What is happening to your LifePath® Index Target Date Fund?

Once you've learned the basics of target date funds and LifePath index strategy, you may still have some questions. Take a look at some of the most frequently asked questions from plan participants like yourself.

Who is LifePath designed for?

LifePath funds, like target date funds in general, can be helpful for investors who want a professional to manage their investments for them. LifePath funds can help take the guesswork out of investing. BlackRock's investment managers will slowly change the mix of investments in an effort to reduce risk as the fund nears its target date.

Is it really diversified?

LifePath funds are invested in at least six different assets classes—including global stocks and Canadian bonds—so each fund is diversified and managed so that plan participants can invest in just one fund. LifePath fund allocations also include real assets such as Real Estate Investment Trusts and publicly listed Infrastructure companies.

What should be considered when choosing a LifePath fund?

Consider the LifePath fund closest to the year you think you're going to retire. Let's say you want to retire when you're 65, and you'll turn 65 in the year 2039. That means you might consider the LifePath 2040 fund—the fund closest to your "target date".

Do I have to change my LifePath fund as I get older?

Moving to another LifePath fund isn't necessary. That's one of the main benefits of a target date fund—professional management. Each LifePath fund is managed by the investment professionals at BlackRock and is designed to continuously reduce risk exposure over time.

What is changing in LifePath?

BlackRock is replacing the traditional market cap weighted equity index exposures with ESG-optimized equity index building blocks into our Canada LifePath target date funds.

Within Canada LifePath suite of funds, we currently use index funds which track broad market indices to access exposure to global equities in a cost-efficient manner. As we move into a net zero transition, however, these traditional, market cap-weighted indices are coming under scrutiny, creating a need for alternative approaches.

ESG-optimized exposures, like those that track the MSCI ESG Focus indices, enable investors to substitute traditional passive solutions with sustainable investments in a low cost and transparent way, while maintaining the risk/return profile of the parent index. By utilizing ESG-optimized exposures, we're able to maintain our overall Canada LifePath investment objective, glidepath, and strategic asset mix, while improving the ESG profile of the portfolio.

The LifePath team continues to research other ESG integration approaches for future consideration, including opportunities to implement proprietary approaches to carbon emissions monitoring and establishing insights on how sustained carbon emissions impact portfolio risk, return, and costs.

What is the investment basis for BlackRock's conviction that sustainability can provide better risk-adjusted returns for investors?

Our conviction is straightforward – in order to achieve better risk-adjusted returns, investors need to take into account the full set of risks and opportunities facing a company or an issuer – and that includes sustainability-related issues. That is why we are integrating sustainability into our investment process, performing research on how climate risk and other factors can impact asset prices, and developing proprietary signals to improve investment decision-making.

We believe that in many cases, the risks and opportunities associated with ESG factors, including physical risks associated with climate change and impacts from a transition to a low-carbon economy, are not fully reflected in asset prices. Furthermore, the momentum behind sustainable investing is itself resulting in capital reallocation away from issuers that exhibit negative externalities and that will have an increasingly large impact on asset prices and returns.

Does BlackRock believe that ESG investing can deliver better performance than traditional investing?

Our investment conviction is that sustainability-integrated portfolios can provide better risk-adjusted returns over time to investors. And with the impact of sustainability on investment returns increasing, we believe that sustainable investments will be a critical foundation for client portfolios going forward.

Why did BlackRock choose the MSCI ESG indices in the LifePath funds over other ESG index providers?

MSCI Inc. was selected as an early product development partner across our sustainable suite because of its leadership in ESG Research and ESG Indices. MSCI has 40 years of experience in measuring and modelling ESG performance, and 30 years of experience developing ESG indices. MSCI provides ESG Ratings for 14,000 companies and has over 1,500 equity and fixed income ESG indices. (Source: https://www.msci.com/esg-indexes).

While evaluating various ESG index construction methodologies, the LifePath team concluded that ESG optimized strategies, like those that track the MSCI ESG Extended Focus indices, are the most appropriate passive exposures for DC plans to consider, particularly as part of a core, multi asset retirement portfolio. These indices enable investors to substitute traditional passive solutions with sustainable investments in a low cost and transparent way while maintaining the overall investment objective and risk/return profile of the parent index. Our research shows that these indices are a more efficient way to integrate ESG exposures into an index strategy, since each unit of active risk is going towards increasing the portfolio's ESG score and provide index-like returns with significantly higher ESG impact.

How does the ESG solution compare to the original strategy?

The new ESG index funds we have selected as building blocks are built from the same broad benchmarks that drive our strategic asset mix policy, but with additional degrees of sustainability screens and ESG insights built into the index methodology. This enables us to achieve similar investment outcomes, while improving our ability to manage the impact of ESG factors in the future.

When are these changes taking place?

We anticipate this transition will begin towards the second half of 2022. We anticipate the transition to be completed over a number of months.

More details

Please refer to the full research paper for more details: https://www.blackrock.com/ca/institutional/en/insights/defined-contribution/evolving-lifepath-index-offering

Still have questions?

We encourage you to reach out to your Plan Sponsor or Record-keeper.

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