TARGET DATE ANALYTICS LLC

January 14, 2011

U.S. Department of Labor
Employee Benefits Security Administration
Room N-5655
200 Constitution Ave. NW,
Washington, DC 20210

Attention TDF Amendments
EBSA 2010-0053-0001
RIN: 1210-A38

Dear Employee Benefit Security Administration:

First, allow us to thank you for attempting to address the disconnection between the nation's retirement investors and the manufacturers of the fastest growing investment option within qualified retirement plans—target date funds.

Secondly, we urge you to make one elegant and efficient change to the amended tdf disclosure rules; that is, require that the date in the name of the fund reflect the fund's landing point.

Without this requirement the problems we experienced in 2008 will likely recur. Since it was this very issue which caused the 2008 debacle; that is, participants expected the date in the name of the fund was meaningful. They expected relative safety of their portfolios within the five-year bracket around the date in the fund's name. We acknowledge that some investors also held some other unjustified expectations, but we think you will agree that the expecting relative safety at the target date is justified.

At the joint hearings in June, 2009, the fund companies insisted there was nothing wrong with their funds—except, that is, the participants' lack of understanding. But there was and remains something wrong with a fund carrying "2010" in its name, actually targeting 2040, and as result, losing 25% or more of its value exactly when participants expect to access those funds. And recall that approximately 80% of investors withdraw all of their funds at or shortly after retirement.

It has been suggested that "longevity funds;" i.e., those funds that claim to counter longevity risk and do so by targeting some far distant date beyond the target date, and "target date funds;" i.e., those funds that match the date in their name to their landing point, are simply two different approaches (to vs. thru) to the same goal. But that is far from accurate. A fund that targets maximum safety thirty years from today will have a nearly opposite strategy from one that targets maximum safety today, and the former strategy, will necessarily expose the investor seeking safety today to inappropriately high risk. It's not merely the strategies that are different; the goals are diametrically opposed.

Attached you will find other supporting documentation debunking the myths used as justifications for target date funds that ignore their target dates. Please see, "What Target Date Funds Can Do," and "Twelve Observations on Target Date Funds."

As Ryan Alfred of BrightScope has said, "Eliminating confusing disclosures in the fund name is an explicit recognition of the fact that target-date funds investors are looking to simplify their financial decision-making; not make it more difficult."

Attached you will also find "BrightScope TDA Comments to the SEC on Target Date Funds."

We urge you to get this right now. America's investing public needs your help; the fund companies do not. You will not likely have another shot at regulating tdfs until another round of devastating losses have destroyed the retirement plans of millions. Unfortunately, the next time it happens, investors will turn to you and ask why you did not regulate when you had the chance. They will ask why you sanctioned deceptive fund names. Please do not let that happen.

For Target Date Analytics LLC

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Selecting a target date fund family is an important but complex decision that is best made by matching the objectives of the fund family to those of the plan's participants. Several such objectives have been suggested but only one set stands out as universal and practical: (1) The floor objective (high likelihood) is to deliver at target date accumulated contributions intact plus inflation, and (2) A target objective (reasonable likelihood) is to grow assets as much as possible without jeopardizing the floor objective. For reasons described in the article, attempts to achieve other objectives jeopardize the attainment of these universal objectives. These alternative objectives include:

- *Make up for inadequate savings*
- *Overcome "longevity risk"*
- *Guarantee returns*
- *Guarantee income*
- *Provide adequate retirement income*
- *Adjust for individual human capital differences*

What Target Date Funds Can Do… and what they can't

At the core of the target date concept is the glide path; which is nothing more than an asset allocation strategy that changes over time. The glide path itself is the line marking the difference between the risky asset and the reserve asset, as it changes over time. It is important to understand what a glide path strategy can do and what it cannot do.

Throughout the eighties, nineties and well into the first decade of this millennium, we, in the retirement plan and investment businesses, worried aloud and often about participants' poor investment decisions. Aside from inadequate deferral rates, the biggest issues were inadequate diversification, inappropriate risk profiles and failure to adjust over time.

The simple genius of a glide path solves each one of those problems. They can efficiently deliver time-based portfolio management—allocation and rebalancing services—to millions of Americans saving for retirement. Target date funds offer a substantial improvement over the current investment portfolios of most participants in DC plans, who previously had been left to compete as amateurs in a professional arena.

Why a glidepath?

Imagine a twenty-year old participant, at the start of her investment life-cycle. Assuming she will retire at age seventy, this participant has fifty years to put aside money for retirement, fifty years *to manage or delegate an investment strategy that will get her safely to her retirement date with her contributions intact, plus whatever growth can be managed without jeopardizing the protective goal. Now allow us the liberty of letting this investor represent virtually all twenty-year olds in the work force, dependent on what they put aside, employer contributions, if any, and the rate of growth for the financial success of their retirement. We can aggregate most participants this way, based on their age, because the one factor we know about all of them is their age, and we can assume they all have approximately the same number of years until retirement. Moreover, to improve the model, we allow participants to choose which target date they want to aim for.*

In the early years, our cohort of twenty-year old participant investors can take a swing-for-the-fences approach. They don't need to worry about too much about short-term losses, or short-term variability. They have small account balances and so even large percentage losses translate to small dollar losses. Their own contributions can quickly replace short term losses, and if anyone enjoys the benefits of long-term reversion to mean forces to help restore their account balances, they do.

In the later years, as the target date nears, we assume their account balances have grown geometrically, and as a result even small percentage losses can mean very large, unacceptable dollar losses. Moreover, when the target date is near, the probability that reversion-to-mean will restore any sustained losses is greatly reduced. Finally, participants near their target date can't hope to make up for losses by contributing more; that power too has been eroded by the passage of time.

To adjust the balance between asset growth and principle protection over time the investment glidepath was developed—allow for more growth (and volatility) in the early years and then begin reducing that exposure to risk over time according to a strategic plan—the glidepath.

There it is. That's the basic rationale for employing a glidepath.

Given the above, we can posit a working definition of the primary objective of target date funds. That primary objective might be stated as follows, "Manage the portfolios of all participants over their saving life cycle so that they arrive at the target date with their total contributions intact, plus inflation." In addition, to the extent we don't jeopardize this primary, or floor objective, we can add a secondary, target, or 'stretch' objective, "To the extent the primary objective is not sacrificed, the fund will attempt to achieve growth of assets."

We don't suggest that the above language will be suitable for every situation. However, we do believe that these two objectives, along with their priority ordering could serve as a guideline or starting point for most target date fund objectives.

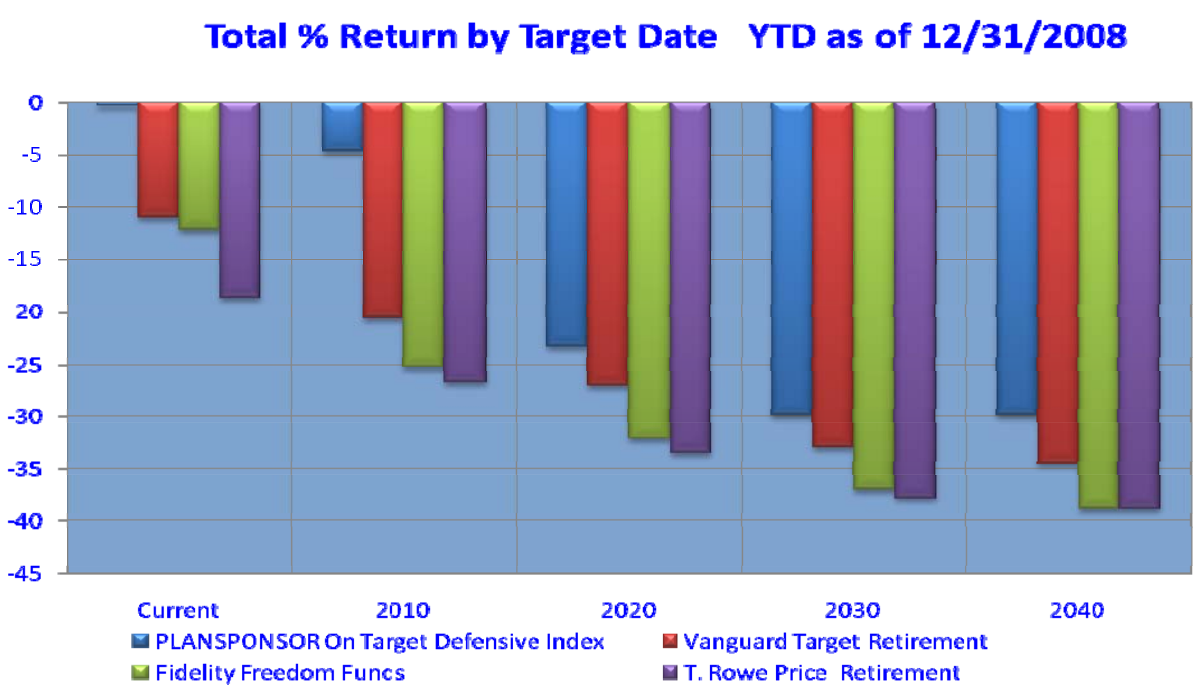
But as the target date arena gets more competitive, and providers seek ways to differentiate themselves from the pack, the competitive positioning may be taking its toll. Coming to market with a difference may make for a compelling ad campaign, but if the difference is more gimmick than substance, worse yet if the distinction of a new fund family is its ability to provide a non-core benefit, the ability of the glide path to deliver on its core promise will likely be compromised. Said another way, if the glide path is pressed into service for other missions it may lose its ability to deliver on its core mission.

Here's a list of objectives that many target date funds attempt to achieve, but which can only be attempted by sacrificing the fundamental glide path proposition—the primary objective. If these goals could be achieved without sacrificing the primary goal of target date funds, we would indeed live in the best of all possible worlds. Unfortunately, we still live in a financial world in which increased returns come at the cost of increased risk. Plan sponsors should be aware that each of these ancillary objectives comes at a cost.

- Make up for inadequate savings
- Overcome "longevity risk"
- Guarantee returns
- Guarantee income
- Provide adequate retirement income
- Adjust for individual human capital differences

Let's take a look at each of these non-primary objectives and see how they jeopardize the core, or primary objective of target date funds.

<u>Make up for inadequate savings</u>
This is an admirable goal, but it is also naïve. It has been said, you can't solve a savings problem with an investment solution. Why? Because in attempting to do so, you not only fail to solve the savings problem, you also must put at serious risk, the already inadequate portfolio of savings. Remember the simple risk/return dynamic Taking more risk means incurring increased chance of loss. This is true in the long term but it is most painfully true in the short term. Consider calendar 2008, in which some 2010 funds lost over 30% of their value.



Overcome “longevity risk”
This goal has lots of ‘street appeal.’ It is sometimes stated as the risk of outliving your money. But it muddles the carefully defined roster of investment risks (market risk, financial risk, interest rate risk, enterprise risk, liquidity risk, counterparty risk, economic risk, etc.) by pandering to investor fears that they may not have enough money to last their lifetimes. Do investment management companies list “longevity risk” in their prospectuses along with these well-defined investment risks? Of course not, because it is not an investment risk at all. Living a long time is generally considered to be a good thing. Longevity is not the risk. The risk comes from not having enough money to last as long as your do. The only real way to make sure your money will last is to have so much you can self-insure, or to pool your assets and your risk with others in insurance contracts.

Guarantee returns
The only ways to “guarantee” returns are to invest in a no-risk portfolio, which by definition will not provide enough returns to keep pace with inflation, or to purchase an annuity. Scores of academics and professional researchers are involved in the task of developing combinations of insurance and portfolio-based strategies designed to provide investors with a comfortable level of returns without giving up so much in cost that the game is not worth the candle. If the solution were as simple as increasing the amount of equity in a portfolio the discussion would have been over long ago.

Guarantee income
Again, the only guarantees in finance come from insurance, either self-insuring, which in this case means you don’t need it, or through a contract with an insurance company, which, for an individual terminating defined contribution participant, means no purchasing power. The argument that you can assure an investor of income through portfolio construction, always seems to hinge on the requirement that the participant hold a lot of equities when he or she can least afford losses, at or near the beginning of the withdrawal period. And these strategies are not guarantees, although from the materials and the presentations one would think that the results are certain.

Provide adequate retirement income
This objective is really a combination of “make up for inadequate savings” and “guarantee income,” and the objections to it are the objections already raised for those two distracting objectives. Clearly, in this country we are facing a problem of insufficient retirement income, but the solutions proposed in the construction of target date portfolios won’t provide the answer. They will only serve to disable the one thing target date funds can do, provide suitable portfolio management over the accumulation phase.
Moreover, attempting to provide retirement income for participants by extending the glidepath past the target date reveals a fundamental misunderstanding of the purpose for a glide path. While we can provide a rationale for utilizing a glidepath in the accumulation phase, no one to date has offered a rationale that can connect a glide path to the recurring, regular withdrawal of assets from a portfolio.
We may yet get to a national solution for ensuring that every person entering retirement has adequate income, but asking a glidepath to carry that load is surely not the answer. Every day I see people riding their bikes past my office to the beach, but they’re usually smart enough to get off once they get to the sand. What worked on the road doesn’t work in the sand and surf.

Adjust for individual human capital differences
This is a particularly baffling development. Target date funds employ a glide path to make one very big, and very useful assumption, that most participants with the same number of years until their retirement date, can be efficiently aggregated into pools of investors with the same broad characteristics that change in the same way over time. Admittedly, this is an imperfect strategy, but its imperfections are easily overweighed by the great efficiency and utility it brings to large numbers of investors. Many young investors have too little financial assets to be able to afford personal financial planning assistance. As their assets grow, over time, with the efficient use of a glide path and age aggregation, the investors will reach the position wherein they can and should be able to benefit from more personalized investment strategies. Until then, attempts to undo the aggregation feature of the glidepath will be counterproductive.

Concluding Remarks

In selecting a suite of target date funds, plan sponsors need to keep their eye on the ball; that is, the primary objective of target date funds. Unfortunately, competition for plan assets has led providers to offer target date structures that focus on other objectives. These offerings have appeal because they appear to solve additional problems; however, those objectives jeopardize the attainment of the primary objective and for that reason they should be avoided. Providers and plan sponsors need to come back to the basics. Then we can get on to the other problems facing plan participants, inadequate savings and security of retirement income.

Twelve observations on target date funds

APRIL 2008

By:

Josh Cohen,
Senior Consultant

There seems to be growing consensus in the retirement industry that target date funds are going to be a critical component of most defined contribution plans. Plan sponsors, participants, money managers, consultants and even the U.S. government have acknowledged the power of target date funds to provide an effective solution to the asset allocation decisions participants have historically had to make on their own.

Plan sponsors have a great deal of choice available, but target date funds require a different type of analysis than they are used to. As someone who has worked with plan sponsors to help select and implement target date fund solutions, I've come to appreciate the differences between approaches – and there truly are differences between approaches. I share below 12 observations based on my experience to date:

Observation #1: Target date funds should be designed with specific objectives in mind.

A participant in a target date fund is entrusting the plan sponsor to determine what is the best investment solution on their behalf. This is a serious responsibility…

Target date funds should be seen as a component of an overall retirement program. You'll note I didn't say savings program. Greater certainty in retirement income replacement should be the goal of a target date fund – and asset accumulation is only one part of that. A target date fund series is not merely a set of portfolios designed for different points in someone's life. Rather, it should be seen holistically as a continuous retirement program designed to meet specific objectives.

Observation #2: Glide paths (equity to fixed income allocation) slope down because of contributions, not because of time horizon.

You may hear statements like: "you can be more aggressive when you have a longer time horizon because you have more time to make up for losses." This line of thinking is flawed. The real reason a glide path should slope down is because early in someone's career, their retirement income expectation is based on a small amount of accumulated savings and a whole lot of human capital, in the form of future contributions. So a young saver can invest more of their savings in risky asset classes (like equities) because their human capital acts more like a bond. As accumulated savings grow and expected future contributions get smaller, the savings are increasingly invested in less risky asset classes.

Why is this esoteric distinction important? As I will discuss in other observations, I have found that a glide path manager's understanding of this difference drives the design of different target date funds in important ways. A target date fund should be built from sound principles.

Observation #3: Risk should be measured in terms of not meeting retirement objectives.

Conventionally, investment risk is measured by some volatility calculation, like standard deviation of returns. But that point-in-time measurement of asset return volatility is meaningless in a 40-year savings program. The more important risk is falling short of your goals of meeting certain levels of income replacement at retirement.

Also, it's important not to think of this risk measurement as an "all-or-nothing" proposition. I have found that some target date funds that define risk simply as running out of money in retirement (without recognizing that there is a big difference between not meeting a goal by $1 and not meeting it by $1 million) tend to be much more aggressive. That's because they've defined their goal as either you met it or you didn't.

Observation #4: It's okay to have high equity allocations at the beginning of the glide path. In fact, you should.

Remember my human capital discussion in observation #2. For example, a young saver just starting to put money away will have a relatively small account compared to what it is projected to be in the future. Much of the growth of a young saver's account early on is going to be driven by plan contributions. So, one can typically afford to have a high equity allocation without worrying that a large negative return will have a meaningful impact on final expected wealth.

The timing of investment returns is critical in a DC plan. Sequential (or timing) risk is lowest in the early years of saving. That means that, in the context of the overall program, this may be the best time to take maximum risk on accumulated savings.

Observation #5: It's not okay to have high equity allocations at the retirement end of the glide path.

This is the corollary to the sequential risk discussion above. By retirement, there are no more future contributions to offset the risk in the investment portfolio. A negative return near to retirement has significant impact on the amount of income that the account will provide.

Those glide path managers who have more aggressive allocations at the retirement date will look like winners if the risk is rewarded and returns are good – but this approach is at odds with the holistic retirement program that a target date fund should represent. I'm not sure "swinging for the fences" is the right solution here. Think of the person who retired in March 2000 and experienced sharply declining markets for three years after that: it's hard to recover from such losses when money is already coming out of the account. There is significant timing risk when taking too high an equity allocation at retirement.

Observation #6: There is no clear investment rationale for the glide path to continue to slope down after retirement.

You are at your maximum risk exposure at retirement because you have the longest time to fund retirement income. Your asset allocation in retirement should be more a function of how you react to experience than to time. However, since we can't know everyone's experience, a flat glide path is a reasonable place to start.

Some glide paths are more aggressive at the target retirement date and continue to slope down for many years into retirement. However, this becomes the sequential risk argument in reverse. Now you are most vulnerable to a negative return at the beginning of your disbursement of assets.

Observation #7: Target date solutions should provide diversified sources of return.

Doesn't every investor seek to push out the efficient frontier by diversifying into uncorrelated asset classes? Yet, many say we shouldn't expose "naïve" defined contribution investors to more volatile asset classes like REITs or emerging markets. I could agree with that if you are talking about offering these as standalone options. However, as a part of a broader portfolio where it is the volatility of all of the assets together that counts (not that of each asset in isolation), it may make sense to provide these types of exposures wherever possible. In fact, a good fiduciary who wants to meet prudent investor standards should consider this.

Observation #8: Passive should not be considered the safe choice.

An example of a prudent investor is someone who makes decisions that they believe are in the best interests of the participants. They are not necessarily taking into account fee minimization, convenience or the tracking of market index performance. There is a notion floating around that because these are default options, a fiduciary is in a safer position by offering low cost, low tracking error options. However, to me this seems like a solution more driven by the fiduciary's own interests than the participants'.

I'm not arguing that passive investing is bad and isn't the right solution for some. But, I'm concerned how some are coming to that conclusion. Indeed, we find that most large investment programs, whether defined benefit, endowment or the individual options in a defined contribution plan, use a combination of active and passive management. If an active/passive mix is a prudent decision for those plans, it may be prudent for a target date fund as well. How can a plan sponsor explain to participants that it's important for their DB plan to pay for the best investments, but the DC plan just gets whatever investments are cheapest? And if a plan sponsor doesn't consider low risk, all passive investing the most prudent choice for an organization's DB plan, why is it considered appropriate for its DC plan?

Observation #9: Proprietary managers face headwinds.

Many target date solutions are offered by investment companies that only use their own proprietary managers and strategies within the funds. Such providers are challenged to argue that they can provide best-of-breed approaches across all asset classes. In addition, there are issues surrounding the independence and objectivity of those managers making decisions on which underlying strategies to use. Further, plan sponsors should evaluate the commonality of holdings and themes across underlying strategies from a certain provider, as well as the ability to gain access to capacity-constrained strategies in the target date fund.

Observation #10: Building your own target date fund is harder than it sounds.

Some larger plan sponsors like the idea of creating a customized target date fund built from, for example, the asset class funds that are already being offered in the plan. This can make sense, but while it can appear straightforward on the surface, I think it's a challenge to implement effectively and for the long term.

Plans thinking of going down this route should make sure they have the dedicated staff resources, an appropriate amount of assets to make it cost efficient, and the right partner to do this. Weak implementation can wipe out any potential benefits. And, while you may feel comfortable that you can set this up today, investment programs are never static: the structure has to be maintained over the long term, when those who created the options may have moved on to do something else.

Observation #11: Take care with performance comparisons.

Everyone wants to compare performance of funds versus other funds to make a value judgment of which is better. I can tell you that a simple comparison of returns of different providers is a dangerous activity. For one thing, there isn't much history for most target date funds. Even more important, a comparison of returns by target date years will be driven by asset allocation – if equities perform well, the provider with the highest allocation to equities will tend to be top of the pile (and vice versa when equities perform poorly). That doesn't tell you who was "right" or "wrong." What about a measure of risk?

This is not to say that the industry doesn't need better ways to measure performance and I think we will see innovation in this area. While this is still work-in-progress, it is clear that such performance measurements need to look at target date funds as a family, not as individual funds. It is also clear that performance should be based on how well the family does in building retirement wealth, not simply raw return numbers. Expect to hear more from the industry on this topic in the coming months.

Observation #12: Target date funds can't solve all your problems.

I hear some providers say that participants act badly and thus we need to design target date funds with that in mind. For example, participants don't save enough, they take out too many loans, and they spend too much in retirement. Target date providers who make this argument usually adopt more aggressive allocations to compensate for this bad behavior – again, swinging for the fences.

However, I'm not sure we want to design target date funds in this way. It's important to understand typical participant behavior, but I think one should design funds for a realistic but appropriate saver. A target date fund does help solve the one issue that has given participants the most difficulty – building an appropriate asset allocation. But to expect it to make up for shortcomings in savings rates is unrealistic.

Conclusion

A participant in a target date fund, whether through a default or by their own choice, is entrusting the plan sponsor to determine what is the best investment solution on their behalf. This is a serious responsibility; most plan sponsors are still coming to terms with what that means, and best practices are still in the process of being defined. My intention in writing this note has been to help that process, on which the retirement security of so many is likely to depend.

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Our broadly diversified target date, target risk and asset class investment products offer participants access to some of the world's best underlying money managers.

Russell also provides a range of services including glide path and allocation advice, target date plan default options, single asset class, commingled and separate account solutions to help meet the unique needs of DC plans.

For more information on our DC solutions:

Contact your Russell representative or visit www.russell.com/dcinsights.

Important information

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Please note that this material was originally developed in the U.S. and intended for U.S. institutional investors.

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www.BrightScope.com
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August 23, 2010

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549 - 1090

Re: Investment Company Advertising: Target Date Retirement Fund Names and Marketinq, Release Nos. 33-9126; IC-2930 1; File No. S7-12-10

Dear Ms. Murphy:

BrightScope and Target Date Analytics appreciate the opportunity to comment on the Security and Exchange Commission's proposal relating to target date retirement funds ("TDFs"). We are encouraged by the Commission's step toward stronger regulation of target date funds. While TDF's are a relatively new fund category, their rapid growth and their widespread adoption as a default investment for auto-enrolled retirement plan investors necessitates a proactive approach on the part of the Commission to protect the interests of investors.

While we are supportive of a more proactive SEC role in regulating target date funds, we believe the primary thrust of the proposal – specifically adding additional disclosures – is insufficient to fully protect investors. Retirement plan investors – who account for roughly two-thirds (and growing) of all target date assets[1] – are the least likely candidates to evaluate additional graphs and charts before making a decision to invest in a mutual fund. These investors and the plan sponsors who select Qualified Default Investment Alternatives (QDIAs) are looking for the simplicity of selecting the fund based on a projected retirement date. For these investors, a simple process for identifying a fund that meets their needs and matches their expectations is vitally important. The best way to regulate target date funds is to require that the date in the name of the fund indicate the fund's landing point.

Background

Target date funds were created in 1994 to improve the retirement investment decisions of investors. Their quick adoption reflects a recognition by the industry of the failure of many years of attempting to educate participants about investment principles. The funds were designed for simplicity; select a fund that matches your projected retirement data and the fund does the rest. While we believe additional disclosures about glidepath design, asset allocation, and risk are necessary, we do not believe disclosure alone is sufficient. The first piece of meaningful information given to any investor defaulted into or considering a target date fund is the date in the name of the fund. Yet currently the date in the names of

[1] ICI, *The U.S. Retirement market, First Quarter 2010*, August 2010. Vol. 19, No. 3- Q1. http://ici.org/pdf/fm-v19n3-q1.pdf

target date funds is rendered meaningless by the vast differences in glidepaths between funds with the same target date. It is a disservice to investors to allow the gross deception perpetuated by funds with one date in their name but an entirely different date in their strategy.

The SEC and Mutual Fund Naming

In past rules, the Commission has detailed its philosophy on how it evaluates and regulates fund naming:

> *In determining whether a particular name is misleading, the Division will consider whether the name would lead a reasonable investor to conclude that the company invests in a manner that is inconsistent with the company's intended investments or the risks of those investments."*[2]

We believe that a reasonable investor would expect a target date fund bearing '2010' in its name would have a high degree of security at that target date. The research has shown that individuals do have this expectation. According to one study, investors perceive that the target date implies a real guarantee of retirement income at the target date[3]. If this is indeed the case, the majority of target date funds have a wide gulf between their investment strategies and investor expectations.

One does not need to look far to find an example of how misleading dates in target fund names have become without appropriate regulation. For example, the Alliance Bernstein Retirement Strategies 2010 fund, designed for investors retiring this year, currently has a portfolio in which 62% of the assets are invested in stocks[4]. This fund for retiring investors has more stock exposure than Wells Fargo's target date fund designed for investors retiring in 15 years, its '2025' fund, which has 60% of its assets in stocks[5]. In this example, the date in the two target date funds is misleading as it causes a reasonable investor to conclude that a target date fund has a different level of risk than is evidenced by its strategy. Target date returns in 2008 and the widespread outrage by misinformed investors validated that many of the funds risk profiles exceeded the expectations of their investors[6]. We do not believe that the surveyed investors and those angered by 2008 performance are unreasonable in assuming that a fund with their retirement date in its name will be safe at their retirement date. We also do not believe additional disclosures and charts and graphs will eliminate this misconception. However, by matching the date in the name of the target date fund with the landing point of the fund, target date funds will quickly match the expectations of investors.

Fortunately, the Commission has a strong history of supporting truth in naming. The best example of this is SEC Rule 35d-1, the fund names rule:

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[2] http://www.sec.gov/rules/final/ic-24828.htm#other
[3] Testimony of Jodi DiCenzo, Behavioral Research Associates. A copy of the survey results is available at http://www.sec.gov/comments/4-582/4582-1a.pdf.
[4] Total equity allocation includes REITs. http://bit.ly/ag1tTb
[5] http://corporate.morningstar.com/US/documents/TargetDateFundSeries/WellsFargoAdvantageDJTarget-DateFundSeriesReport.pdf
[6] See e.g., Press Release, "Kohl Announces Intent to Strengthen Fiduciary Oversight of Target Date Funds," Senate Select Committee on Aging, December 16, 2009.

The rule requires a registered investment company with a name suggesting that the company focuses on a particular type of investment (e.g., an investment company that calls itself the ABC Stock Fund, the XYZ Bond Fund, or the QRS U.S. Government Fund) to invest at least 80% of its assets in the type of investment suggested by its name.[7]

In this rule, the SEC mandated a specific percentage (80%) to ensure that certain fund names were strong indicators to investors about the type and risk of the underlying investments. We were surprised that the Commission chose to regulate target date fund names in a different manner than the general rules set forth for funds covered under Rule 35d-1. While there are other exceptions to Rule 35d-1 (e.g. "growth" and "value"), the investment types excluded are generally less likely to lead to significant investor confusion and are less core to the retirement security of America's workforce. The simplest approach to protect target date investors is to follow the same 'truth in naming' approach laid out for other funds in Rule 35d-1. The equivalent for target date funds would be to require the landing point of the fund – the date the fund reaches its most conservative asset mix – to match the date in the name of the fund. Secondarily, the SEC can also propose ranges of equity allocation to correspond to the riskiness at the target date. For example, 0-20% equity allocation at the landing point can be labeled 'conservative', 20-40% allocation can be labeled 'moderate,' and 40%+ can be labeled 'aggressive.'[8] In this way an investor can clearly identify a fund that meets their needs based on familiar terminology. In spite of the expected push back from the mutual fund industry to a naming scheme that defines actual percentages of equity allocation, this type of rule is already in place for balanced funds, capitalization funds, index funds, foreign funds and many other types of funds. Here is a short list of fund types with their naming requirements, with our proposed rule included:

Type of Fund	Naming Requirement
Balanced Funds	25% of its assets in fixed income senior securities[9]
Capitalization Funds (Large, Mid, Small Cap)	80% investment requirement (Rule 35d-1)
Index Funds	80% investment requirement (Rule 35d-1)
Foreign Funds	80% investment requirement (Rule 35d-1)
International/Global Funds	Investments tied to a number of countries[10]
Target Date Funds	Date on fund must match the glide path landing point[11]

Allowing a fund to include a target date that is essentially meaningless is the functional equivalent of allowing a fund to call itself a balanced fund regardless of its equity allocation. Take for example a case in which two funds with the word "balanced" in their name have vastly different equity exposures; the first has 95% in equity and the second has 65% in equity. Under the example set by this proposal the names of the funds would appear as such:

[7] http://www.sec.gov/rules/final/ic-24828.htm#P132_38055
[8] This ranges in this second proposal are suggestions, perhaps warranting additional research.
[9] Footnote 42, paragraph 2, lines 3-13: http://www.sec.gov/rules/final/ic-24828.htm
[10] "We would expect, however, that investment companies using these terms in their names will invest their assets in investments that are tied economically to a number of countries throughout the world. *See* Proposing Release, *supra* note 7, at 10960 n.38 and accompanying text ("The Division no longer distinguishes the terms `global' and `international.'").
[11] Proposal by BrightScope and Target Date Analytics for a simple target date fund naming requirement.

Example 1: ***Balanced Fund X, 95% Equity***
Example 2: ***Balanced Fund Y, 65% Equity***

While it may be argued that a fund with 95% equity is "balanced", investors are better protected by the SEC requirement that a fund with "balanced" in its name limit its equity exposure to pre-defined limits[12]. Solving this issue by adding the equity allocation serves only to add confusion. This and other strong naming rules serve as evidence that the Commission agrees with the logic of requiring fund names to match investor expectations and that the preferred method of regulation is through 'truth in naming' rather than requiring longer more complicated disclosures. Truth in naming encourages ease in identifying funds and is an important step in the fund selection process. Eliminating confusing disclosures in the fund name is an explicit recognition of the fact that target date investors are looking to simplify their financial decision-making, not make it more difficult.

Conclusion

It is more efficient to set strong guidelines that match investor expectations than to attempt to explain why a fund may not meet those expectations. The best and most efficient approach is to regulate the naming of funds. Require that the target date in the name of the fund match the landing point, the point at which the fund hits its most conservative point. This regulation will not limit the diversity of funds, limit the investment choices of funds or stifle innovation. Funds can still create aggressive glide paths, or glide paths that extend to mortality, but they will name their funds accordingly, thus enabling investors to understand what they are buying. As a secondary rule, since funds often hit the landing point with dramatically different equity allocations, a naming scheme could be developed that would describe the level of risk in simple terms that investors are used to: conservative, moderate and aggressive. In this way, the date would always conform to the landing point, and the risk-level at the landing point would be described in familiar terms. If an investor retiring in twenty years wants a fund that reaches its most conservative point at their retirement date and wants to make sure their principal is secure at that point she can buy a '2030 Conservative' Fund. If a different investor wants to remain invested until their expected mortality, and is comfortable taking on more stock risk, he can buy a '2055 Aggressive' fund. This naming scheme is simple, describes the fund, but does not prevent fund managers from creating whatever strategy they deem most effective. Let consumers decide what kind of fund they want by mandating truth in naming.

Thank you again for the opportunity to comment on your TDF proposal. We recognize the difficulty of your task in regulating complicated investments and we encourage you to consider that oftentimes the best solutions are the simplest.

Thank You,

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Principal, Target Date Analytics

[12] Footnote 42, paragraph 2, lines 3-13: http://www.sec.gov/rules/final/ic-24828.htm