Hewitt ennisknupp
An Aon Company

June 9, 2014

Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Dear Sir or Madam,

Subject: File Number S7-12-10—Comments on Investment Company Advertising: Target Date Fund Names and Marketing

Hewitt EnnisKnupp, an Aon Company welcomes the opportunity to submit comments on the proposed rules regarding target date funds. The request for comments was reopened on April 3, 2014 in http://www.sec.gov/rules/proposed/2014/33-9570.pdf.

Who We Are

Hewitt EnnisKnupp, Inc., an Aon company (NYSE: AON), is an SEC-registered investment adviser, and provides investment consulting services to over 480 clients in North America with total client assets of approximately $2.3 trillion. More than 270 investment consulting professionals in the U.S. advise institutional investors such as corporations, public organizations, union associations, health systems, endowments and foundations with investments ranging from $3 million to $700 billion including $45 billion in target date funds. For more information, please visit www.hewittennisknupp.com.

Summary Comments

The Securities and Exchange Commission ("Commission") reopened the period for public comment on proposed rule amendments that are intended to provide enhanced information to investors concerning target date funds ("TDF"s) and reduce the potential for investors to be confused or misled regarding these funds. In particular, the Commission is requesting comment on the recommendations relating to the development of a risk-based glide path illustration. We support the Commission's efforts to provide investors in TDFs with additional information about their investments and the risks involved. Based on our long history and diverse client base we recommend the Commission take the following actions:

- Make the disclosures as simple as possible.
- Require TDF providers to disclose the asset allocation glide path.
- Provide investors with a historical view of the range of outcomes (in dollar terms) that the TDFs have experienced over the course of the last 30 or so years, so investors understand the range of likely residual values over the coming five to ten years.
- Place the providers' own TDF against this historic context to highlight the differences between the providers' own forward-looking expectations over the next five to ten years.
- Disclose to investors the final values over the next five and ten years from the relevant forward maturity dated U.S. Treasury nominal STRIPS or U.S. Treasury inflation STRIPS zero coupon bonds as a further illustration of a risk free indicator.

The remainder of this letter provides additional detail and examples on how we suggest the Commission accomplish this.

Balance Simplicity with Providing Robust Information

In defined contribution plans, there are typically two types of investors; those who need and want a significant amount of investment help; and more sophisticated investors who prefer to make investment decisions on their own. Target date funds are designed to be attractive to investors who lack the knowledge, interest, time or engagement to adjust their asset allocation over time. Our research shows that providing too much information to these types of investors can cause confusion and poor decision making.[1] At the same time, many investors are sophisticated or hire advisors who are sophisticated. For these investors, we believe it is appropriate and beneficial to disclose the TDF provider's glide path to develop a deeper understanding of the investment characteristics of the target date funds.

While balancing the needs of these two types of investors, we recommend that the Commission adopt the simplest context possible. While there is no "silver bullet," we believe that providing supplemental information, such as that described later in this letter, would have an immediate benefit to investors and could be implemented simply and without challenge since it is evidence-based, uses readily available information and provides information in a format that is easily understandable.

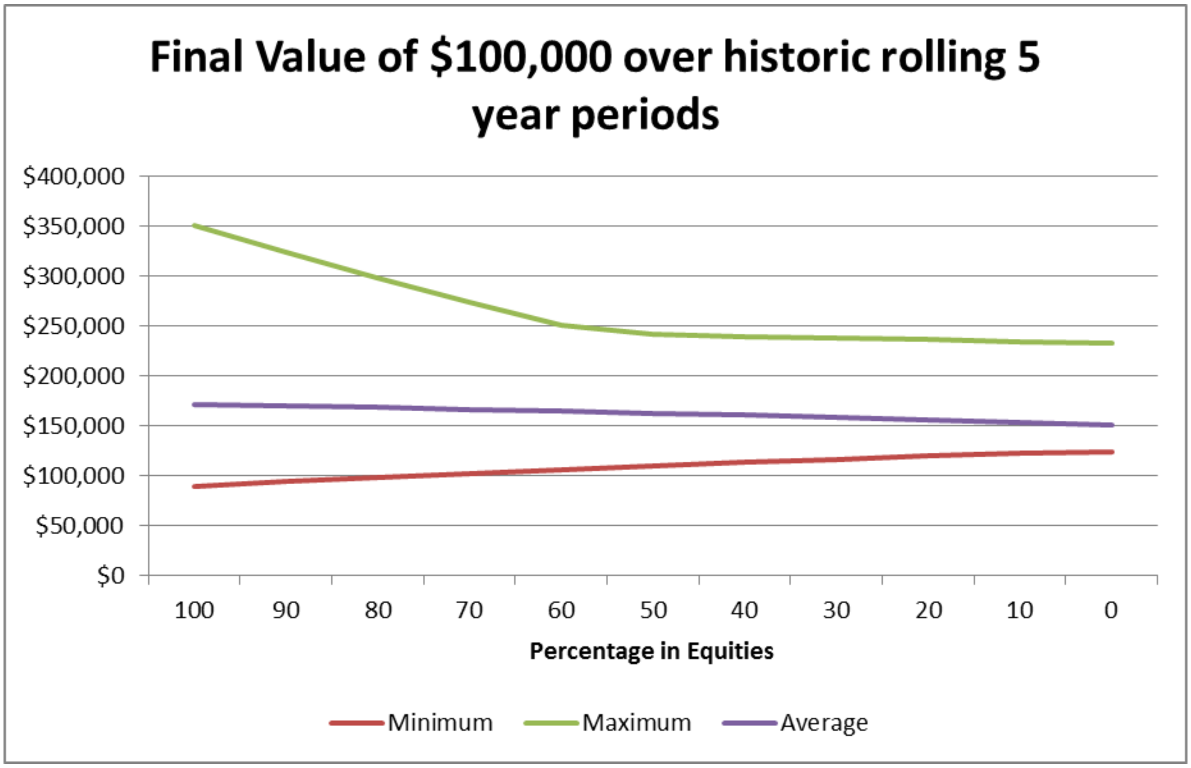
Provide a Graphic Representation of Historic Cumulative Outcomes over Five and Ten Year Rolling Periods

Leaving aside regular contributions, investors are best served by a focus on the value of their capital over the next five to ten years. Risk measures used in the investment industry often assume that risk is constant and do not properly represent the variable nature of risk, especially over shorter time frames of less than ten years. We think that a representation of likely outcomes from a simple equity to bond split, can be used as a valuable supplement to glide paths, to illustrate what would have happened historically had the TDF provider's glide path allocations to equities and bonds been in place over multiple five and ten year periods.

The following charts show the range of final values of $100,000 over the many discrete five and ten year periods that have actually occurred over the last thirty years for a decreasing proportion held in equities:

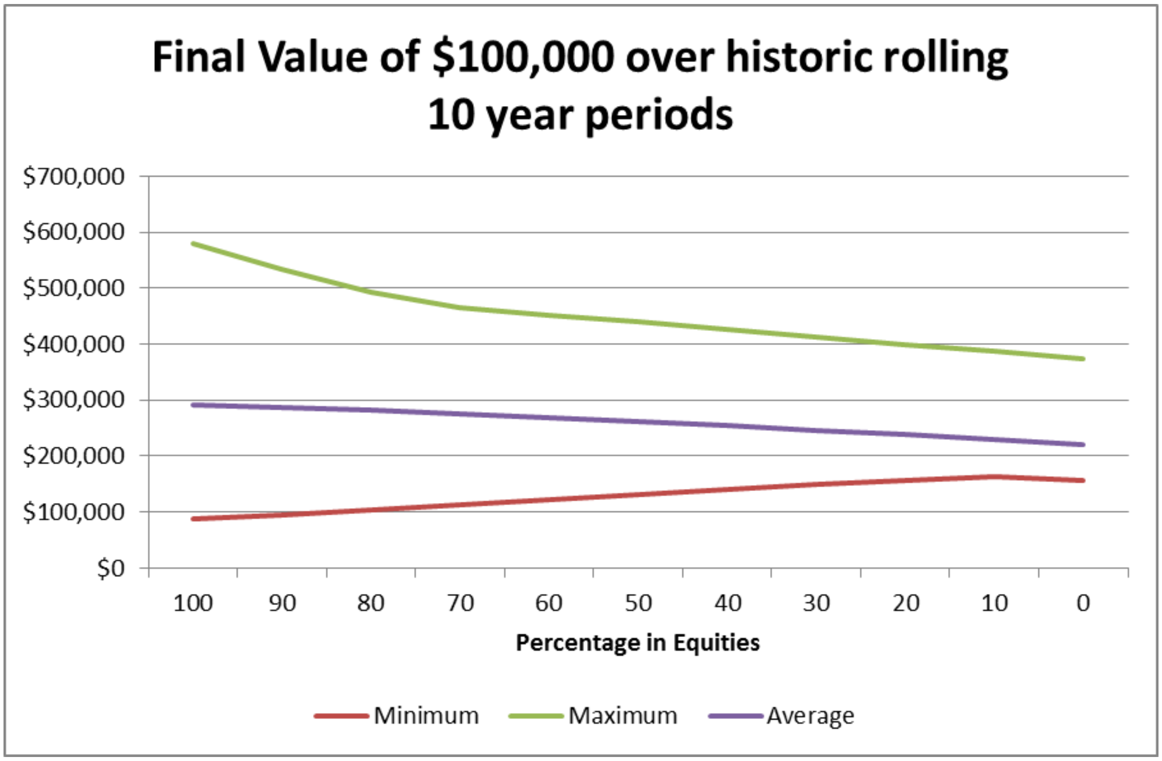
- Starting on the left hand side of the x-axis in the following chart, for all five-year periods over the last 30 years, investing $100,000 entirely in equities would have resulted in a range of final values of between $90,000 and $350,000, with an average final value of $170,000.
- Alternatively, investing entirely in bonds (right hand side) would have resulted in a range of final values of between $125,000 and $240,000 with an average final value of $150,000.
- Holding an equal weighting in bonds and equities, would have resulted in a range of final values of between $110,000 and $250,000 with an average final value of $160,000.

[1] Hewitt EnnisKnupp, *Improving DC Plan Investment Governance: A Call to Action* (Chicago, IL. Hewitt EnnisKnupp, 2013).



The following graph is similar, but uses ten-year periods instead of five:

- Starting on the left hand side of the x-axis, investing $100,000 entirely in equities would have resulted in a range of final values of between $100,000 and $590,000, with an average final value of $300,000.
- Alternatively, investing entirely in bonds (right hand side) would have resulted in a range of final values of between $210,000 and $390,000 with an average final value of $210,000.
- Holding an equal weighting in bonds and equities, would have resulted in a range of final values of between $140,000 and $420,000 with an average final value of $280,000.



The glide path asset allocation of any provider's TDF range of maturity dates can be plotted against these charts to show the investor what would have been produced over historic five and ten year periods. This provides some grounding for expectations going forward and allows the comparison of projected outcomes from the glide path of any TDF provider.

Lastly, we believe that the investor would benefit from a representation of the final value of $100,000 invested in each of the Treasury STRIPS maturing in five and ten years' time. These final values can be represented immediately below each of the five and ten year charts shown above and also against the final projected values from the provider's glide paths. This would show the final values from investing in a U.S. Government guaranteed investment that carries no reinvestment risk or associated fees and costs. For example, at the time of writing, the final value of an investment in a five-year Treasury STRIPS security will be a little under $109,000 in five years, and a ten-year Treasury STRIPS security will be a little over $129,000 in ten years. By showing these government-guaranteed values, the reward from taking additional risk can be demonstrated clearly.

It would be a simple task for a TDF provider to explain the differences to these historic outturns with the provider's own range of projected outturns and for the regulator to monitor these for the industry as a whole. These types of exhibits can provide participants with useful information to understand the risks in the target date funds.

Include the Asset Allocation Glide Path
For investors who are sophisticated or have sophisticated advisors, we believe it is appropriate and beneficial to provide the asset allocation glide path in a TDF. We do not have a strong preference regarding the format provided, although we think a standardized format would be beneficial. We believe that the charts of the type we have shown should be included immediately below the standardized glide path format as such placement would make the information clear to those who need to visualize monetary outcomes rather than have to deal with long run risk and return averages that themselves conceal wide ranges.

Combine a Prescribed Approach for Format and a Flexible Approach for Calculating Results
The Commission should provide prescriptive definitions of the risk measures to be used, such as those suggested above, and also allow more flexibility in determining the methodologies used to calculate the final value results. The prescriptive nature of the measures is important to make sure target date fund providers are disclosing the range of outcomes in a way that is understandable to participants and their advisors, and the flexibility in approach is necessary to ensure that the final values over the longer term of future five and ten year investment periods output is placed in the context of ranges of returns that have been available over many market cycles in the past.

We suggest that the TDF providers own forward looking capital market assumptions should also be used and not assumptions prescribed by the Commission or only those of historical average, minimum and maximum results. There are several reasons we prefer this approach:

- Historical average results may be inconsistent with forward-looking expectations. For example, 10-30 year historical returns for investment grade bonds are significantly higher than current yields, so using historical results would be unrealistic in today's environment of low interest rates;
- Using historical average returns could lead to target date funds being constructed to perform best on historical back-testing, which may not be in the best interest of participants. Similarly, using historical average results might put too much pressure on defined contribution plan sponsors to change target date fund providers based on past performance;
- Investment returns on fixed income are strongly tied to the level of current interest rates, so any prescription of forward-looking capital market assumptions would need to be updated regularly;
- The forward-looking expected return on virtually any investment other than fixed income (and some within fixed income) is highly controversial, even within the academic community. If the Commission tried to mandate a methodology it would likely be a highly contentious issue on an ongoing basis; and
- Because of ongoing innovations in investment strategies, a highly prescriptive approach from the Commission might be difficult to reconcile with current and future investment strategies used within target date funds.

Cost and Benefits
We believe that the disclosures recommended in this letter will not be difficult to prepare, but will increase transparency to participants and help them direct their assets to the most appropriate investments.

Conclusion
We support the Commission's efforts to provide enhanced information to investors concerning target date funds. We appreciate the opportunity to submit our recommendations to the Commission and are pleased to offer our data and expertise as the proposed rules are finalized.

Sincerely,

Hewitt EnnisKnupp, an Aon Company

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