MEMORANDUM

August 11, 2014

TO: File No. S7-12-10

FROM: J. Matthew DeLesDernier
Division of Investment Management

RE: Investment Company Advertising: Target Date Retirement Fund Names and Marketing — Release No. IC-29301

On July 25, 2014, Diane Blizzard, Associate Director, Anil Abraham, Senior Special Counsel, Michael Pawluk, Branch Chief, and J. Matthew DeLesDernier, Senior Counsel of the Division of Investment Management and Jeremy Ko, Senior Economist of the Division of Economic and Risk Analysis met with Peter V. Bonanno, Glenn Dial, Mark Hathaway (via teleconference), and Peter Lefkin of Allianz of America Corporation ("Allianz").

The purpose of the meeting was to discuss the recommendations of the Investor Advisory Committee concerning target date funds and certain issues raised in Allianz's letter submitted to the Employee Benefits Security Administration ("EBSA") on July 3, 2014 commenting on EBSA's proposed rule concerning Target Date Disclosure (RIN 1210-AB38).

Attachment

July 3, 2014

By E-Mail: e-ORI@dol.gov

Office of Regulations and Interpretations
Employee Benefits Security Administration
Room N-5655
U.S. Department of Labor
200 Constitution Avenue NW
Washington, DC 20210

RE: RIN 1210-AB38; Target Date Disclosure

Allianz Global Investors ("AllianzGI") is grateful for the opportunity to comment on the Department of Labor ("DOL") request regarding disclosure requirements for target date funds ("TDFs"). On June 3, 2014, the DOL published a notice reopening the comment period for its 2010 proposal relating to enhanced disclosure for target date funds. The attached response presents AllianzGI's support for the adoption by the Securities of Exchange Commission ("SEC") and the DOL of additional mandatory risk-based disclosure 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. Participant-level disclosure about risk parameters is one important piece of this, but we are pleased to offer additional suggestions aimed at helping plan sponsors better fulfill their fiduciary duties, as well as suggestions for how sponsors can provide participants with the best chance of meeting their retirement savings goals.

The proposals contained in the attached response cover two primary areas:

- Section 1: Disclosure requirements to help plan participants
  - Naming convention of TDFs
  - Disclosure proximity to the TDF name
  - Risk-based glide path in disclosure
  - Public target date benchmark

- Section 2: Additional comments on best practices for plan sponsors that could have an effect on the proposal
  - Investment policy statement addendum
  - Assessment of risk tolerance of defaulting participant population
  - Assessment of risk structure of TDFs
  - TDF selection
  - Benchmarking and monitoring

Adopting these enhanced participant-level disclosures and additional suggestions for plan sponsors will, in our view, help correct the "truth-in-labeling" problem that has developed in recent years.

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 known what they were invested in—which is at the core of TDFs' truth-in-labeling problem—many of them might not have been invested in those 2010 funds. Better labeling could have also reduced the level of surprise many participants felt when they witnessed the impact the downturn had on their accounts, which may in turn have prevented them from reacting by cashing out and locking in losses just before retirement.

In addition, while the "safe harbor" status for being a QDIA makes it easier for plan sponsors to select a TDF as a default option, defined contribution ("DC") plan sponsors still have a fiduciary responsibility to document that their plans' investment choices—including QDIAs—have been prudently selected and are periodically monitored.

Further magnifying the problem, there is no widely accepted selection process for TDFs, and analysts have difficulty abandoning traditional evaluation methods when reviewing these unique products. Plan sponsors may have extensive experience selecting general investments for their DC plans, but other factors need to be weighed when selecting and monitoring a TDF. Without proper knowledge or tools, plan sponsors have been hesitant to re-evaluate their default TDF option.

All of these factors have increased the importance of TDFs and 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 DOL to consider enhanced industry-wide standards that will improve transparency about TDFs and any other retirement issues.

If you have any questions, please contact me at (212) 739-4275.

Sincerely,

Glenn Dial

Glenn Dial
Managing Director
Head of Retirement Strategy

Target Date Disclosure

A Response to the Department of Labor Request for Comments to the Proposal for Enhanced Disclosure for Target Date Funds

Prepared by:

Glenn Dial, Managing Director
Head of Retirement Strategy

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

July 3, 2014

Allianz Global Investors

Allianz Global Investors

Section 1: 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 DOL establish revised naming conventions that are transparent and descriptive about the TDF's investment philosophy and approach to managing risk.

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

- "To" TDFs that are designed to reduce overall risk by the retirement target date—and thereby give participants more options at that date—may use the current "year" convention in the fund name, with or without additional descriptive phrases.
- "Through" TDFs that are designed to have a higher level of risk at the retirement target date—and 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. 2015 Target Date Fund
  2. 2015 Retirement Fund
  3. Reach Retirement by 2015 Fund
  4. 2015 Wealth Builder Fund
  5. Arrive at 2015 Retirement Fund
  6. Income-Ready at 2015 Retirement Fund
- For "Through" Funds (examples use a target date of 2015)
  1. 2015 +30 Year Fund
  2. 2015 to End of Retirement Fund
  3. 2015-2045 Twilight Fund
  4. 2015-2045 Lifespan Fund
  5. Stay Invested Past 2015 Fund
  6. Invest Beyond 2015 Retirement Fund
  7. Growth After 2015 Retirement Fund
  8. 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

- 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
- 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 ("AllianzGI") agrees with the Securities and Exchange Commission'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. AllianzGI's 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.

IV. Public target date benchmark

In conjunction with the inclusion of a beta glide path, AllianzGI 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, within the TDF, 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.

Section 2: Additional comments on best practices for plan sponsors that could have an effect on the proposal

Outlined below are several additional suggestions for best practices that we recommend plan sponsors adopt with respect to evaluating, selecting and monitoring TDFs.

I. Investment policy statement addendum

The criteria for evaluation of TDFs should be set forth in the plan's investment policy statement.

Due to the unique structure of TDFs and the requirements of QDIAs, a traditional investment policy statement covering selection criteria of core menu line-up options is not adequate and often not appropriate. While certain common screening characteristics are still relevant—such as management tenure, inception date and fees—additional characteristics beyond an investment team's philosophy and process should be considered for TDFs.

II. Assessment of risk tolerance within defaulting participants

It is our view that an effective process for evaluating TDFs should assess the risk tolerance of the defaulting participant base of the plan. Factors for the plan sponsor to consider include:

- Plan design, including default options such as default rate, auto escalation rates, company match amount and additional retirement benefits, including profit sharing, existence of a DB plan, etc.
- Sophistication of the participants
- Level of dependency on assets in the DC plan for retirement
- Participant behavior at or near retirement

III. Assessment of risk structure

Once the participant risk tolerance is determined, the universe of available TDFs should be narrowed to those with comparable risk structures. If it is determined that the participants have a lower risk tolerance, particularly near retirement, a "To" fund (a fund with less volatility and a smaller allocation to risky assets near the retirement date) should be considered. However, if the participant base has a higher risk tolerance, a "Through" fund (a fund with higher volatility and a larger allocation to risky assets) may more appropriate.

Plan sponsors should include the following key factors when determining the risk structure ("To" or "Through") of a fund series near retirement:

- Beta
- Standard deviation
- Allocation to risky assets

IV. TDF selection

When selecting the appropriate TDF for a plan, plan sponsors should compare TDFs side-by-side using consistent analytic measures. In addition, plan sponsors should consider the specific concerns of plan participants, including:

- Fees
- Consistency of management (changes to glide path and manager tenure)
- Diversification across asset classes
- Structure
- Accounting for inflation
- Up/down capture related to risk based assets; beta glide path may also be used
- Focus on risk-adjusted returns

V. Benchmarking and monitoring

After the TDF selection is made, a plan sponsor must have in place a continuing monitoring process that includes a periodic review of the risk tolerance of plan participants, inclusive of changes to plan design as well as an assessment of the performance in light of market conditions of the TDF series versus a public target date benchmark. This is to assess not only if the TDF is deemed appropriate by risk structure, but also whether the TDF has been successful by manager execution.