BlackRock LifePath® Index Retire K LIRKX

A research-intensive approach at a low cost make this a topnotch target-date series.

Morningstar's Take LIRKX

Morningstar Rating	★★★★★
Morningstar Analyst Rating	Gold

Morningstar Pillars

Process	Positive
Performance	Neutral
People	Positive
Parent	Positive
Price	Positive

Role In Portfolio

Core

Fund Performance LIRKX

Year	Total Return (%)	+/- Category
YTD	10.75	1.94
2016	5.82	0.71
2015	-0.31	1.19
2014	5.78	1.42
2013	7.72	0.36

Data through 12-31-17

2-02-17 | by Jeff Holt, CFA

The BlackRock LifePath Index funds just hit their five-year mark in 2016, but that doesn't reflect the firm's long-standing presence on the forefront of the target-date industry. Meanwhile, the index-based approach doesn't reflect idle management of target-date funds. This series has all the hallmarks in place of a good long-term strategy, resulting in the series' Morningstar Analyst Rating of Gold.

BlackRock's history with target-date funds dates back to the 1990s. The firm's legacy initial offering launched in 1994 and started the target-date industry. Importantly, the firm has remained steadfast in evolving its target-date offerings over the years, often exploring new areas of research before peers.

The most recent change occurred in November 2014, when management upped the series' equity allocation across most of the glide path based on research into investor preferences and behavior, as well as a review of its long-term capital market assumptions. The longest-dated funds still start with 99% of assets in equities, considerably more than the typical peer. The other dated funds in the series had previously been relatively equity-light compared with peers, but they now generally have more in stocks than the norm. The stock exposure at retirement--the funds' allocations remain static thereafter--increased by a mere 2 percentage points to 40% from 38%, which remains just below the norm. Matt O'Hara drove the research that instigated many of these updates, and he joined this series' manager roster in November 2016 to better reflect his long-standing influence on the funds.

Not all the team's research conclusions result in changes to the series. For instance, unlike some target-date peers that also invest in index funds, this series does not carve out dedicated exposure to global bonds. The team found that currency risk overwhelmed unhedged exposure, and increased coordination among global central banks, as well as hedging costs, curbed the appeal for hedged exposure.

Meanwhile, this series' index-based approach helps create a substantial cost advantage.

Process Pillar Positive | Jeff Holt, CFA 02/02/2017

BlackRock's ability to retain a forward-thinking, research-intensive approach over the years drives this series' Positive Process rating. While the team's research doesn't always support a change, it resulted in sizable glide-path shift at the end of November 2014. At that time, management upped this series' equity exposure by 2 to 16 percentage points across the glide path. Further research into investors' behaviors and preferences, as well as updated capital market assumptions, sparked the change.

The series remains among the industry peers that halt asset-allocation shifts at the retirement date. Funds roll into the Retirement fund upon reaching their respective target dates, and that fund keeps 40% of assets in equities throughout the retirement phase. The 40% equity stake at the target date comes in just below the industry average. The equity exposure for the series' funds leading up to the target date generally exceeds the typical peer. The managers here do not deviate from the strategic glide path in an attempt to augment returns.

Within the equity allocation, the funds don't stick to a fixed U.S./international split across the glide path, as the team's efficient-frontier optimization drives the mix. A relative bias toward larger-cap stocks in longer-dated funds' U.S. equity allocations also stands out, as does those funds' sizable exposure to REITs.

Management populates this series with an array of index-based strategies to cover a variety of asset classes. The firm divides its exposure to U.S. equities between BlackRock Large Cap Index and BlackRock Small Cap Index, unlike some index-based target-date competitors that use a single broad index to provide market-cap-weighted exposure to U.S. stocks. The series' portfolio-optimization approach actually results in a rising allocation to BlackRock Small Cap Index as investors move along the glide path. The optimization finds that small-cap stocks provide greater diversification benefit within a bond-heavy portfolio.

Despite a shift in underlying holdings, the series still stands out with its sizable exposure to REITs. In the fourth quarter of 2016, management replaced two exchange-traded funds--one domestic and the other international--with a single global REITs index fund. The new holding provides similar exposure at a lower cost. BlackRock Total International ex US Index and iShares Core MSCI Total International Stock represent the bulk of the international allocation.

The target-date funds' fixed-income investments include BlackRock US Total Bond Index and iShares TIPS Bond. Management ramps up the Treasury Inflation-Protected Securities allocation as the funds approach their retirement year, topping out at approximately 9% of assets for the Retirement fund.

Performance Pillar Neutral | Jeff Holt, CFA 02/02/2017
This series reached the five-year mark in 2016, and its results don't stand out as exceptional compared with the typical peer, supporting a Neutral Performance rating. Both the shortest-dated Retirement fund and the longest-dated 2055 fund topped over 75% of their category peers over that period, but the funds between those extremes generally fell closer to the middle. The series' heavier focus on bonds prior to November 2014, particularly within the middle of the glide path, contributed to the middling results.

The funds generally edged their typical peer in 2016, outperforming by roughly 25 basis points on average. A glide path that has a higher equity stake than most proved advantageous, as stocks generally outpaced bonds by a sizable margin for the year. However, the funds' healthy dose of domestic and international REITs, which struggled in the fourth quarter after a strong start to the year, tempered results.

While BlackRock's legacy target-date offering offers a longer-term track record, investors shouldn't look too closely at those funds to help set expectations here. The older series fared relatively well in market downturns, but investors can expect those patterns to reverse or become more muted in the future following the series' shift to a more equity-heavy glide path in late 2014.

People Pillar Positive | Jeff Holt, CFA 02/02/2017
A new name on this series' manager roster doesn't reflect a change in roles or responsibilities. Matt O'Hara, who became a named manager in November 2016, has long been involved in the design of BlackRock's target-date offerings in his role leading the firm's defined-contribution research. For instance, O'Hara and his team's research into investor preferences and behavior drove the increase to the series' equity allocation across most of the glide path in late 2014. (He is the only common manager across the firm's three target-date offerings.) The depth of the defined-contribution team that backs O'Hara instills confidence that this series will remain on the forefront of the target-date industry, driving the series' Positive People rating.

The series' other named portfolio managers--Alan Mason and Amy Whitelaw--continue to execute the strategy. As head of BlackRock's defined-contribution portfolio management team, Whitelaw carries most of the funds' day-to-day management responsibilities, while Mason provides general oversight. The series invests in a suite of index-based investments that are managed in-house, either under the BlackRock brand or through its subsidiary, iShares. BlackRock is among the largest providers of passively managed strategies in the world, with some of the most extensive resources in that area and a roster of capable managers.

Parent Pillar Positive | Jeff Holt, CFA 05/05/2017
At $5 trillion in assets under management, BlackRock is the largest asset manager in the world. The firm isn't perfect--after struggling with its active-equity capabilities for years, it's reorganizing for the second time, and its iShares franchise launches some trendy funds. But the firm has made great strides to lower fees, encourage its portfolio managers to invest alongside fundholders, and strengthen its investment offerings. Consequently, we are raising the firm’s Parent rating to Positive from Neutral.

The firm has grown quickly, in large part thanks to the strength of iShares and its active fixed-income and multiasset businesses, as well as a growing institutional business, which includes mostly index-based strategies. BlackRock's solid stewardship of capital stems in large part from its decision that to succeed as a publicly traded asset manager, it must act as a responsible, high-performing fiduciary. The firm uses its scale and technological capabilities to achieve this goal. BlackRock is constantly evolving and has focused on technology in recent years to further growth, including selling its proprietary risk-management system, Aladdin, to competitors and developing a pared-down version for advisors. A recent announcement to move $7 billion in active equity to quant-driven strategies demonstrates a willingness to rely more heavily on technology to run portfolios.

Price Pillar Positive | Jeff Holt, CFA 02/02/2017
This series' costs come in well below the norm, supporting a Positive Price rating. The K share class funds are among the lowest priced in the industry, with expense ratios ranging from 0.11% to 0.15%; that share class represents nearly 85% of the series' mutual fund assets. Roughly 10% are in the series' Investor A share class, which has expense ratios ranging from 0.41% to 0.45%. That may be lower than most, but it is still pricey for an index-based offering. The remaining assets are in the Institutional share class, which has fees that are a few basis points higher those of the K share class.