Investment Company Advertising: Target Date Retirement Fund Names and Marketing

A Response to the Securities & Exchange Commission Request for Comments

Prepared by:

Glenn Dial, Managing Director
Head of Retirement Strategy

Mark Hathaway, CFA, Director
Senior Product Specialist – Target Date Funds

October 22, 2014

Allianz Global Investors

Allianz Global Investors

October 22, 2014

By E-Mail: rule-comments@sec.gov

Investment Company Rulemaking Office
Division of Investment Management
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-8549

Attn: J. Matthew DeLesDernier, Senior Counsel

RE: File No. S7-12-10

Dear Mr. DeLesDernier:

As a follow up to meetings held in your offices in late July on disclosure requirements for target date funds ("TDFs"), Allianz Global Investors ("AllianzGI") is grateful for the opportunity to provide additional information to the Securities and Exchange Commission ("SEC"). The attached response presents AllianzGI's support for the adoption by the SEC of additional mandatory disclosures for TDFs.

We believe that product and data providers alike must increase the level of care and attention they take in offering these unique funds to plan participants. Our attached proposal covers four primary areas:

1. Naming convention of TDFs
2. Disclosure proximity to the TDF name
3. Risk-based glide path
4. Public target date benchmark

Adopting these enhanced participant-level disclosures will, in our view, enable better decision making by investors. With the establishment of TDFs as Qualified Default Investment Alternatives ("QDIAs") under the Pension Protection Act of 2006, millions of Americans have been able to benefit from the simplicity and widespread availability of these default investment choices.

However, simply choosing a TDF—a decision that, based on observed participant behavior, is frequently made solely on the basis of the date in a TDF's name—cannot insulate plan participants from market turmoil. This became apparent in 2008 and early 2009, when the wide range of differences across TDF families added up to large losses and real consequences for far too many participants—particularly those invested in 2010 funds.

Clearly, if plan sponsors and participants had an easier way to understand their TDF investment, many of them might not have been invested in those 2010 funds. Better labeling and disclosures could have also reduced the level of surprise many participants felt when they witnessed the impact the downturn had on their accounts, particularly those who cashed out and locked in losses just before retirement.

The increased importance of TDFs has rightfully enhanced greater scrutiny of these products. Allianz Global Investors is committed to helping every American retire with dignity and welcomes the opportunity to work with the SEC to consider enhanced industry-wide standards that will improve transparency about TDFs and any other retirement issues.

If you have any questions, please contact Glenn Dial at (212) 739-4275 or Mark Hathaway at (212) 739-4157.

Sincerely,

Glenn Dial
Managing Director, Head of US Retirement Strategy
Allianz Global Investors

Mark Hathaway
Director, Senior Product Specialist for US Multi-Asset
Allianz Global Investors

Disclosure requirements to help plan participants

I. Naming convention of target date funds

In our view, the current challenge at hand is that the retirement industry has developed a serious, albeit well-intentioned, "truth in labeling" problem with TDFs that needs to be addressed. Based on the observed participant behavior that many of these investment decisions are made using the TDF name alone, Allianz Global Investors recommends the SEC establish revised naming conventions that are transparent and descriptive about the TDF's investment philosophy and glidepath construction.

There are two categories of proposed changes to TDF naming conventions: one for "To" funds and one for "Through" funds.[1]

- "To" TDFs that have a glidepath designed to reduce overall risk by the retirement target date and make the assumption that investors are likely to remove their funds from the plan at or near the date, may use the current "year" convention in the fund name, with or without additional descriptive phrases.
- "Through" TDFs that have a glidepath designed to reduce overall risk post the retirement target date and are meant for participants who intend to remain invested after the target date, must use a modified form of the current "year" convention, with or without other descriptive phrases.

Examples

- For "To" funds (examples use a target date of 2015)
  1. To: 2015 Target Date Fund
  2. To: 2015 Retirement Fund
  3. To: Reach Retirement by 2015 Fund
  4. To: 2015 Wealth Builder Fund
  5. To: Arrive at 2015 Retirement Fund
  6. To: Income-Ready at 2015 Retirement Fund
- For "Through" Funds (examples use a target date of 2015)
  1. Through: 2015 +30 Year Fund
  2. Through: 2015 to End of Retirement Fund
  3. Through: 2015-2045 Twilight Fund
  4. Through: 2015-2045 Lifespan Fund
  5. Through: Stay Invested Past 2015 Fund
  6. Through: Invest Beyond 2015 Retirement Fund
  7. Through: Growth After 2015 Retirement Fund
  8. Through: Maintain Growth Potential at 2015 Retirement Fund

II. Disclosure in proximity to the TDF name

In an effort to help participants and plan sponsors make smart retirement decisions by providing an added layer of disclosure near the revised TDF name, we propose a two-tiered approach to this additional participant-level disclosure to address established patterns of investor behavior, and to highlight the TDF's risk level at retirement.

- The first tier is a mandated "Participant Profile" statement near the fund name (see below).
- The second tier is a metric that measures the "Portfolio Risk Level" at the target date. This could be based on percentage of equity exposure, downside capture, volatility or other factors (see below).

Examples

- To: 2015 Fund
  Participant Profile: For investors who are unsure of how they will invest after the targeted 2015 retirement date, and want reduced risk near 2015.
  Risk of loss within 5 years of 2015: Low
- Through: 2015 +30 Years Fund
  Participant Profile: For investors who intend to leave their money in the plan for up to 30 years after their targeted 2015 retirement date.
  Risk of loss within 5 years of 2015: High

1. Allianz Global Investors makes the following distinctions between "To" funds and "Through" funds.
- A "To" fund is a TDF with a ***low amount of volatility at retirement***, regardless of whether the equity glide path continues to decrease over time.
- A "Through" fund is a TDF with a ***high degree of volatility at retirement***, regardless of whether the equity glide path continues to decrease over time.

III. Risk-based glide path in disclosure

Allianz Global Investors agrees with the SEC's Investor Advisory Committee that implementing a risk-based glide path would provide enhanced information to investors and reduce the potential for investors to be confused or misled regarding TDFs. We also agree that developing a glide path illustration for TDFs that is based on a standardized measure of fund risk is achievable and should be considered best practice. Allianz Global Investors' view is that improving participant-level disclosure about risk parameters in this way should help provide clarity to investors, particularly in the absence of clear standardized benchmarks and peer groups for TDFs.

Beta is the simplest and most accepted risk measure relative to equities. The asset allocation glide path illustration that depicts a TDF's asset allocation over time has become a standard and accepted feature in marketing materials for TDFs. This two-variable asset allocation glide path primarily tracks exposure to equities. Thus, it would be appropriate to supplement the asset allocation glide path illustration with an illustration that essentially provides a risk overlay on the equity exposure.

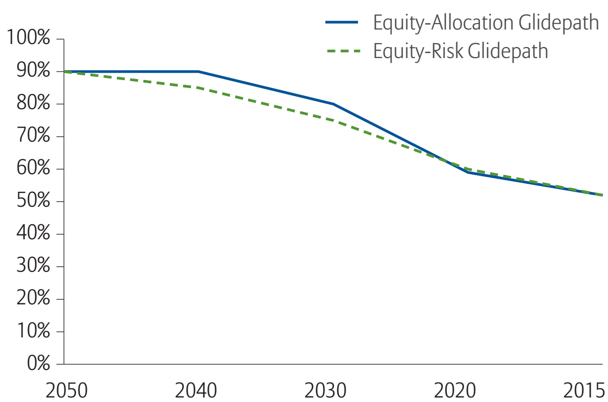
As some might suggest, creating a more complex asset allocation glide path that depicts multiple asset classes beyond equities and bonds is one approach to provide greater transparency to investors. However, we believe that simply creating a more complex asset allocation glide path would not provide the appropriate level of risk measurement for investors. The addition of multiple asset classes in the glide path depiction adds a significant layer of complexity, placing the responsibility on the investor to determine the amount of additional volatility that should be expected with the incremental additions of various asset classes. Due to this potential variance in risk, and staying mindful of the goal of providing investors with useful information that is not confusing or misleading, we recommend providing an equity-beta glide path, which we believe would improve the measurability and credibility of equity risk within the target date series.

An asset allocation glide path, even in its simplest form, can hold great variance in risk. Consider, for example, the difficulty of comparing portfolios invested in high-beta stocks (i.e., technology) and high-yield bonds with portfolios invested in lower beta stocks (i.e., utilities) and cash. Providing a beta glide path as a supplement to the existing asset allocation glide path disclosure would address the concerns of the Committee while providing investors with meaningful and useful information on the risks associated with investing in TDFs. A beta glide path is a best effort to demonstrate how much equity volatility has existed in the portfolio. This, combined with the asset allocation glide path, gives a clearer picture not only of asset allocation but volatility due to the allocation.

We understand that there is disagreement in the industry with respect to developing a standard methodology to measure risk, but we strongly believe that the lack of a single perfect solution should not impede efforts to enhance the quality of information provided to investors. As stated above, beta is the simplest and most accepted risk measure relative to equities. As the asset allocation glide path tracks exposure to equities, it would be appropriate to use beta as a risk measure in a supplemental glide path.

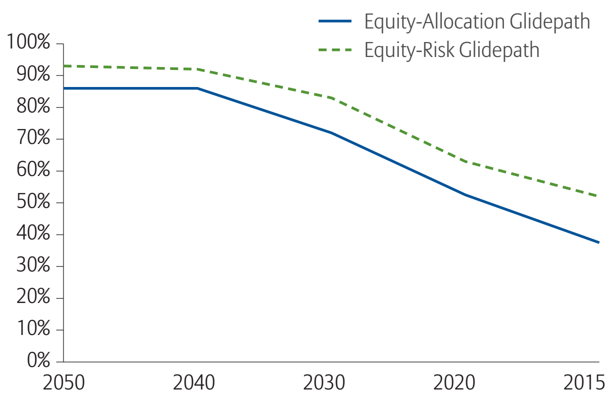
As shown below, the equity-allocation glidepath (solid line) complements the beta glidepath (equity-risk glidepath-dashed line) to depict any differences in the target date provider's current/expected equity exposure versus actual equity risk in the prior period. In the three examples below which show existing target date fund families, we see that in some cases (Fund A) the respective glidepaths are very similar, while in other cases a fund family shows a higher equity beta than would otherwise have been expected (Fund B), or in the case of Fund C much less beta than may have been assumed by the asset allocation glidepath alone.

Fund A



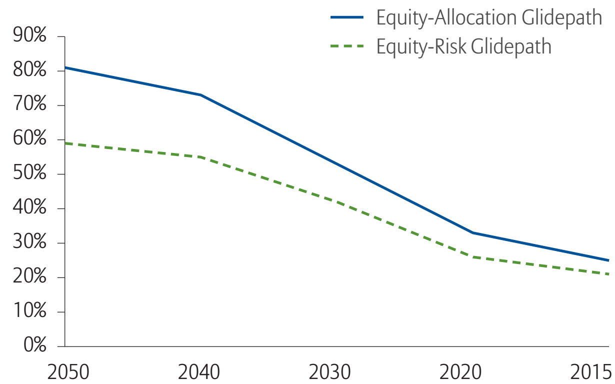
Equity-Risk is calculated using a beta glide path constructed with 3-year trailing beta, weekly performance data versus MSCI ACWI

Fund B



Equity-Risk is calculated using a beta glide path constructed with 3-year trailing beta, weekly performance data versus MSCI ACWI

Fund C



Equity-Risk is calculated using a beta glide path constructed with 3-year trailing beta, weekly performance data versus MSCI ACWI

IV. Public target date benchmark

In conjunction with the inclusion of a beta glide path, Allianz Global Investors recommends the selection of a public glide path-based benchmark for TDFs.

The use of a public benchmark as a basis for measurement of performance and risk is a standard practice in the mutual fund industry. However, for TDFs, public glide path-based benchmarks are rarely used. We believe the use of a public glide path-based benchmark is both beneficial and achievable.

Today's index providers, such as Morningstar, S&P and Dow Jones, currently offer several options for public glide path-based benchmarks, which makes it easier to achieve widespread implementation of these benchmarks. The utilization of a public glide path-based benchmark will allow investors to better analyze TDFs by applying three decades of best practices in the U.S. investment management industry. By using a public glide path-based benchmark, each TDF portfolio could be compared to the benchmark portfolio, resulting in effective comparison among the available choices in the market. See illustration on next page.

Allianz Global Investors

Performance

For illustrative purposes only

Target-Date Funds	4Q 2013	YTD 2013	Annualized as of 12/31/2013 1 year	3 year	5 year	Since Inception[2]
Target Date Income Fund	2.05%	3.15%	3.15%	5.46%	9.55%	9.58%
Dow Jones Real Return Today Index	0.30%	–1.56%	–1.56%	4.54%	8.08%	8.06%
Excess Return	+1.75%	+4.71%	+4.71%	+0.92%	+1.47%	+1.52%
Target Date 2015 Fund	2.31%	3.59%	3.59%	5.44%	9.87%	9.93%
Dow Jones Real Return 2015 Index	0.18%	–1.56%	–1.56%	4.39%	8.17%	8.19%
Excess Return	+2.13%	+5.15%	+5.15%	+1.05%	+1.70%	+1.74%
Target Date 2020 Fund	2.66%	4.31%	4.31%	5.49%	10.22%	10.29%
Dow Jones Real Return 2020 Index	0.51%	–0.43%	–0.43%	4.50%	8.60%	8.69%
Excess Return	+2.15%	+4.74%	+4.74%	+0.99%	+1.62%	+1.60%
Target Date 2030 Fund	3.83%	8.03%	8.03%	6.06%	12.14%	12.30%
Dow Jones Real Return 2030 Index	1.71%	3.68%	3.68%	4.98%	10.20%	10.49%
Excess Return	+2.12%	+4.35%	+4.35%	+1.08%	+1.94%	+1.81%
Target Date 2040 Fund	4.97%	12.62%	12.62%	6.66%	13.89%	14.13%
Dow Jones Real Return 2040 Index	3.29%	9.19%	9.19%	5.84%	12.03%	12.52%
Excess Return	+1.68%	+3.43%	+3.43%	+0.82%	+1.86%	+1.61%
Target Date 2050 Fund	5.49%	14.87%	14.87%	7.29%	14.54%	14.78%
Dow Jones Real Return 2050 Index	4.32%	12.90%	12.90%	6.61%	13.06%	13.63%
Excess Return	+1.17%	+1.97%	+1.97%	+0.68%	+1.48%	+1.15%

Performance quoted represents past performance. Past performance is no guarantee of future results. Investment return and the principal value of an investment will fluctuate. Shares may be worth more or less than original cost when redeemed. Current performance may be lower or higher than performance shown. For performance current to the most recent month-end, visit our website.