

Fidelity Freedom Fund Strategic Glidepath Adjustment



Philip Chao
pchao@chaoco.com
703-847-4380

8460 Tyco Road, Suite E
Vienna, VA 22182
www.ChaoCo.com

Fidelity Announcement

- On September 26, 2013, Fidelity issued a news release announcing the strategic asset allocation adjustments to its Freedom Funds – a series of target date funds.
- Fidelity is increasing equity allocation to every vintage along the entire Freedom fund strategic glidepath.
- The glidepath of Fidelity's target date portfolios remains focused on accumulating assets for shareholders that, in considering certain assumptions, seeks to provide inflation-adjusted retirement income equal to approximately half of an investor's final pre-retirement salary.

Source: <http://www.fidelity.com/inside-fidelity/individual-investing/fidelity-investments-enhances-industry-leading>

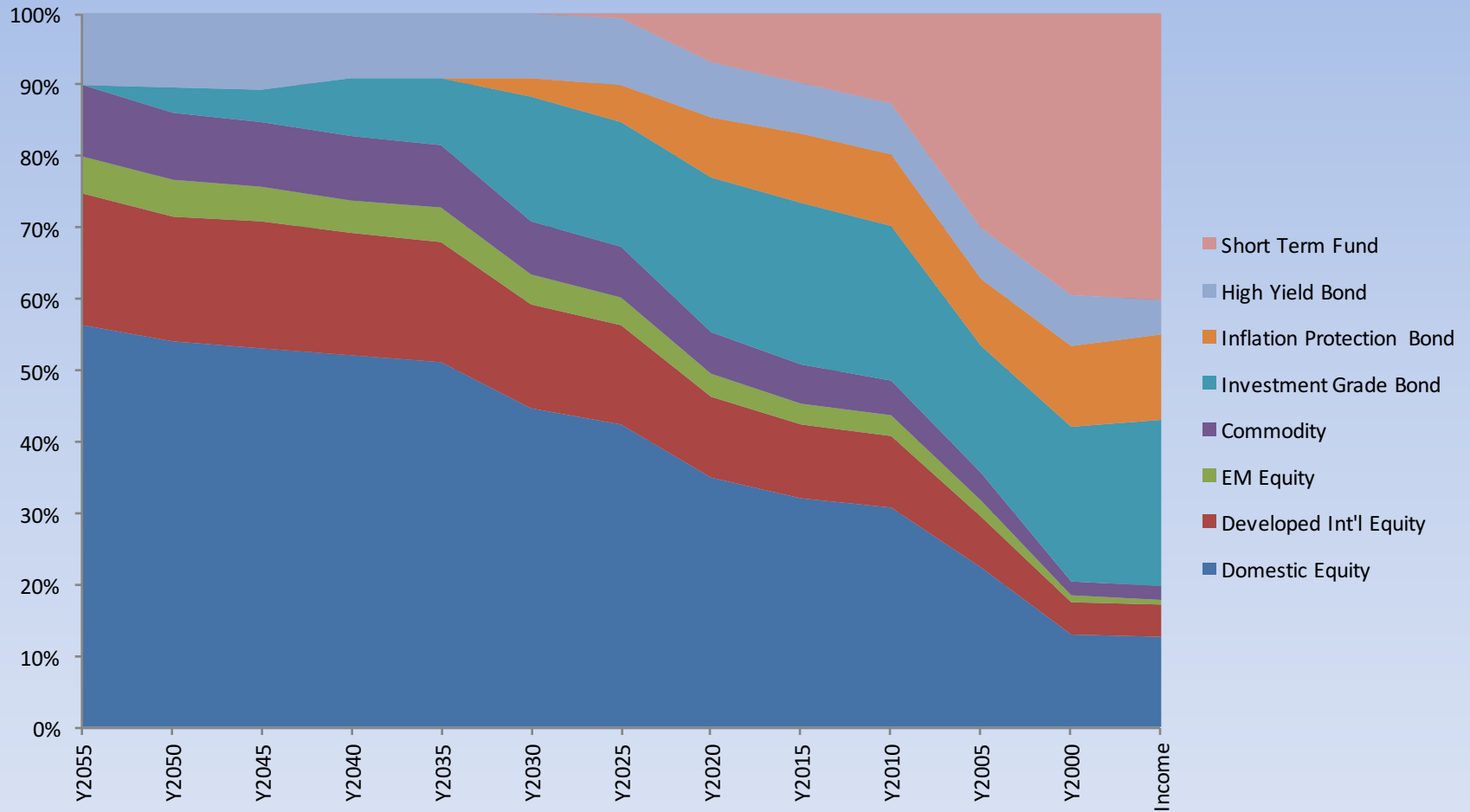
Factors Contributed to the Change

Fidelity's approach combines and applies 3 areas of research:

- **Investor Behavior and Demographics.** Fidelity's recordkeeping database of 12 million retirement savers provides a broad base upon which to observe the characteristics and investment behavior of investors. These observations influence the key demographic and risk assumptions that inform the glide-path analysis.
- **Secular-Based Capital Market Assumptions.** Fidelity's CMAs incorporate a long-term, historical and a forward-looking perspective on anticipated return, risk, and correlations over a 20-year period. The CMAs influence the asset-allocation positioning along the age spectrum. In general, Fidelity believes that "starting points matter" and that the company's secular capital markets outlook informs its asset allocation positioning within the glide path.
- **A Risk-Capacity Framework.** Fidelity has refined its assessment of investors' ability and tolerance for withstanding portfolio volatility or losses, also described as loss-recovery and risk-preference. By accounting for investors' risk capacity at different ages, the framework establishes a "risk boundary" that considers investor behavior and the market conditions experienced by investors to appropriately manage asset growth potential, longevity and stability in retirement.

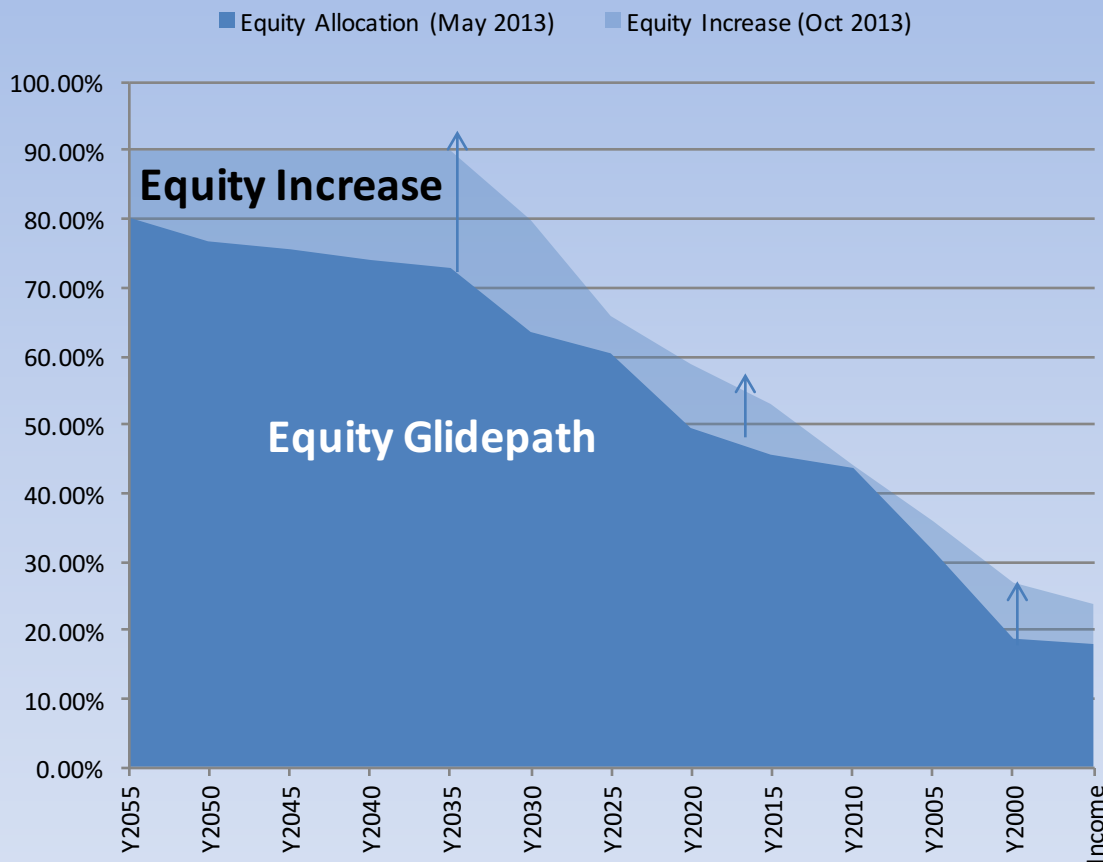
Source: <http://www.fidelity.com/inside-fidelity/individual-investing/fidelity-investments-enhances-industry-leading>

Fidelity Freedom Fund Strategic Glide Path (05-2013)



Source: www.fidelity.com, Fidelity Freedom Fund Retail Prospectus, 2013 05 30

Fidelity Freedom Fund Equity Glidepath May vs Oct 2013



Fund name	Retirement date	Asset allocation			
		Domestic equity funds	International equity funds	Bond funds	Short-term funds
Income Fund	Before 1998	17%	7%	46%	30%
2000 Fund	1998-2002	19%	8%	45%	28%
2005 Fund	2003-2007	25%	11%	42%	22%
2010 Fund	2008-2012	31%	13%	38%	17%
2015 Fund	2013-2017	37%	16%	35%	12%
2020 Fund	2018-2022	41%	18%	32%	8%
2025 Fund	2023-2027	46%	20%	30%	5%
2030 Fund	2028-2032	56%	24%	20%	
2035 Fund	2033-2037	63%	27%	10%	
2040 Fund	2038-2042	63%	27%	10%	
2045 Fund	2043-2047	63%	27%	10%	
2050 Fund	2048-2052	63%	27%	10%	
2055 Fund	2053-2057	63%	27%	10%	

Total allocations may sometimes be over or under 100% due to rounding.

Source: www.fidelity.com,
<https://www.fidelity.com/mutual-funds/asset-allocation-funds/freedom-funds/how-we-manage>

Discussion

- The increase in equity allocation among the strategic allocation glidepath will add some to a significant amount of volatility to each target date vintage in the hope of realizing a higher total return over time.
- No one strategic glidepath or vintage is perfect from a risk and/or return standpoint for every plan participant. Plan sponsors should be clear about their participant makeup when analyzing, selecting and monitoring TDFs based on their plan's overall objective.
- In analyzing target date fund series, it is important to understand the following, in addition to a number of other factors:
 - The strategic allocation to “risk” assets with equities being the greatest contributor to volatility;
 - The security selection and investment style of the underlying investments and the amount of risk expected to be taken by each underlying manager;
 - The target date fund manager's process and application of a clear risk framework and thoughtful risk control tools to actively manage and contain portfolio risk; and
 - The degree to which the target date fund manager is given the ability to take strategic actions to deviate from the strategic glidepath within a defined glideband.

Disclosure

- Chao & Company, Ltd. (www.ChaoCo.com) is an SEC registered investment advisor firm serving in the capacity of a fiduciary investment advisor under ERISA Section 3(21) and a discretionary investment manager under ERISA section 3(28) to plan sponsors.
- This document offers a summary regarding the subject matter and is not sufficient to be relied upon for any investment decision.
- This is an informational document and Chao & Company is not obligated to update any data or information provided herein in the future.
- This is not a solicitation to buy, sell or transact any mutual funds. Past performance is not necessarily indicative of a fund's future investment results. Please read each fund's current prospectus before making an investment decision.
- Portfolio diversification is no assurance to protection against a loss of capital. There are specific risks to each asset and sub-asset class, and typically the benefits derived from diversification are significantly reduced during "risk-off" periods.