

## *(k)larity*

### *The 401(k) Newsletter*

#### *Let us (k)larity*

#### ***There's no such thing as a passive***

#### ***Target Date Fund***

Active versus passive (index) funds have always been a debate in the mutual fund industry. Over the past several years we've seen a shift toward passive strategies in 401(k) plan menus. Investment companies like Vanguard and Blackrock usually come to mind when we think of index funds. Indexing can help lower costs in 401(k) plans and provide broad market exposure to various asset classes. The idea of indexing is "the market gives you what it gives you" without trying to beat the market, as an active manager would. Simple concept. Easy to understand.

Many believe the simple concept of the passive/index story of "taking what the market gives you" applies to target date funds as well. This is not completely accurate. Target date funds may very well be holding indexed investments, but that is the only thing that is passive.

At the most basic level, there are two broad components that make up a target fund. First, is the asset allocation of the fund. Asset allocation is simply the dispersing of the funds' dollars into different asset

classes such as large cap stocks, small cap stocks, fixed income, international, etc. The second, is the glidepath of the fund. The glidepath is how the fund becomes more conservative (less equity more fixed income) over time, as you approach the "target date" of that fund. For example, if I hold a 2040 target date fund, it may have investments in nine or ten underlying asset classes, and as the year 2040 approaches, the fund manager will shift dollars within those asset classes into more conservative investments. Both functions, the asset allocation and the glidepath, are anything but passive.

Asset allocation selection is very active in nature. Although the underlying investments may be passive, the selection of the asset allocation is very active. Someone (usually a team of investment professionals) must make the active decision on how much of the funds' dollars should be allocated to equity investments, and within equity investments how it should be allocated towards the various asset classes (large cap, small cap, growth, value, etc.). They must also determine how much should be allocated to fixed income, and within fixed income, how it should be allocated towards the various types of fixed income (corporate, high yield, MBS, etc.).

Asset allocation is an active decision that should not be taken lightly. Asset allocation will ultimately drive the performance of the fund.

Glidepath determination is also a very active decision. At what point does the investment move from a high equity allocation to a lower equity allocation? A decision must be made on when to reduce equity exposure by how much and how fast. The reduction can be gradual over time or reduced quickly over a shorter period. Decisions must also be made on which specific asset classes should be decreased and which should be increased over that timeframe to make the fund more conservative. There is nothing passive about this decision.

It is worth noting that target date funds are more complex than simply stocks and bonds. A prudent fiduciary would consider the various underlying asset classes, glidepath, costs, and most important, the suitability of the target date series for the participants.

In summary, there is nothing wrong with using index managers as your target date funds. Other than their underlying passive holdings, every decision within a target date fund is most certainly active.

## What's Happening @ PRP

This past May, Charles and his wife Sheri explored Nashville, TN for a week. As longtime fans of country music, they enjoyed touring and attending a show at the Grand Ole Opry, touring the Ryman Auditorium (first home of the Opry) and seeing the many sights inside the Country Music Hall of Fame.

Charles and Sheri spent most evenings rotating through downtown Nashville's many dining/drinking establishments listening to local artists playing for tips as they strived to "make it big." One evening spent south of Nashville in Franklin, TN, resulted in a chance meeting of country music star Reba McEntire as she strolled down the street window shopping with a friend!

Seeing the many historical sites surrounding Nashville was amazing but one of the highlights was visiting Studio B. There, Elvis recorded over 200 songs and the Warrens had the opportunity to sit at the piano where he and countless others played during recording sessions. They heard taped sessions of Elvis and other stars as they worked in the

Charles and Sheri (right) with a family friend in Nashville, TN

studio, chatting with their crews and joking around as they tried different things. Since Studio B has been kept in its original state, it was like traveling back in time.

With too much to see in too little time, Charles and Sheri definitely intend to revisit Nashville in the near future.



## What's Shaking?

**At PRP we like to shake things up with some warm weather beverages.  
Here are two of our favorite recipes.**

### Coconut Cream Chili Mango Frozen Margaritas

#### Ingredients

- ½ cup water
- ½ cup honey
- ¼ cup lime juice (approx. three fresh squeezed limes)
- ½ teaspoon chili powder
- ¼ teaspoon cayenne pepper
- 1 can (14 ounces) full fat coconut milk
- 16 ounces frozen mango
- 1 cup silver agave tequila

#### Instructions

Place water, honey, lime juice, chili powder and cayenne pepper in a small saucepan over medium heat and cook for just a couple minutes, until the honey has dissolved completely. Remove from heat and place in the fridge to cool. Once cool, add to a high speed blender along with coconut milk, frozen mango, and tequila. Blend until smooth.

### The Harley

#### Ingredients

- One six pack of Bud Light

#### Instructions

Open one bottle of Bud Light sit back and relax outside with family and friends.