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Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

RE: Comments on File Number S7-12-10 (Investment Company Advertising: Target Date Retirement Fund Names and Marketing)

Dear Ms. Murphy:

Thank you for the opportunity to provide comments on the marketing of and disclosures pertaining to Target Date Funds. Target Date Funds represent an innovation in retail-oriented financial products that substantially benefit investors. However, we also believe that too many individual investors do not fully understand certain of the basic features of target date strategies or the key differences among various target date offerings.

At FOLIO*fn* Investments, Inc. ("Folio Investing"), we have been studying Target Date strategies for almost half a decade. In late 2007 we launched our own series of Target Date *Folios* (traded baskets of securities which allow full customization and fractional share purchases) to implement what we believed were best practices in the design and operation of these all-in-one investment options. Over the three years since these Folios were launched, their auditable track record lends credence to our research. We hope that our experience in designing, maintaining and offering target date investments may inform the Commission's thinking in how best to regulate them.

We agree that many of the modifications in the current proposed rule to the way that Target Date Funds are marketed and described would assist investors in better understanding what they are investing in and what these funds can and cannot provide. We also believe there are particular disclosures that can help ensure that goal.

Specifically, and as described in more detail in the sections that follow, there are a number of key elements of target date vehicles that investors need to understand:

1) The glide path
2) The asset allocation at each point on the glide path
3) Assumptions regarding the "average" investor's decisions through time
4) Explicit risk targets and disclosure thereof as an alternative or additional disclosure
5) Impact of expenses
6) Estimated income an investor can expect in retirement

The Commission's current proposals address the first two of these elements and, to a lesser extent, the third. Like the current disclosures used by many funds, the Commission's proposals appear premised on the notion that the asset allocation glide path is the principle design feature in a target

date vehicle, and is fundamental to its operation and an investor's understanding of such a vehicle. We believe that a more useful and important concept and disclosure is to focus on a risk glide path that shows the expected portfolio risk through an individual's investment life cycle. We have learned that it is that expected portfolio risk that is the critical design feature of target date vehicles, with the asset allocation simply being a means to achieve that expected risk level as it changes over time. This disclosure of the designed, expected risk along a glide path, noted in section 4 below, can be in addition to or in substitution for the asset allocation glide path disclosure. But we believe that solely presenting asset allocations, especially at only a high level as is suggested (such as equities versus fixed income versus other) inevitably leads to less adequate disclosure than what can be attained from focusing on the expected risk level at various points along the glide path, and in certain instances may even be misleading.

1. Asset Allocation Glide Path

The traditional "glide path" disclosure is a means to describe changes in a target date vehicle's asset allocation through time; usually that is the decreasing percentage of the target date vehicle's portfolio invested in equities as an investor ages. The concept is that the percentage allocated to equities is a proxy for risk. Unfortunately, this approach may be misleading because some sub-asset classes have considerably more risk than others. For example, concentrations in small cap stocks and emerging market equities would be far more risky than an index investment in domestic larger capitalization stocks, such as the S&P500. In addition, other asset classes, such as commodities and REITs, even if each asset class is more risky in and of itself, can reduce overall portfolio risk by adding significant diversification. Similarly, different sub-classes of fixed income assets have very different risk and return profiles (e.g., high yield bonds have much higher risk than intermediate government bonds). As a result, it would be potentially misleading to an investor to treat all equities or all fixed income as the same for purposes of the glide path, or to ignore other asset classes such as commodities when making a glide path disclosure. As an example, Folio Investing's Target Date Folios include a range of asset classes that our research suggested would provide meaningful diversification benefits, including TIPS, commodities, and real estate. The asset allocations also may have meaningful tilts toward small cap stocks and value stocks. The current proposed disclosures may well obscure the important potential differences between these asset allocations and others.

Additionally, the implied risk derived from a glide path of a target date fund may appear to be appropriately disclosed over long periods as presented in a glide path disclosure, but in fact it may change through time, especially when the market experiences abrupt shifts or dislocations. For example, during the bear market of 2008-2009, the correlations between many asset classes increased substantially and the risk levels of individual asset classes also increased. The actual risk in a specific asset allocation shifted substantially during this period, and it was better not to ignore these effects.

In the case again of our own Target Date Folios, the substantial increase in correlations between almost every asset class during this period led us to conclude that a wide variety of reasonable asset allocations had all become more risky, with the risk level of specific allocations to stocks and bonds changing materially. On this basis, we adjusted the asset allocation of the Target Date Folios to return to the targeted risk levels. While the percentage of a portfolio allocated to

equities may have been viewed as a reasonable proxy for portfolio risk, the varying risk levels of different types of equities and the changes in risk over the last few years have demonstrated the potential downfall of such an approach.

Thus, we agree that a glide path needs to be clearly disclosed along with a description of the situations in which the glide path may change, but would suggest that providing a glide path asset allocation disclosure that, for example, aggregates all equities or all fixed income in one category may not be the best disclosure. At the very least, a good deal more detail and granularity would be needed for the asset allocation glide path to be truly useful, but we understand that that also adds to its complexity and may be harder to understand. By contrast, as included in section 4 below, a risk-based glide path shows in a simpler fashion more of what's important, namely the target expected risk level for each stage of the target date vehicle.[1]

2. Asset Allocation Along the Glide Path

One key goal of target date vehicles is to provide investors with well-diversified portfolios in a single vehicle. Each target date vehicle has a specific asset allocation and risk level at each point along the glide path.

There are a number of different philosophies regarding the design of target date vehicles, and these should be clear to investors.

a) Does the target date vehicle rely on active management or is it based on passive investments (e.g., index funds)?
b) Does the target date vehicle emphasize inflation protection in its asset allocation, including asset classes such as inflation-indexed bonds, REIT's, and commodities?
c) Under what circumstances will the mix of assets change or otherwise will adjustments be made, aside from moving down the glide path over time?

By publishing the asset allocation glide path as a principal basis of disclosure, it is not at all clear how or whether the asset allocation of a Target Date vehicle will change in the event of market dislocations. The make-up and behavior of the major market indices have evolved substantially over the past twenty to thirty years, as evidenced by a major shift in dividend policies[2], for example. While a risk-based policy glide-path can respond to these changes, it is not at all clear how an asset allocation policy will change. If assets as opposed to risk are to be the focus (which we believe is not the best approach), then much more clarity is needed around how adjustments are to be made and under what circumstances.

When Folio Investing designed its Target Date Folios, we made several key decisions. The Folios were designed using passive (no active management), low-cost ETFs. We used a quantitative model to combine a wide range of asset classes with a goal of maximizing return at each risk level

[1] As described more fully in section 4 below, should asset class correlations increase or decrease substantively or risks associated with certain asset classes change materially, the asset allocation may be made more conservative or more aggressive, but the expected risk levels would generally be relatively constant.
[2] http://papers.ssrn.com/sol3/papers.cfm?abstract_id=203092

by fully exploiting diversification benefits. And, because we have quantitative risk targets for the glide path rather than specific allocations to each asset class, the allocations are changed as needed to maintain the target risk levels. Our approach is objective and transparent. We believe, however, that, as an example, our specific choices and design strategy are so materially different from many Target Date Funds that these types of differences should be disclosed. For example, and by contrast, a fund that does not include commodities, REITs, or TIPS and that focuses on active management rather than passive strategies, or that locks in asset allocation percentages as opposed to risk levels, is quite likely to have markedly different risk and performance characteristics over time.

Consequently, this qualitative discussion of design strategy should be disclosed so that an investor, or an advisor, can more fully understand the target date vehicle and other disclosures such as the glide path.

3. Assumptions Regarding the "Average" Investor's Decisions Through Time

It has been widely noted that different target date funds with the same expected retirement date may have very different exposures to risky asset classes. The exposure to equities for 2010 funds varied dramatically in 2008, with the result that losses in the funds exhibited an enormous range. One of the largest determinants of the differences in asset allocation and risk exposure between funds is the assumptions that are made about the needs and interests of the investor.

As a starting point, there are assumptions about whether the investor will "cash out" at retirement or remain invested through his retirement years and draw income from the portfolio, what's commonly referred to as the "to or through" debate. Beyond this question are assumptions about investor risk tolerance and how much the average investor may lose in portfolio value in a worst case scenario. We believe it would be straightforward – and very useful -- to disclose the baseline assumptions about the "model" investor for whom a target date vehicle is designed.

Even if the "to or through" assumptions are made clear, investors in 401(k) plans are likely to have only one option to choose for each specific target date. If she has a "to" Target Date Fund available in the plan offering, but wants to stay invested for the long term (i.e. she would prefer a "through" option), what is she supposed to do? A possible solution to this problem – if multiple "through" versus "to" options are not provided -- is for Target Date strategies to, at least, provide multiple risk levels. For example, our baseline Target Date Folio glide path is designed as a balanced strategy for investors who plan to remain invested (i.e. "through"), but we also have a less risky (conservative) glide path that would generally be appropriate for an investor who plans to annuitize at retirement. Because we believe strongly that one-size-does-*not*-fit-all, we designed our Target Date Folios with three risk levels for each target date.

Including a statement about whether a target date allocation is designed with the assumption that investors will annuitize at retirement versus staying invested is consistent with the Commission's proposed rules – but providing a solution as to what to do if the choice is not what's desired also needs to be addressed, as does the issue of how to accommodate different desired risk levels generally.

4. Expected Risk Glide Path

There has been surprisingly little discussion about the critical issue of designing for risk in target date vehicles. There are a variety of ways to quantify risk exposure. In designing the Target Date Folios' model asset allocations, we established a target risk level at each point along the glide path. We periodically re-evaluate the asset allocations to determine whether the risk levels of the Target Date Folios match the original "policy" risk levels. It is not clear however, how or even whether others establish acceptable risk levels and determine whether their target date vehicles have risk levels consistent with risk targets, as opposed to establishing model asset allocations and conforming to those allocations. Perhaps of even greater concern is the possibility that disclosure rules may inadvertently highlight asset allocation as opposed to planned risk levels, thereby implying that asset allocation as opposed to risk level targeting is a preferred approach. Indeed, the emphasis on asset allocation and glide path disclosure encourages attention to the means (the asset allocation) as opposed to the more useful end (the actual targeted risk levels). Although it may be reasonable for a target date vehicle not to monitor portfolio risk through time and to maintain strictly its stated asset allocations, this is an important policy choice that should be disclosed. On the other hand, a more active approach to monitoring and controlling portfolio risk is not only acceptable but, we believe, preferable[3]. As noted earlier, we found that the increased correlations between almost every asset class during the 2008-2009 timeframe necessitated a reduction in exposure of the Target Date Folios to less risky asset classes.

Consequently, disclosure of the risk management strategy – or at least whether one exists as opposed to predominantly an asset allocation strategy – should be required.

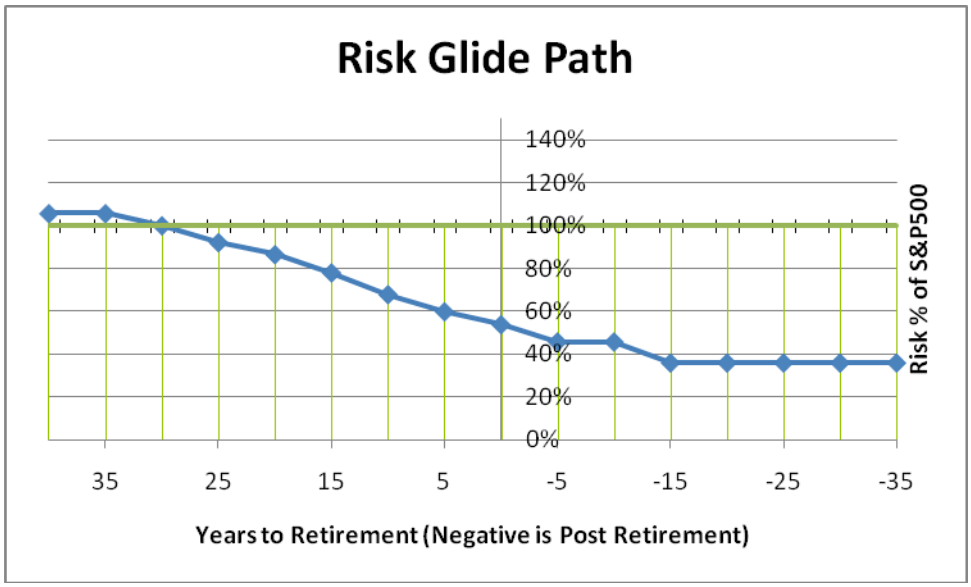
Additionally, we believe that disclosing the expected risk level of the target date vehicle over the disclosed life of the glide path would be very useful, with annual updates as needed for material changes in the expected risk levels. An example of this type of disclosure in graph form is shown below.

The risk glide path shows the planned risk level over the life cycle of the target date vehicle. This expected risk level may be expressed in absolute terms (standard deviation of returns) or relative to the expected risk of a benchmark such as the S&P500 or through other easily defined and readily determined means – and we would expect some debate as to what's best. There are many standard risk measures that could easily be used, and many that are in practice today.[4] If the Commission proceeded in this direction, this type of planned, expected risk glide path disclosure requirement should either be accompanied with a standardized formulation for the disclosure, or a requirement to articulate the definition of expected risk in connection with displaying this type of glide path.

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[3] MIT Prof. Andrew Lo, for example, has proposed that strategic asset allocation decisions are no longer responsive enough to dynamic changes in risk as competition and financial innovations cause stock and bond volatilities to spike unpredictably. *See,* http://www.ga.natixis.com/docs/1005/968/M-AR208,1.pdf

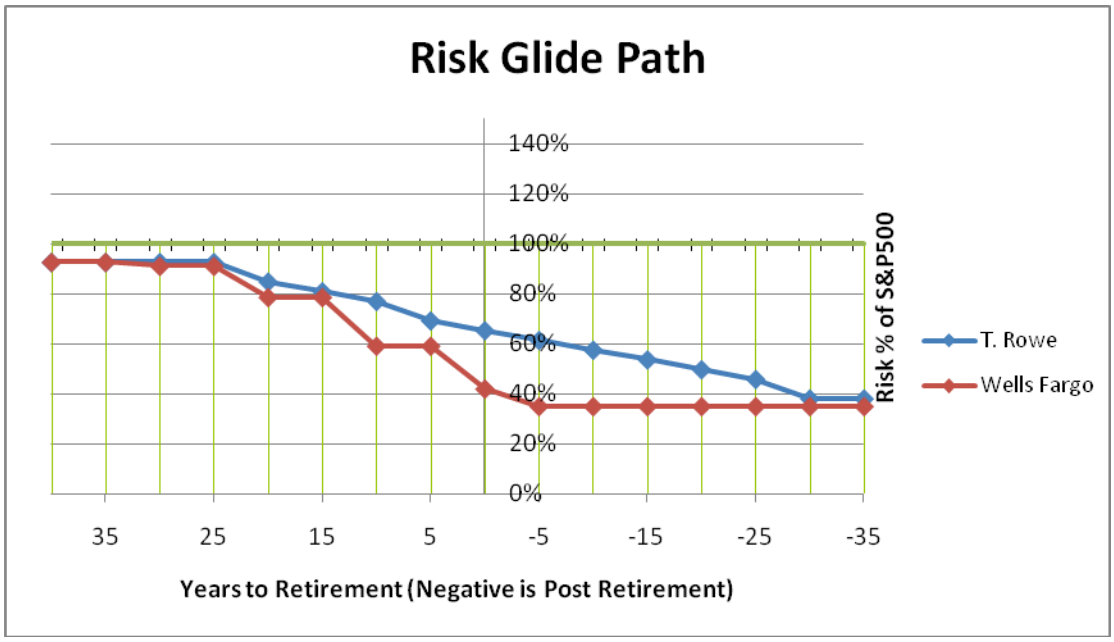
[4] See, e.g., RiskGrade™ Measures from RiskMetrics Group at www.riskgrades.com.



As an example of its utility, if a risk level of 100% was deemed to be the risk of the S&P500 (on an annualized one-year basis), an investor would immediately be able to determine the quite significant differences in the design philosophy behind different funds, and obtain in a few seconds a far better understanding of the potential variations in risk with each fund. Although the percentage of each vehicle's allocation to equities versus fixed income might similarly serve in some cases as a first-order proxy for risk, as noted previously it is likely to be a poor one; and in other cases and for many retail investors, determining risk levels accurately from that measure alone could be quite difficult.

The following graph highlights how the material differences in design strategies and risk become apparent.[5] In this instance, the asset allocations and risk levels are almost identical in the early years of the target date funds, and then again in the later years post-retirement. However, the risk levels surrounding the actual target date are substantially different -- leading to very different performance in this relevant time frame. That is easy to see and understand with this disclosure, but much harder to fathom from only an asset allocation disclosure.

[5] This example is loosely based on the Wells Fargo and T. Rowe Price 2010 funds and is not intended to be actual risk levels. The surrogate used for the stock allocation was the MSCI US Prime Market 750 Index, and for the Bond allocation was Barclays Capital US Aggregate Index, with the percentage to each being just the high-level stocks versus bonds allocations stated by the funds. Using projected risk for each asset class, the net projected risk for each target year was calculated from a weighted average and then divided by the projected market risk. The differences would likely be even more dramatic were more detailed and granular sub-classes used in the evaluation as the high level asset allocation disclosure could obscure the actual risk levels (as noted in Section 1 above).



Consequently, we would suggest that the designed expected risk level glide path be included in the disclosures regarding marketing of all target date vehicles.

5. Impact of Expenses

Given that target date vehicles are intended to be held over an entire working career, special attention must be paid to expenses. According to Morningstar, the average expense ratio for Target Date funds is 0.88%. Examples from the Department of Labor note that a 1% increase in expenses equates to a reduction of 28% in lifetime accumulated savings. Expenses are a major determinant of how much wealth investors in target date vehicles can accumulate over their working careers.

For example, the Target Date Folios have expense ratios that are less than half the average for Target Date Funds (although given other fees this is not a straight one-for-one comparison), but higher than for the lowest-cost Target Date Funds. In our case, our research suggested that the diversification benefits of certain asset classes ***were worth the slightly higher expense ratios***. The conclusion though is that expenses should be more transparent and while they are disclosed in standard fund materials, additional statements that emphasize the likely lifetime costs of expenses in target date vehicles – given how they are used as stable investments for an extended time frame – would be warranted. If increased expenses are warranted to obtain other benefits, such as in the case of our Target Date Folios to achieve higher diversification levels, then that should be noted.

6. Estimated Income in Retirement

One of the most important things for investors in target date vehicles to understand is the relationship between their savings rate and the amount of income they are likely to have in retirement. While estimates of future income are approximate, they can provide important insights. There are a variety of calculators available[6]. This type of estimated future income is essentially what was proposed in the *Lifetime Income Disclosure Act*[7].

When creating target date vehicles, estimates of wealth accumulation and sustainable income are generally part of the design and analysis process. Creating a consistent way to provide this information to investors would provide considerable assistance in retirement planning.

Ideally, this type of calculation would also show two types of risk: market risk (risk of a loss due to a market downturn) and longevity risk (risk of outliving your savings). Differences in exposure to market risk and longevity risk are one of the primary differences between target date vehicle allocations.

We performed these types of calculations in the process of designing the Target Date Folios and many fund families have gone through similar steps in the design of their funds. We have not yet attempted to summarize the projected income levels at a level suitable for the retail audience, but we see the merits. A range of studies have shown that Americans have little idea of how much they need to save for retirement or how well they are doing[8]. Two thirds of respondents in a recent Wells Fargo / Harris poll said that they would be likely to save more if they had better guidance and advice[9]. A calculation of expected retirement income on the basis of current savings, savings rate, and asset allocation would provide substantial guidance.

The inclusion of estimates of expected long-term sustainable retirement income is not part of the Commission's proposals and we know extends beyond usual disclosure requirements. However, this type of educational material would provide a powerful educational and decision-making aid to plan participants. We believe that whatever rules are adopted regarding target date vehicles, they not impede the disclosure of such estimates, or the offering of calculators or other tools that would provide such useful information.

Conclusions

We agree with the aims of the proposed rule for target date vehicles, and we have suggested ways we believe marketing materials can more clearly educate potential investors as to the salient features of these vehicles.

We are proposing that the disclosures for target date vehicles ideally include discussion of the six critical areas above, along with disclaimers that state that target date vehicles are all subject to varying levels of investment risk and longevity risk and that these investments

[6] http://www3.troweprice.com/ric/ric/public/ric.do
[7] http://bingaman.senate.gov/news/20091203-01.cfm
[8] https://www.wellsfargo.com/press/2010/20101208_RetirementSurvey
[9] *Id*.

should not be mistaken as guaranteed income products. There is no guarantee that any target date vehicle strategy can provide a specific amount of income through retirement.

Thank you for the opportunity to contribute our perspectives on this crucial matter.

Regards,



Michael J. Hogan
CEO & President
FOLIO*fn* Investments, Inc.