or Overall score.

Performance Score

Average Total Value Added is the performance factor we use to grade fund families in Popping the Hood IV. The 34 funds families with three-year performance histories are arranged along a curve and assigned letter grades from A to F for their Average Total Value Added scores. These fund company grades are relative to their peers with three-year performance history. The Performance Score counts for 30% of each company's total, or Overall Score.

Risk Score

Average Downside Capture Ratio is the risk factor used to grade fund families in Popping the Hood IV. The 34 funds families with three-year performance histories are arranged along a curve according to their Average Downside Capture Ratio and assigned letter grades from A to F. These fund family Risk grades are relative to the other fund families with three-year histories. The Risk Score counts for 25% of each company's total, or Overall Score.

Fees Score

All 48 companies in the study were ranked according to their Institutional Family Mean Expense Ratio. The

Institutional Family Mean Expense Ratio is simply the un-weighted average of the Prospectus Net Expense Ratio of all funds in the series or "family." The 48 fund families are arranged along a curve according to their Institutional Family Mean Expense Ratio and assigned letter grades from A to F. The Fees Score counts for 20% of each company's total or Overall Score.

Overall Score

The Overall Score for each fund family is simply the product of the scores of the above five major components, weighted as follows. Company/Organization, 10%; Strategy: 15%; Performance: 30%; Risk: 25%; Fees: 20%.)

Appendix 5

WORKING WITH THE BRIGHTSCOPE ONTARGET INDEXES

The BrightScope OnTarget Indexes can make your job a lot easier.

- If you are responsible for selection and monitoring of target date fund series, the OTI provide thorough benchmarking performance, risk and allocation data. The only target date indexes that tie their glidepath to the date in the fund's name, the OTI can be described as a "To" the target date index series. Bringing our data into your current reporting system is usually accomplished with a simple import function.
- If you are an advisor, consultant or plan sponsor looking for a prudent, rational, cost-effective, and transparent suite of target date portfolios for your plan participants, select us to manage those portfolios for you using the fundamental principles of the OTI.
- If you are an asset manager, advisor, consultant or plan sponsor looking for a prudent, well-designed glidepath, and desire to retain the responsibility for selecting and monitoring the underlying components, the OTI may be right for you. We work with you within your current structure and situation to help you find the best fit for each asset class. We provide you monthly or quarterly updates to facilitate the incremental allocation adjustments along the glidepath.

We accept full 3(38) fiduciary responsibility for investment management and glidepath licensing assignments.

Contact us at info@ontargetindex.com to discuss your particular situation.

Appendix 6

ABOUT BRIGHTSCOPE, INC.

BrightScope is a financial information company that brings transparency to opaque markets through independent research and analysis. Delivered through web-based software, BrightScope data drives better decision-making for individual investors, corporate plan sponsors, asset managers, broker-dealers, and financial advisors. The BrightScope Rating™, developed in partnership with leading independent 401k fiduciaries, reviews more than 200 unique data inputs per plan and calculates a single numerical score which defines plan quality at the company level. In April 2011, the company launched BrightScope Advisor Pages™, the first comprehensive and publicly available directory of financial advisors designed to help consumers discover information and conduct due diligence on wealth management professionals. BrightScope also markets a suite of data analytics software products to Fortune 1000 companies, asset managers, broker-dealers, financial advisors, and other market participants. Public ratings for more than 46,000 retirement plans as well as rating definitions, criteria and methodologies, and information on more than 450,000 financial advisors are available for free at www.brightscope.com.

Appendix 7

ABOUT TARGET DATE ANALYTICS, LLC

The principals of Target Date Analytics LLC ("TDA") began serious analysis of target date funds in 2005, resulting in the series of comprehensive studies on target date funds, "Popping the Hood." Formally organized in 2007 to continue and expand our work, TDA remains today the leading independent source of in depth information about target date theory, design and analysis. TDA specializes in target date indexes for reporting clarity and glidepath licensing and management. TDA created and maintains the BrightScope On Target Indexes, the OTI. TDA also consults plan sponsors, advisors and fund companies on glidepath design and allocation, and assists with the creation and management of custom target date solutions. (www.ontargetindex.com)

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For over 25 years, Joe has consulted clients on issues of institutional investing, fiduciary compliance, and retirement plans and policies. He is a Certified Employee Benefits Specialist, a past president of the Los Angeles Chapter of ISCEBS, and is a regular speaker and writer on topics related to retirement plans and institutional investments. He has been quoted in the Los Angeles Times, New York Times, Washington Post, Wall Street Journal, Forbes, Money, Institutional Investor and many other publications.

Eddie Alfred, VP of Data & Research at BrightScope, Inc.
Eddie is the Vice President of Data & Research at BrightScope and is responsible for certain aspects of data acquisition and management as well as a variety of research for industry reports and new products. He is a highly knowledgeable and capable member of the BrightScope team who has worked in and managed several departments at BrightScope and has been involved in nearly every aspect of the company since it was founded. Through his background working on data and research for BrightScope, Eddie has become an expert on the retirement plan industry. Eddie has been quoted on topics such as retirement plans and target-date funds by financial publications including The Boston Globe, Reuters, and The San Francisco Chronicle. He has also been instrumental in driving press for BrightScope by conducting research, procuring data, and liaising with journalists for numerous other publications. Eddie is currently a Bachelor of Arts candidate at Harvard College, and he is projected to graduate with a degree in Economics in the spring of 2013.

Brooks Herman, Head of Research at BrightScope, Inc.
Brooks Herman is Head of Research at BrightScope, Inc. Brooks is responsible for the development, writing, marketing, and sales of research based on BrightScope's robust 401k data. Through his tenure at BrightScope, Brooks has worked extensively with multiple departments at BrightScope and has subsequently become an expert in the Defined Contribution space. Previously, Brooks worked at ARCH Venture Partners and Rockefeller & Company in New York. Brooks received his bachelor's degree from Columbia University, received a master's degree from Harvard University, and received his Master of Business Administration in finance from the Rady School of Management at UC San Diego.

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You should consider the fund's investment objectives, risks, and charges and expenses carefully before you invest. The fund's prospectus or summary prospectus, which can be obtained at americancentury.com, contains this and other information about the fund, and should be read carefully before investing.

Past performance is no guarantee of future results. Investment return and fund share value will fluctuate and it is possible to lose money by investing in these funds.

The BrightScope and Target Date Analytics "2011 Popping the Hood" study grades target date mutual fund families on five criteria, including performance, fees, risk, organizational structure and strategy. Each fund series receives an overall score and ranking. Researchers analyzed 48 fund companies, but ranked only 34; those were the fund series old enough to have three years of operating performance data. The study uses 2010 performance data. The study is based on the lowest price share class offered by each fund family, typically the institutional share class.

American Century Investment Services, Inc. has entered into an agreement with the Lance Armstrong Foundation® for rights to use the LIVESTRONG® name. For more information about the foundation, visit LIVESTRONG.org.

The performance of the portfolios is dependent on the performance of their underlying American Century Investments funds and will assume the risks associated with these funds. The risks will vary according to each portfolio's asset allocation, and a fund with a later target date is expected to be more volatile than one with an earlier target date.

A LIVESTRONG Portfolio's target date is the approximate year when investors plan to start withdrawing their money. The principal value of the investment is not guaranteed at any time, including at the target date.

Each target-date LIVESTRONG portfolio seeks the highest total return consistent with its asset mix. Each year, the asset mix and weightings are adjusted to be more conservative. In general, as the target year approaches, the portfolio's allocation becomes more conservative by decreasing the allocation to stocks and increasing the allocation to bonds and money market instruments. By the time each fund reaches its target year, its target asset mix will become fixed and will match that of LIVESTRONG Income Portfolio.