

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 Marketing,  
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<sup>1</sup> – 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

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<sup>1</sup> 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.”<sup>2</sup>*

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<sup>3</sup>. 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<sup>4</sup>. 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<sup>5</sup>. 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<sup>6</sup>. 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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<sup>2</sup> <http://www.sec.gov/rules/final/ic-24828.htm#other>

<sup>3</sup> 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>.

<sup>4</sup> Total equity allocation includes REITs. <http://bit.ly/ag1tTb>

<sup>5</sup> <http://corporate.morningstar.com/US/documents/TargetDateFundSeries/WellsFargoAdvantageDJTargetDateFundSeriesReport.pdf>

<sup>6</sup> 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.<sup>7</sup>*

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. Secondly, 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.’<sup>8</sup> 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:

| <b>Type of Fund</b>                          | <b>Naming Requirement</b>  |
|--|--|
| Balanced Funds                               | 25% of its assets in fixed income senior securities <sup>9</sup>   |
| 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 <sup>10</sup>            |
| Target Date Funds                            | Date on fund must match the glide path landing point <sup>11</sup> |

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:

<sup>7</sup> [http://www.sec.gov/rules/final/ic-24828.htm#P132\\_38055](http://www.sec.gov/rules/final/ic-24828.htm#P132_38055)

<sup>8</sup> This ranges in this second proposal are suggestions, perhaps warranting additional research.

<sup>9</sup> Footnote 42, paragraph 2, lines 3-13: <http://www.sec.gov/rules/final/ic-24828.htm>

<sup>10</sup> “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.’”).

<sup>11</sup> 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<sup>12</sup>. 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,

Ryan Alfred  
President, BrightScope

Joe Nagengast  
Principal, Target Date Analytics

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