



## Consumer Federation of America

June 9, 2014

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

Re: File No. S7-12-10  
Investment Company Advertising: Target Date Retirement Fund Names and Marketing

Dear Secretary Murphy,

I am writing on behalf of the Consumer Federation of America (CFA)<sup>1</sup> to commend the Commission for its endeavor to provide enhanced information to investors concerning target date funds. We wholeheartedly support the Commission's goals of reducing the potential for investors to be confused or misled regarding target date funds' holdings and risks. Unfortunately, the Commission's initial proposal is fatally flawed, as it is not likely to deliver on those goals, and may in fact result in new risks to investors, of which they are not aware. Rather than adopting the current proposal of basing glide-path illustrations solely on broad asset allocation strategies, we urge the Commission to develop glide-path illustrations based on standardized risk metrics, as recommended by the Investor Advisory Committee (IAC).

We therefore welcome the Commission's decision to put this issue out for public comment. We fear, however, that the public comment process may be inadequate to identify possible metrics for developing a risk-based glide path illustration, and we encourage the Commission to consult institutional investor experts and academics to identify possible approaches. Conducting this outreach to risk management experts would be an appropriate project for the newly appointed Investor Advocate, perhaps working in concert with the Office of Economic and Risk Analysis. Only after it conducts a review of available options will the Commission be able to develop a proposed approach that is likely to achieve the intended goal of providing a standardized illustration of risk that can be applied across a variety of risk-management strategies.

Adopting an alternative approach to risk illustration is essential to address fundamental weaknesses in the Commission's initial rule proposal. First, the Commission's proposal to base glide-path illustrations solely on asset allocation will not properly illustrate target date funds' risks. Target date funds invest in diverse mixes of asset classes, including stocks, bonds, cash, and cash equivalents (such as money market instruments). Within these broad categories, funds invest in a wide range of assets, with very different risk characteristics. Designing a regime that looks only at the relative proportion of the broad asset classes will therefore not adequately convey to investors the specific risks that funds carry.

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<sup>1</sup> CFA is a non-profit association of nearly 300 national, state, and local pro-consumer organizations. It was formed in 1967 to represent the consumer interest through research, advocacy and education.

To illustrate, two different funds may invest in the same proportions of stocks and bonds, but their actual holdings within those stock and bond categories may be very different, and as a result, reflect very different risks. If one fund holds its stocks in risky emerging markets companies and its bonds in subprime collateralized debt obligations, for example, that fund will experience significantly different returns and volatility compared with the other fund, if it holds its stocks in S&P 500 companies and bonds in U.S. Treasuries. Unfortunately, under the Commission's proposal, an investor who is presented a glide-path that only illustrates the two funds' relative asset allocations will see that each fund is invested in the same proportions of stocks and bonds, and could reasonably conclude that the funds possess similar risk characteristics. Clearly, the investor would be misinformed due to such a glide-path illustration, and as a result, unable to make an informed investment decision based on his or her risk tolerance and other investment objectives.

Second, the Commission's proposal could create an opportunity for asset managers to invest in risky assets, without having to fully illustrate the risks those assets carry. Asset managers are in perpetual competition to increase their assets under management, and they may therefore be motivated to boost their returns by reaching for yield. In such circumstances, their incentive will be to invest in assets that carry the highest upside potential, with minimally apparent downside risk. Because the Commission's proposal would mask the true extent of the risks relative to other funds with similar allocations to broad asset classes, asset managers may view glide-path disclosures of asset allocations as an opportunity to further increase their reach for yield, regardless of whether those activities also carry extreme downside risk. Such a scenario is likely to lead to a race to the bottom environment that ultimately harms investors, possibly without their even becoming aware of it until it is too late.

Rather than adopting the current proposal of basing glide-path illustrations solely on asset allocation, the Commission should develop glide-path illustrations based on standardized risk metrics, as recommended by the IAC. Basing glide-path illustrations on standardized risk metrics will provide investors with meaningful information that helps them make informed investment choices based on their risk tolerance and other investment objectives. It will also reduce the opportunity for asset managers to reach for yield without properly disclosing the risks that they take on. And it will provide the added benefit of promoting flexibility in the strategies fund managers use to manage risks.

Given the recent growth in the popularity of target date funds and the fact that target date funds function based on the premise that they are "set it and forget it" investment vehicles, which by their nature are likely to attract less-sophisticated investors, it is critical that the Commission require these funds to provide information to investors in a manner that clearly and accurately conveys the risks to which they are exposed. Only then will investors be able to compare their various options and make informed choices to fulfill their long-term savings objectives. We believe the recommendation of the IAC best achieves that goal, and we encourage the Commission to continue its efforts to develop an appropriate risk metric to use in developing a standardized glide-path illustration.

Respectfully submitted,



Micah Hauptman  
Financial Services Counsel