

SEPTEMBER 2009

# Target Date Metric\* (TDM) - FAQs

## What is the Russell Target Date Metric?

The Russell Target Date Metric\* (TDM) provides a returns-based measure of how well a target date fund family performed over a specified time period. The Metric is expressed in terms of how well a fund family met its primary goal of wealth for retirement from ongoing contributions. The Metric can measure the success of a fund family relative to a benchmark. It can also be used to compare multiple fund families and produce a performance universe.

## How does the Russell Target Date Metric differ from the target date benchmark indexes offered by other index providers?

The Russell Target Date Metric is not a target date fund benchmark index. Rather, the Russell Target Date Metric is a performance metric that compares the retirement wealth generated by a family of target date funds to the wealth generated by some selected benchmark over a specific time period. The Metric takes into account all aspects of the family's investment process, including active management, asset allocations within equity and fixed, glide path design and the assumption of cash flows.

## What information does the Russell Target Date Metric provide that target date benchmark indexes do not?

The target date benchmark indexes currently available allow return performance comparison between an individual fund within a fund family and a corresponding index benchmark with the same target date. For example, the annual return of a fund family's 2020 fund can be measured against the annual return of a benchmark index's hypothetical 2020 fund. The Russell Target Date Metric is designed to measure the relative performance of the entire fund family. This composite measure is important for plan sponsors, consultants and advisors who make decisions based on an entire family of funds rather than an individual fund. The Metric considers the entire family's strategy over time and thus gives insight into how well the family of funds served all their plan participants.

## Which target date benchmark index does Russell use to calculate the Russell Target Date Metric?

While the Metric can employ any available benchmark, Russell has chosen to introduce the Metric with a simple benchmark index that has a constant 60% equity/40% fixed income blend. This default benchmark simplifies the understanding of the factors that influence the value of the Metric and will facilitate our efforts to

---

\* Patent pending

explain this new measure. It is also typical of the static-mix balanced portfolios found in many defined contribution plans and thus provides a direct performance measure of families of target date funds against such a static strategy.

### **How is the Target Date Metric calculated?**

The Metric calculates the ratio of the wealth generated by a family of funds to the wealth generated by a hypothetical benchmark family of funds. The wealth generated by the family of funds is a weighted average of the returns of all the funds in the family. The weight attached to each fund's return is determined by where that fund is along its glide path, the pattern of cash contributions, and the long-run expected returns of major asset classes. The methodology results in the returns of funds nearer their target dates having greater weights than the returns of funds more distant from their target dates. This characteristic reflects the actual behavior of a retirement portfolio. Returns near retirement have more impact on retirement wealth because they are applied to larger cumulative cash contributions than are returns in earlier in the investor's career. The wealth generated by the benchmark family is calculated in a similar way. A full specification of the calculation methodology will be available in the near future.

### **How are the results of the calculation interpreted?**

The results of the Target Date calculation are a ratio of the fund family's composite performance to the chosen benchmark. A result of 100 would indicate performance inline with the benchmark, while 105 would indicate a 5% excess return over the benchmark. Less than 100 would indicate lower performance than the benchmark for the time period.

### **How can a plan sponsor, advisor, or individual investor use the TDM to help make better decisions when picking a target date fund family?**

In making a selection decision, it is essential to have an objective way to answer the simple question: How has a target date fund family performed relative to other fund families? The TDM provides that answer. However, as with any investment decision, performance is not the only factor which should be used to pick an investment. This is especially true for short-term performance. Performance rankings in universes of stock or bond funds can change dramatically from year to year. Due to market cycles, top quartile funds last year can be bottom quartile funds this year. Target date funds are no different. Those with high allocations to equities will perform better in rising equity markets and poorly in declining equity markets. The Russell Target Date Metric reflects this cyclical behavior. Just as with performance rankings for stock and bond funds, the performance comparisons based on the Russell Target Date Metric can be more stable and more informative the longer the evaluation period.

**How does the glide path used by a fund family influence the Russell Target Date Metric?**

Russell's Target Date Metric is influenced by three factors--active management, allocations within the equity and fixed segments, and the glide path design. Of these three factors, the glide path will likely be the most important. By design, the returns of the funds nearest to their target dates have the greatest weight in this composite measure. Thus, if a family of funds has lower exposure to equity than the benchmark index for those funds near their target dates, the family will tend to outperform the benchmark in evaluation periods where equity returns are significantly below fixed income returns. If desired, Russell Target Date Metric can be decomposed to isolate the contribution of each of the three factors.

**When will Russell release the results of the Russell Target Date Metric?**

We anticipate releasing the information in 4th quarter 2009. We are currently calculating the RTDM for 43 fund families.

**For more information about Russell Indexes call us or visit [www.russell.com/indexes](http://www.russell.com/indexes).  
Americas: +1-877-503-6437; Asia: +81-3-5772-8385; EMEA: +44-0-20-7024-6600**

Copyright © Russell Investments 2009. All rights reserved.

Russell Investments is a Washington, USA Corporation, which operates through subsidiaries worldwide and is a subsidiary of The Northwestern Mutual Life Insurance Company.

Russell Investments is the owner of the trademarks, service marks and copyrights related to its respective indexes.

Indexes are unmanaged and cannot be invested in directly.

This material is proprietary and may not be reproduced, transferred, or distributed in any form without prior written permission from Russell Investments. It is delivered on an "as is" basis without warranty.

Nothing contained in this material is intended to constitute legal, tax, securities, or investment advice, nor an opinion regarding the appropriateness of any investment, nor a solicitation of any type. The general information contained in this publication should not be acted upon without obtaining specific legal, tax, and investment advice from a licensed professional.

First use: September 2009

CORP-5837

