Classet Target Date Funds
<u>Risk-Based Asset Class Categorization</u>

Target Date funds are often very different in terms of the way their investments are managed. This translates into participants experiencing very different levels of risk when holding these funds. The average participant & committee member are often not well-informed on the specific risk taken by the funds they own.

Classet Analytics addresses this issue by **<u>assessing the risk taken by each Target Date fund vintage</u>** and **<u>categorizing the TDF suite into 1 of 4 risk-based asset classes</u>**. TDFs are categorized based on the **<u>risk taken in their Transition & Retirement phases (2040 - Income</u>**), because it is during these phases that funds are more different from each other in their investment strategy, and the impact of risk to participants is the greatest.

Target Date Suites

- **Aggressive**
- **Moderately Aggressive**
- **Moderately Conservative**
- **Conservative**

Classet uses 2 types of factors in the assessment process:

1. **<u>Holdings-based Factors</u>** (Asset allocations of the funds)
2. **<u>Returns-based Factors</u>** (Historic monthly returns of the funds)

HOLDINGS-BASED

<u>1 Factor:</u>

- Equity Allocation Glidepath

This is the most commonly used method to assess risk but it is point-in-time and fails to capture other metrics.

This factor is weighted higher for funds with a shorter return history, but lower for funds with a longer return history.

RETURNS-BASED

<u>11 Factors:</u>

- Standard Deviation Glidepath
- Market Capture Ratios
- Returns Deviation
- Frequencies of Various Magnitudes of Losses
- Other factors

Historical monthly returns are a better predictor of risk undertaken by funds. This is the main focus of our research.