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August 5, 2009

The Honorable Mary L. Schapiro
Chairman
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549

Dear Chairman Schapiro:

Thank you again for the opportunity to provide testimony at the June 18th hearing on Target Date Funds. Over the weeks since the hearing, we've heard many people share their thoughts on how to fix target date funds or how to reposition the offerings and/or communication in order to avoid surprises like we saw in 2007 and 2008. Many of these seem to be self-serving, meaningless fluff, and/or downright dangerous to American savers. We are more than a little concerned with some of these ideas and wanted to take the opportunity to reiterate a few ideas that would reduce the risk of future surprises in the Target Date space. A few general thoughts:

1. There is a need for transparent communication of the potential risk, or volatility, of different target date solutions at various points along the glide path – particularly immediately prior to and through retirement.
2. This standardized communication needs to be a required part of the due diligence process of selecting a QDIA.
3. There is room for variation in Target Date offerings so long as the implications of those variations can be clearly communicated and understood by fiduciaries and participants.
4. Introducing anything that requires education/decision making on the part of the participant related to varying Target Date <u>methodologies</u> is a step backwards and leads to the old self-defeating behavior of making investment decisions based on historical returns rather than investment appropriateness. Explaining where a TD fund hits its most conservative point and asking a participant to choose a solution that goes "through or to retirement" based on their expected future distribution decisions or asking them to choose among "conservative, moderate, or aggressive" target date options are examples of changes that would only confuse participants and lead to a significant regression in the participant decision making

process and detract from the simplicity that makes Target Date fund investing effective.

5. Communications that only regurgitate existing data (glide path, historical returns) in a more attractive, but possibly homogeneous format, also will fail to provide fiduciaries and their participants the kind of useful information they need to avoid surprises from their Target Date choices.

As mentioned in our previously submitted testimony and highlighted in our oral testimony, we believe standardized communications to plan fiduciaries and participants would have avoided much of the turmoil we've seen in the Target Date space. A "fact sheet" that reflects the potential consequences of the decision versus regurgitating more methodology-based information like equity allocations over time or when the glide path hits its most conservative point. Proposals we've seen from other industry "experts" focus on relaying the same information in a standardized, albeit more attractive way, but neglect to introduce the kind of meaningful, decision influencing information necessary for more educated decisions. Displaying various glide paths and discussing their design attributes is akin to showing a prospective heart transplant patient a series of ECG printouts and asking them to make a decision on which potential heart would be "best" for them.

It would be far more meaningful, and would leave much less room for fatal surprises, if we told that prospective patient that ECG number 1, while it may look pretty, has a history of arrhythmias and may experience atrial fibrillation under certain circumstances. Just as it would be more meaningful for fiduciaries and investors to know that fund company "B's" glide path could result in them losing 25% of their nest egg if the markets go down 40% near their retirement date.

Putting ourselves back in the business of educating fiduciaries and investors on investment philosophy is a losing battle. We should focus our efforts on giving them information that motivates them to make wise decisions that avoid unnecessary future surprises.

Below I have reiterated the components of a meaningful "Fiduciary Fact Sheet" to be used in the selection of appropriate Target Date QDIAs and attached you will find the previously submitted mock up for your review. The fact sheet might include the following:

1. A universal Target Date benchmark used for illustrating and gauging potential risk characteristics. As mentioned previously in our testimony, <u>it is not for the purpose of measuring relative investment performance</u>.
2. A clear illustration of the fund manager's published glide path versus the universal benchmark. This illustration should also reflect the actual difference in equity allocations along the entire timeline and be accompanied by a "plain language" description of the fund manager's level of discretion to allocate above or below the published glide path.
3. Clear illustrations of potential downside volatility (participant losses) versus the universal benchmarks for each Target Date Fund in the family, e.g., 2010, 2020,

etc. This should include both worst rolling twelve month periods and maximum drawdowns, as drawdowns and portfolio recovery times are more reflective of potential participant experiences. Volatility should be portrayed in terms of both percentage losses and dollar losses in an example portfolio.

Again, these Fact Sheets could be an integral part of the plan sponsor's fiduciary review process for selecting a Qualified Default Investment Alternative as defined by the Department of Labor. A copy of the Fact Sheets for the selected fund family, signed by the Trustee, would become a part of the plan's due diligence documentation, signaling that the trustees are aware of the risk characteristics of the chosen fund family and that they believe the solution to be appropriate for their participant base.

Also, careful consideration should be given before making any changes to the naming conventions used in Target Date funds as this simplicity is one of the attributes that makes selection of the appropriate option feasible for investors. As noted above, any "improvements" that create a decision point for the individual investor carries with it the risk that those individuals will go back to their old, flawed, decision making habits.

Standardized communications as described above, and illustrated in the attached, would have avoided the calamity we saw last year. First, fiduciaries would not have been (or at least would have had no excuse to be) surprised at the results over the past eighteen months. And two, if because of this added transparency plan sponsors overwhelmingly leaned towards more risk averse Target Date offerings, the industry would have brought their offerings in line with fiduciaries true preferences instead of engaging in a thinly veiled "equity arms race" that was not in the best interest of Target Date investors near or in retirement.

Again, our firm would welcome the opportunity to further discuss these ideas with you in hopes of generating positive change in this industry. We still believe in the vast positive potential of target date funds paired with the plan automation allowed under the Pension Protection Act of 2006. Thank you again for time and effort on this issue.

Sincerely,

James P. Lauder, CEO

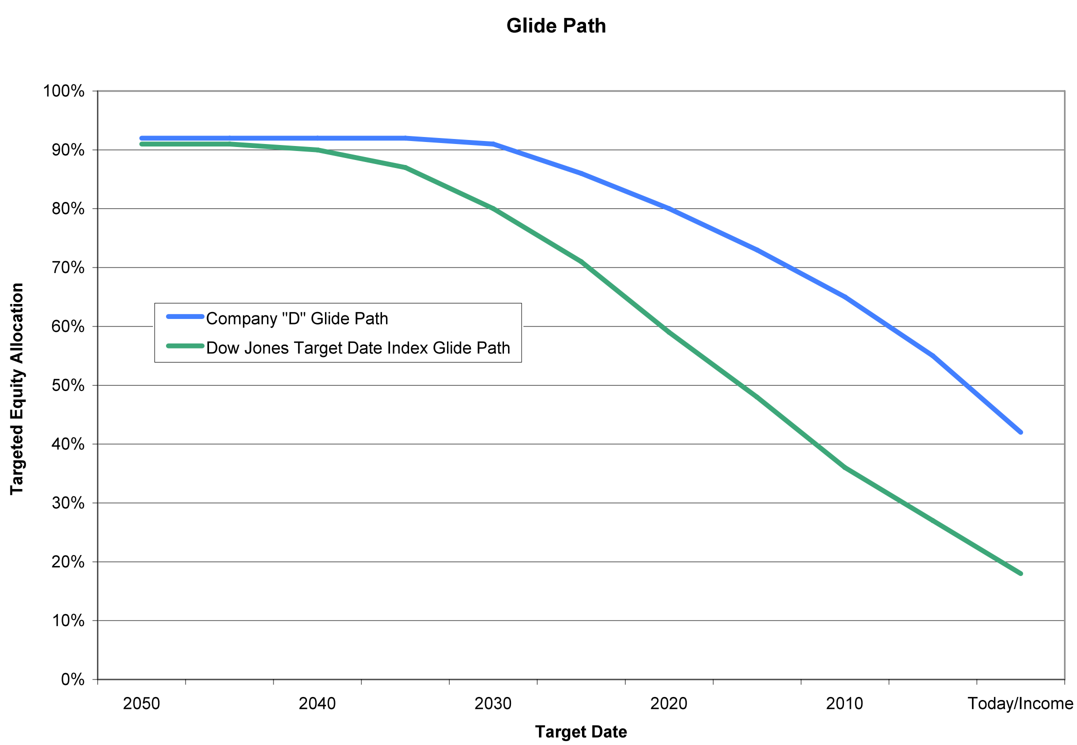
Sample Due Diligence Target Date Fact Sheet

Risk Profile for Investment Company "D" 2010 Target Date Fund

This Fact Sheet is designed to help you understand the potential risk your participants may experience in various market conditions. As a fiduciary for your plan, you should consider and be comfortable with the potential downside risks at all stages of the retirement savings timeline and their implications for your participants of all ages.

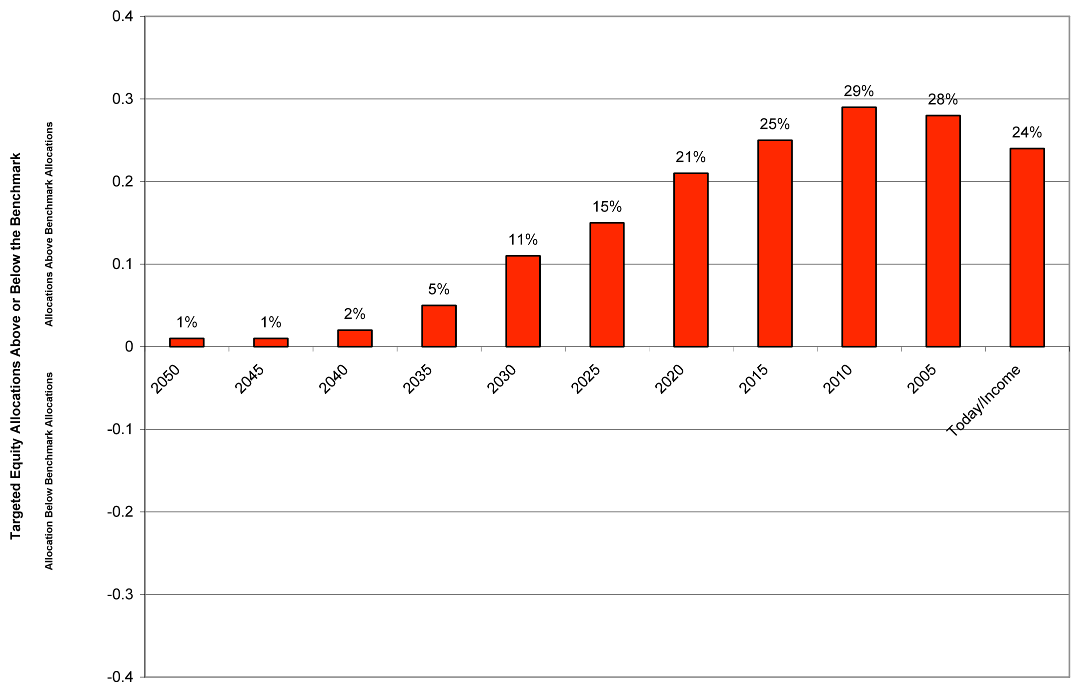
Glide Path

Below is the glide path for Investment Company D's Target Date Fund series versus the glide path for the Dow Jones Target Date Indexes, a well recognized Target Date Index provider. The glide path reflects the manager's targeted equity allocations for investors as they move towards retirement, or the "target date". It is the single largest contributor to the risk characteristics of any Target Date fund family.



The graph below highlights the difference between the target equity exposure for Investment Company D's Target Date Fund Series and the Dow Jones Target Date Index Series at each target date.   A positive difference indicates higher equity and potential risk, while a negative variance indicates lower equity and potential risk.

Allocation Varience Versus Benchmark

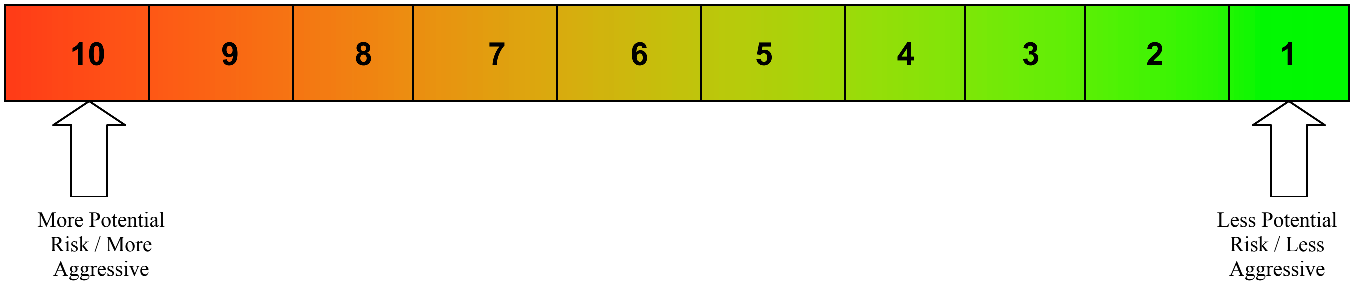


Individual Target Date Fund Comparisons

Fiduciaries should understand the potential risk characteristics of each Fund in a providers Target Date Fund lineup, judging each on its suitability for participants at various ages. The below evaluations compare Investment Company D's 2010 offering to the characteristics of a standard benchmark series. The comparisons are for the purpose of evaluating potential risk that your participants may incur, not for evaluating Company D's return versus the benchmark.

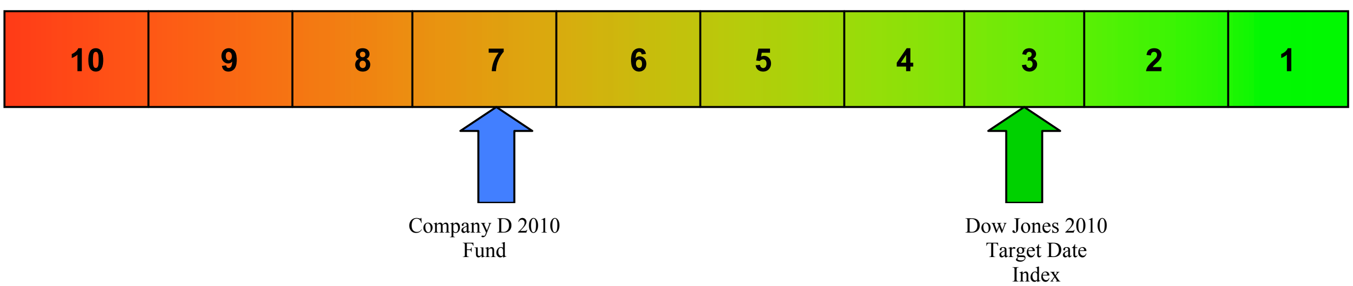
Risk categories have been established along a continuum from 1 to 10 based on targeted equity exposure (as defined by the provider's glide path) and potential risk. A risk score of 1 indicates most conservative, or risk averse, while a 10 indicates most aggressive, or highest potential risk. In general, the risk category classifications reflect how much risk an offering takes relative to the risk of a globally diversified all equity portfolio, with the all equity portfolio having a score of 10. A score of 9 would represent a portfolio that exposes a participant to approximately 90% of the downside volatility of the globally diversified equity portfolio. A score of 8 would represent 80% of the downside volatility/risk, and so on.

Like the Universal Benchmark series, each individual Target Date Fund in the series will have a score from 1 to 10. Again, the risk categories and comparisons are not intended to judge Company D's Target Date offering "better or worse" than the benchmark, but instead to provide you a clear indication of the potential behavior of the offering versus a standard benchmark.



2010 Fund Risk Category

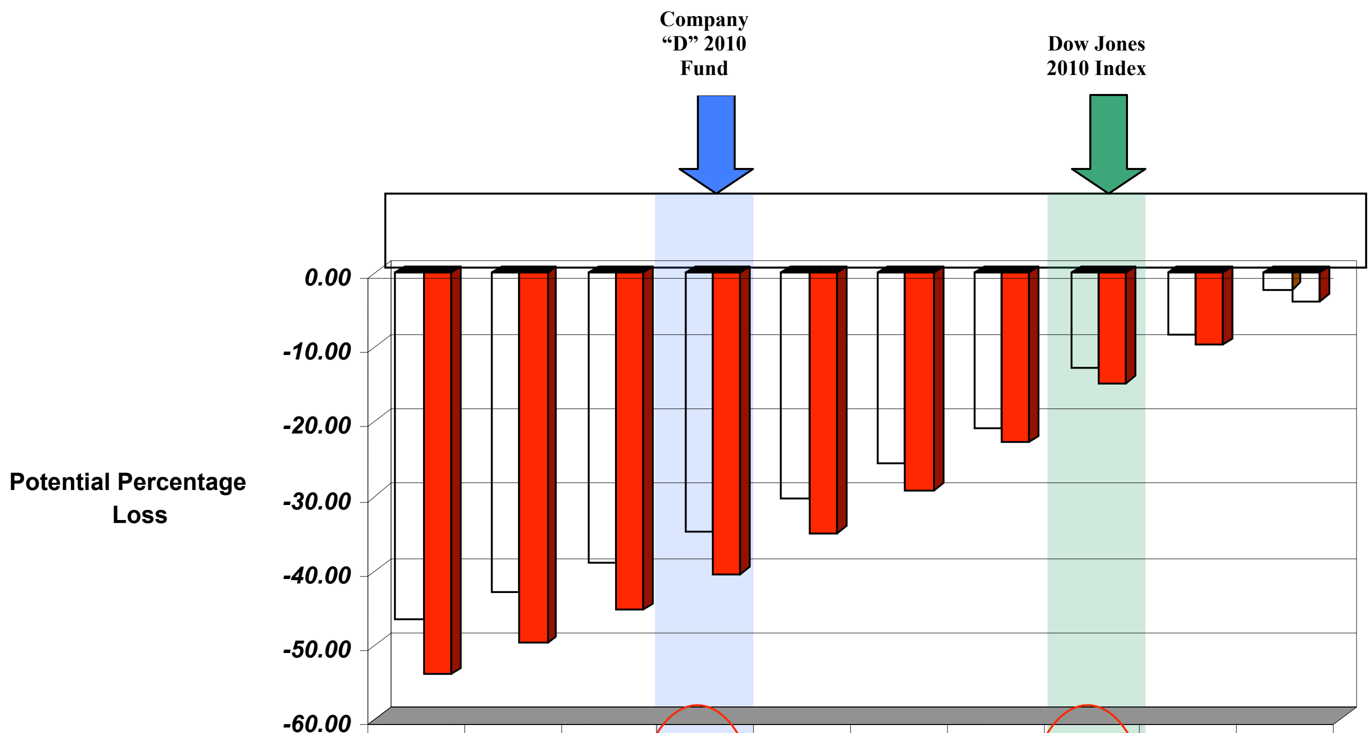
A 2010 Fund is intended for participants planning to retire or begin withdrawing assets from their retirement accounts in or around the year 2010. This Fund will likely be on the more conservative end of the risk spectrum within a given investment company's Target Date Series. 2010 Funds are designed for participants that are older, who may have accumulated larger balances, who are starting to focus on their retirement needs, and who may be more sensitive to portfolio losses. The Risk Ranking of Investment Company D's 2010 Fund and that of the Dow Jones 2010 Target Date Index are shown below:



Based on Investment Company D's glide path and targeted equity allocations, the Investment Company D 2010 Fund falls into Risk Category 7. A comparable diversified benchmark portfolio with approximately a 65% allocation to equities would have exposed an investor to approximately 70% of the downside volatility of a globally diversified equity benchmark. The Dow Jones 2010 Target Date Index exhibits characteristics of a benchmark portfolio exposing investors to approximately 30% of the downside volatility of the same global benchmark and thus falls into Risk Category 3.

Potential 2010 Fund Losses Based On Historical Portfolio Characteristics

The exhibits below utilize twenty-five years of historical data on the Dow Jones Target Date Indexes and related Dow Jones Relative Risk Indexes to illustrate potential investor losses in a variety of market conditions. The "Worst Cumulative 12 Month Loss" represents the largest portfolio loss over any consecutive 12-month period from January 1983 through December of 2008. "Worst Cumulative Loss Over Any Time Span" represents the largest cumulative portfolio loss, or drawdown, over any length of time from January 1983 through December of 2008. Also known as "Maximum Drawdown", this would be reflective of an investor's experience, or potential loss, over the course of an entire bear market.



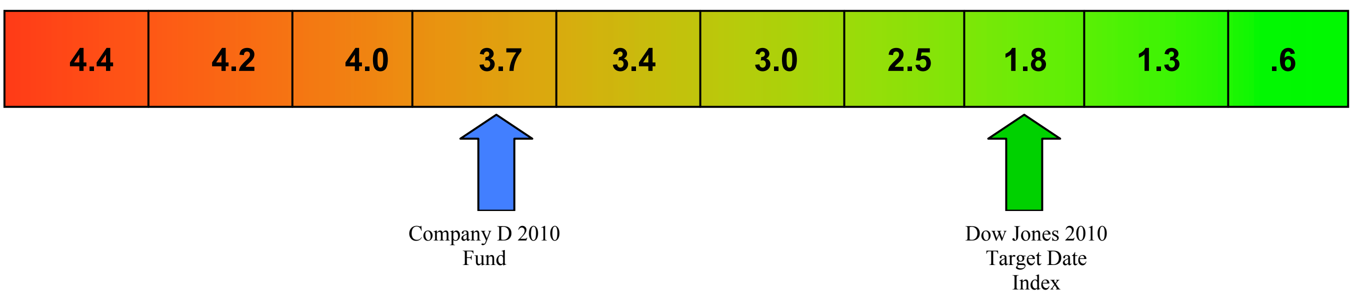
	10	9	8	7	6	5	4	3	2	1
Worst Cumulative 12 Month Loss	-46.67	-42.91	-38.97	-34.82	-30.38	-25.62	-20.79	-12.81	-8.35	-2.15
Worst Cumulative Loss Over Any Time Span	-53.97	-49.81	-45.30	-40.40	-35.06	-29.13	-22.81	-14.85	-9.67	-3.71

Based on historical data, an investor in a fund allocated in a way similar to the allocation in Company D's 2010 Fund could lose up to 34.82% of their portfolio value over a single 12-month period. An investor in a portfolio allocated in a way similar to the allocation in the benchmark Dow Jones 2010 Index could experience a potential loss of 12.81% over a single 12-month period.

"Worst Cumulative Loss Over Any Period", or "Maximum Drawdown", represents the most significant portfolio loss over any consecutive time span since 1983. Comparing "Worst Cumulative Loss Over Any Period", an investor in a fund similarly allocated to Company D's 2010 Fund could potentially lose up to 40.4% of their portfolios value over an uninterrupted time period immediately prior to the target date. An investor in a portfolio similarly allocated to the benchmark Dow Jones 2010 Index could experience a potential loss of 14.85% of their portfolio value in a consecutive time span immediately prior to the target date.

Potential Investor Recovery Times

Potential Investor Recovery Time illustrates how long it might take an investor to recover from the Maximum Drawdowns illustrated above. It is the number of years a portfolio would take to reach its original balance assuming the portfolio earns the historical average return of a Dow Jones Index at that risk level. While a portfolio in a higher Risk Category may have experienced a more significant loss in a bear market compared to a more conservative portfolio in a lower Risk Category, the more aggressive portfolio might also be expected to generate higher average returns than the more conservative portfolios during a market recovery.



Based on the above illustration, an investor holding Investment Company D's 2010 Fund during the Maximum Drawdown period might expect their portfolio to recoup its losses in approximately 3.7 years assuming average historical returns for a benchmark portfolio with similar risk characteristics. An investor holding a 2010 Fund similar to the Dow Jones 2010 Index could expect their portfolio to recoup its losses in approximately 1.8 years.

Looking at the issue in another way, to recover from a 14.85% loss a portfolio must gain 17.44% to break even. To recover from a 40.40% loss a portfolio must gain 67.79% to break even.