June 18, 2009

MANNING & NAPIER'S WRITTEN SUBMISSION TO THE JOINT HEARING ON TARGET DATE FUNDS

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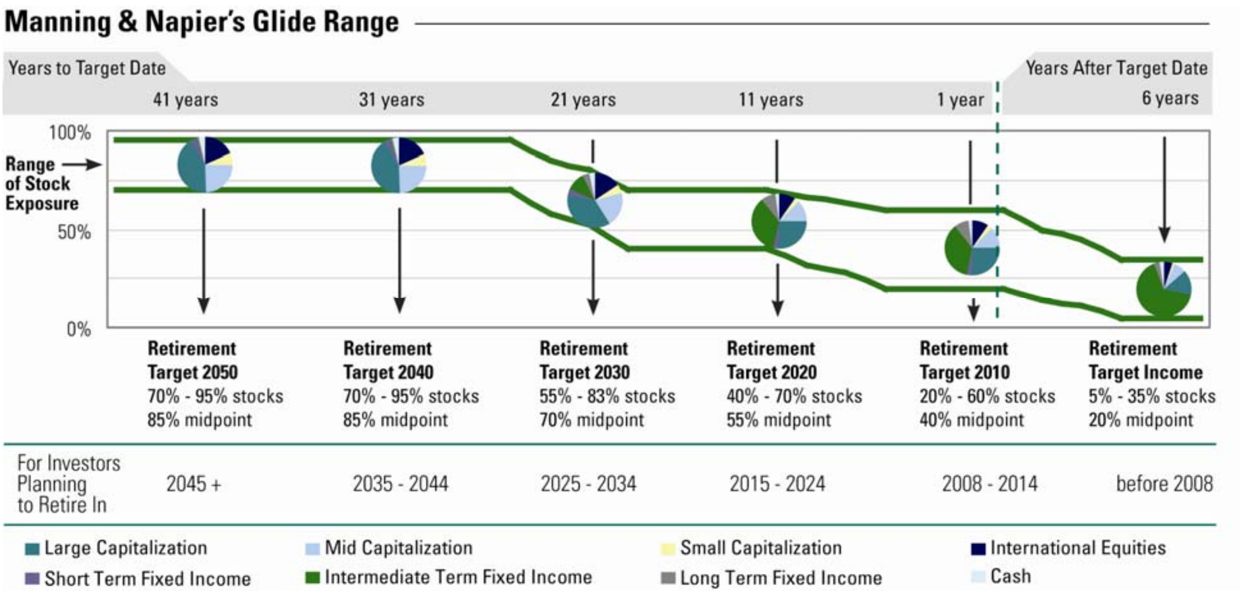
We thank the Securities and Exchange Commission and Department of Labor for the opportunity to provide written testimony for the Hearing on Target Date Funds and Similar Investment Options. Manning & Napier Advisors is an $18 billion investment manager with over 60% of our assets under management in target date or target risk life cycle mandates spanning mutual funds, collective investment trusts and separate accounts. Manning & Napier has managed assets to meet life cycle objectives for over 35 years, a time period that includes five bear markets. As a firm that has specialized in life cycle management, we have seen first hand the important role life cycle funds can play in achieving retirement goals when managed appropriately.

The perspective we wish to bring to the panel is the importance of flexibility in managing the glide path and underlying investments of a target date portfolio given the changing nature of investment risk as market environments change. This perspective leads us to the conclusion that increased transparency, disclosure and communication to plan fiduciaries and participants is a more appropriate response to the concerns raised regarding target date fund performance than invoking investment-related restrictions on the glide path or underlying investments of target date funds.

To start, we believe there are three factors that need to be considered to set and adjust the asset allocation of a target date fund over time:

1. The time horizon over which the risk of capital losses should be measured;
2. The level of withdrawals expected from the target date onward; and,
3. The market and economic environment.

Since market and economic conditions are constantly changing, we believe there is no single, pre-arranged glide path that can meet the needs of participants in all environments. Instead, as the target date for significant withdrawals from investor balances draws near, we move an investor in a target date fund from more growth oriented target risk portfolios to more conservative portfolios. Our general assumption is that at a fund's target date an investor will begin withdrawing roughly 5% annually with no additional contributions, and that withdrawal rate will increase to approximately 8%-10% annually by 5-6 years after the target date. However, the specific allocation to risky assets like equities at any point in time is not fixed in a pre-determined glide path, but is built on an investment-by-investment basis within an appropriate range for each target portfolio. As is illustrated in the following graphic, the end result of our approach is a **glide range** with more conservative allocations as the target date approaches, but with the actual allocation within the range determined by Manning & Napier based upon the risks and opportunities in the current market environment.




We believe that failure to adapt to the changing nature of investment risk can turn a glide path into a **glide trap** because the historical asset class return patterns on which it is based will inevitably fail in periods like we have seen over the past year. As an example, your asset allocation in December 1999 (before the bursting of the internet bubble) with extreme stock market valuations should not be the same as in the bottom of the bear market in December 2002, yet many target date fund managers are trapped into a glide path that reduced exposure to risky assets every year even when those risky assets were priced for a better risk/reward trade off going forward. We believe a flexible glide path that factors in time, withdrawal needs *and* market conditions allows the manager to balance the conflicting goals of managing capital risk, inflation risk and longevity risk. As such, we have concerns about placing restrictions on asset allocations along the glide path as it could hamper target date fund managers' ability to pursue these long-term investment objectives.

Instead, we believe it is important for target date fund managers to effectively communicate to both Plan fiduciaries and participants the key assumptions they have made regarding investor time horizons and withdrawal needs when constructing their glide path. Just as important, target date fund managers should explain how they intend to *proactively* adjust their allocations in a changing environment and provide both their experience and actual track record of making such proactive adjustments over a range of environments, as opposed to simply rebalancing within a fixed glide path. As we illustrate in the following two Tables, there is no single glide path that holds the secret key to investment success in all market environments.

**Table 1: Five Year Failure Rates of Various Asset Mixes**

| % U.S. Large Cap Stocks/ %Intermediate Government Bonds | 0/100 | 20/80 | 40/60 | 60/40 | 80/20 | 100/0 |
|---|---|---|---|---|---|---|
| Annualized Return (1926-2008): | 5.4% | 6.7% | 7.7% | 8.5% | 9.2% | 9.6% |
| Percent of Rolling 5-Year Periods With Less Than | | | | | | |
| 5% Returns | 54% | 34% | 21% | 20% | 22% | 24% |
| 8% Returns | 82% | 73% | 59% | 45% | 37% | 34% |
| 10% Returns | 89% | 83% | 73% | 59% | 50% | 43% |

Source: Ibbotson; analysis by Manning & Napier

Table 1 shows that asset allocations ranging from 100% intermediate government bonds to 100% stocks have all failed to meet what many would call reasonable return expectations in at least 20% of the rolling five-year periods since 1926. While the table also shows that higher equity allocations generally result in higher average returns and lower rates of failure to achieve target returns, Table 2 that follows shows that higher equity allocations also increase the risk of capital losses over the short-to-intermediate term.

**Table 2: Historical Frequency of Capital Loss for Various Asset Mixes**

| % U.S. Large Cap Stocks/ % Intermediate Government Bonds | 0/100 | 20/80 | 40/60 | 60/40 | 80/20 | 100/0 |
|---|---|---|---|---|---|---|
| Percent of Rolling Periods With a Negative Return | | | | | | |
| Rolling 1-Year Periods | 9% | 10% | 17% | 21% | 25% | 27% |
| Rolling 3-Year Periods | 1% | 2% | 4% | 10% | 13% | 16% |

Source: Ibbotson; analysis by Manning & Napier

As such, we believe that history has shown time and again that no single asset mix will be able to meet both an investor's long-term capital growth and capital preservation needs in all environments. The data in Tables 1 and 2, as well as investor's experiences over the last ten years, show that actual risk/reward relationships can deviate widely from historical averages.

However, investors should understand that to a large extent, future returns are related to the current market conditions.

Unfortunately, there are far too many examples of life cycle managers chasing after market returns whether by adding risky investments like commodities and junk bonds following strong short-term market returns or by selling those risky investments to buy Treasury securities in the depth of the bear market for risky assets. In contrast to the "set it and forget it" approach of rebalancing to a fixed glide path or the "buy high, sell low" approach of adding investments in reaction to short-term market moves, Manning & Napier builds its life cycle portfolios from the bottom up with individual securities we believe are priced for a favorable risk/return trade off in the current market environment. As the following table illustrates, Manning & Napier's unique approach to life cycle investing has helped our clients navigate these tough markets and achieve positive absolute returns in what is shaping up to be a "lost decade" for many investors.

| Manning & Napier Risk-Based Fund | Underlying Holding of: | 5/31/09 Equity Allocation (Allowable Equity Range) | Cumulative Return 1/1/00-5/31/09 |
|---|---|---|---|
| Manning & Napier Pro-Mix Conservative Term Fund | Manning & Napier Retirement Target Income Fund | 28.9% (5%-35%) | 67.40% |
| Manning & Napier Pro-Mix Moderate Term Fund | Manning & Napier Retirement Target 2010 Fund | 51.7% (20%-60%) | 59.34% |
| Manning & Napier Pro-Mix Extended Term Fund | Manning & Napier Retirement Target 2020 Fund | 65.7% (40%-70%) | 61.24% |
| Manning & Napier Pro-Mix Maximum Term Fund | Manning & Napier Retirement Target 2040 and 2050 Funds | 91.9% (70%-95%) | 45.29% |
| S&P 500 Index | | 100% | -25.93% |

NOTE: The above funds are Collective Investment Trust Funds

No two target funds are alike. This fact is now well known, and it has actually been identified as part of the "problem" with target date funds during the recent bear market. As plan sponsors have had to select from a rapidly growing number of target date fund providers, so much emphasis has been placed on the target date concepts (i.e., diversification and the existence of a glide path), and not enough emphasis has been placed on understanding exactly how any given fund family would approach the glide path and underlying investments.

Manning & Napier manages the underlying investments in our target date funds as a diversified, but unified portfolio built on a security-by-security basis given the risks and opportunities in the current environment.  This approach is distinct from a fund-of-fund approach of a collection of individual managers pursuing narrow mandates, which we believe makes total portfolio coordination and adjustment to the changing environment more difficult as well as raises the risk of over-diversification.  We believe our approach provides advantages over the fund-of-funds approach, and we would be concerned about placing restrictions on the nature of underlying holdings that might preclude our unified portfolio approach.

Instead, we believe improvements can be made on the industry's disclosure of the investment approach taken with respect to selecting and monitoring underlying holdings, including more disclosure and education regarding the total number of holdings to better inform plan sponsors and participants as well as guard against investors paying active management fees for these vehicles that are over-diversified and under-disclosed.  Likewise, disclosure to plan sponsors and participants regarding the fee structure of underlying investments in a fund-of-funds environment can help them guard against biases in allocation decisions related to fee differences among underlying funds.

In closing, we feel that target date funds and related investment products, when selected and managed appropriately, play an important role for plan sponsors helping participants meet their retirement goals.  Thank you again for giving Manning & Napier the opportunity to share our perspectives.