Folio Investing

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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:

We appreciate the reopening of the public comment period on disclosures and marketing pertaining to Target Date offerings, and we are pleased to submit a response. While Target Date offerings represent an innovation which substantially benefits the public, we believe basic features and key differences among various target date offerings will remain insufficiently disclosed under the current proposals.

The proposed requirement to provide a chart or graph depicting asset allocations over the life of a Target Date Fund provides additional disclosure, but will lead investors to conclude that the asset allocation glide path is the key factor to review. That does not, however, provide sufficient basis for investors to assess properly the suitability of a fund. As we noted in our original submission on target date proposals during the Commission's first public comment period on the marketing of Target Date investments, http://www.sec.gov/comments/s7-12-10/s71210-55.pdf (the "January 2011 letter"), such disclosure can lead to poor comparisons among funds as well as lead investors to believe that asset allocation, as opposed to risk levels, are what they should focus on when making an investment decision.

As noted in our January 2011 letter, the research conducted by Folio Investing during development of its own Target Date portfolios demonstrated that the more useful and important portfolio characteristic is its *risk* glide path showing the expected portfolio risk through an individual's investment life cycle. Expected portfolio risk is the critical design feature of target date vehicles. The asset allocation is simply the means to achieve a specific risk level at a point in time. But the asset allocation needs to change with market conditions and should not remain as a stable glide path. The current proposal, however, would encourage providers, and suggest to investors, that a stable asset allocation glide path is a proper design, when we believe it is not.

Additionally, few investors realize that funds with nearly identical asset allocation glide paths often have remarkably different risk levels. For example, Folio Investing's research found that risk levels in 2010 Target Date Funds could vary ***by 30% or more*** for funds with almost identical percentages allocated to equities and bonds. The fraction of a portfolio invested in fixed income assets and cash may facially be a reasonable proxy for risk, but in reality it is far from perfect. Some fixed income assets are much riskier than others, with variability in risk depending on duration and credit quality. In the equity portion of the portfolio, risk levels can vary dramatically depending upon the specific allocations to small cap stocks vs. large cap, emerging markets vs. developed markets, and other differences in the specific categories of equity exposure.

We suggest that regulators agree on a standardized risk measurement for Target Date offerings. An investor would immediately be able to determine the quite significant differences in the design philosophies behind different offerings, and quickly reach a far better understanding of the potential variations in risk with each.

Finally, another beneficial result of requiring disclosure of portfolio risk is that it requires a more active approach to monitoring risk by the manager. Material systemic changes in market conditions ought prompt decisions to alter portfolio allocations. In our own case, we found that the increased correlations between almost every asset class during the 2008-2009 timeframe necessitated a reduction in exposure of our portfolios to higher-risk asset classes. The asset allocation needed to change to maintain a steady risk level.

Other key elements of target date vehicles that investors need to understand include the impact of expenses and the estimated income an investor can expect in retirement. These were also addressed in our January 2011 letter.

Folio Investing's *Target Date Folios* were launched in 2007 and are offered in multiple risk levels – conservative, moderate and aggressive – for each retirement target year. Asset allocations are reviewed annually, and adjusted when necessary to maintain consistent risk levels.

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

Sincerely,

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