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August 13, 2010

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street N.E.
Washington, DC 20549-1090

Re: Investment Company Advertising: Target Date Retirement Fund Names and Marketing, Release Nos. 33-9126; IC-29301; File No. S7-12-10

Dear Ms. Murphy:

Vanguard[1] appreciates the opportunity to comment on the Securities and Exchange Commission's proposals relating to target date retirement funds ("TDFs"). We strongly support the Commission's goals of improving investors' understanding of TDFs. In particular, we support the use of charts and graphs to help investors better understand (i) a fund's current target asset allocation, (ii) a fund's projected asset allocation upon reaching the target date, and (iii) a fund's projected final asset allocation. At the same time, we believe that the Commission could achieve its objectives more effectively by taking a more streamlined and tailored approach to improving disclosure in TDF marketing materials. We also urge the Commission to guard against disclosure overload, which could lead to confusion and, in fact, lessen investors' understanding of TDFs.

The discussion below presents Vanguard's recommendations and provides additional comments on the Commission's proposals.

TDFs are vitally important and effective investment options for retirement savings.

Vanguard is a leading provider of low-cost TDFs, serving more than 20 million shareholder accounts. Our target retirement fund line-up includes a retirement income fund and a range of ten funds with target dates in five-year increments from 2005 to 2050. We also recently filed a registration statement to offer Vanguard Target Retirement 2055 Fund.

[1] Vanguard offers more than 160 index and actively managed funds with aggregate assets of approximately $1.4 trillion. We serve more than 3 million participants and 1,700 plan sponsors in over 2,200 defined contribution plans.

Vanguard strongly supports TDFs as an important force in driving the retirement savings of U.S. investors to well-diversified portfolios that can better assure a secure retirement. We believe that TDFs are extremely effective vehicles for individuals to invest for retirement goals because they provide broader diversification and more balanced portfolios than many investors might otherwise construct on their own. There is widespread consensus that TDFs make it easier for an investor to assemble a well-diversified portfolio.[2]

Importantly, TDFs help investors avoid two common retirement savings pitfalls, namely, portfolios allocated entirely to equity investments at one extreme and portfolios allocated entirely to money market funds or other fixed income investments at the other extreme. Prior to the designation by the Department of Labor ("DOL") of TDFs as qualified default investment alternatives ("QDIAs"), many 401(k) plan sponsors chose to fully invest plan participant accounts in "fixed dollar" options such as money market or stable value funds when a participant did not make an affirmative investment selection. DOL and the vast majority of investment professionals recognized that fixed dollar default options do not provide appropriate diversification or opportunity for capital appreciation for plan participants to achieve their retirement savings goals. As a result, DOL specifically declined to designate those non-diversified investments as appropriate default investments for 401(k) plan participants.[3]

In contrast, because of their inherently diversified portfolios, TDFs are designated by DOL as QDIAs and, in our experience, 401(k) plan sponsors now overwhelmingly choose TDFs as the default option for their plans.[4] As a result, many more defaulted participant accounts in 401(k) and other retirement savings plans are now more appropriately diversified. At the end of 2009, 39% of defined contribution retirement plan participants who did not hold TDFs had either zero or 100% of their retirement plan balances invested in stocks.[5] By comparison, no TDF investor had a zero or 100% allocation to stocks.

The diversification provided by TDFs has proven its value during the past several years. This period included the worst downturn for the U.S. stock market since the 1930s and a severe credit crisis followed by a sharp rebound in stock and credit markets. In such a difficult investment environment, TDFs were not immune from the downturns of the financial markets that similarly affected other types of mutual funds, public and private

[2] Jane Bryant Quinn, The Best Deal In America: The Target-Date Retirement Fund, CBS MoneyWatch, July 12, 2010.

[3] See Department of Labor, "Default Investment Alternatives Under Participant Directed Individual Account Plans," 72 Fed. Reg. 60452, 60463 (Oct. 24, 2007).

[4] In 2009, 80% of defined contribution plans for which Vanguard provides recordkeeping services that had a designated qualified default investment option selected a TDF as the default option. See *How America Saves 2010 – a Report on Vanguard 2009 Defined Contribution Plan Data* at page 52.

[5] Data based on defined contribution plans for which Vanguard provided recordkeeping services in 2009.

defined benefit plans, university endowments, and the investment portfolios of commercial insurers. However, TDFs performed as designed in both the downturn and subsequent rebound of the markets.

The 2008 declines led some critics to question the construction of TDFs, particularly their exposure to equities for investors closest to retirement. An inordinate amount of focus has been placed on a *single* year's performance and predominantly on TDFs with a 2010 target date (more particularly on a single outlier 2010 TDF with a return of -40% – when the average decline of all TDFs in 2008 was 24%). By comparison, similar funds suffered even greater declines. The average balanced fund declined nearly 27% in 2008 and the average flexible portfolio fund dropped 28.5%,[6] although such funds did not draw the attention of the media. More importantly to retired investors and those approaching retirement, who may still need their retirement savings to cover a retirement that could span 20 to 30 years, returns over longer time periods, such as five years, have been positive – a fact that has been largely under-reported.[7]

In our view, the vast majority of TDFs serve retirement savings investors well by providing more appropriate diversification than they would have self-selected. In this regard, we applaud the Commission for refraining from proposals to regulate the construction or composition of TDFs. The proposal to enhance TDF disclosures is an appropriate, measured way to help improve investors' understanding of TDFs without disrupting the positive impact of TDFs for investors saving for retirement.

Vanguard supports clear disclosure of TDF asset allocation and glide path.

We support the Commission's proposal to improve disclosure of a TDF's glide path in marketing materials. We have conducted a number of studies attempting to gauge Vanguard investors' understanding of TDFs, and our research[8] reveals that investors generally comprehend the nature of TDFs, recognize that the funds involve risk, and understand that the asset allocation of TDFs becomes more conservative as the target year approaches. The data suggests, however, that there are two specific areas in which TDF investors need more clarity and education: (1) what changes, if any, the fund makes at the target date;[9] and (2) how the fund's glide path changes after the target date.[10]

In most cases, we believe that a pictorial illustration is the most clear and effective way to communicate information regarding a TDF's asset allocation and glide

[6] Source: Lipper Inc.

[7] Source: Morningstar.

[8] Ameriks, Hamilton, Ren, 2010. *Target Date Funds Survey.*

[9] 63% of retail investors and 41% of defined contribution plan participants who held TDFs understood that they could keep their investments in the fund beyond the target year.

[10] 29% of retail owners and 23% of defined contribution plan participants were aware that the asset allocation continues to change after the target year.

path. Several fund families, including Vanguard, currently illustrate the TDF glide path through interactive graphs on their Web sites, which we believe to be extremely effective in enhancing investor understanding.[11]

The Commission's proposal would require that the glide path illustration be included in *all* marketing materials that place a "more than insubstantial focus" on one or more TDFs.[12] Given the broad mandate for the proposed disclosures, we urge the Commission to provide fund families and retirement plan sponsors with flexibility to adapt the means of disclosing the asset allocations, whether by illustration or narrative, to technical and other limitations when developing the disclosures for print advertisements and online.

For example, we believe that the interactive glide path on *Vanguard.com* arms investors with valuable information and enables them to assess the best asset allocation for their needs. However, an interactive glide path tool cannot be replicated in print format. Therefore, we recommend that the advertising rules be principles-based and provide funds with flexibility to include a narrative description of the glide path on paper along with a Web address where investors may obtain additional information and use the interactive glide path tool.[13] At a minimum, we believe that disclosure in print advertisements, whether by illustration or narrative, should show the fund's target asset allocation currently, at the target date, and at the final allocation.[14] If the advisor has the flexibility to deviate from the glide path, the disclosure should state this and include the applicable parameters.

Vanguard supports streamlined disclosure in marketing materials.

Vanguard whole-heartedly supports those aspects of the Commission's proposal that serve to clarify for investors what happens at the target date and thereafter. We urge the Commission, however, to guard against disclosure overload in mutual fund marketing materials, which could lead to investor confusion and, in fact, lessen an investor's

[11] The interactive glide path for the Vanguard Target Retirement Funds may be found on our Web site at *www.vanguard.com/us/funds/vanguard/TargetRetirementList#targetAnchor.*

[12] We urge the Commission to clarify the application of this proposed rule to TDF Web sites. We recommend that the illustration and/or narrative statement be required to be prominently displayed on the landing Web page for a mutual fund family's TDFs but that it not be required on every Web page that mentions the funds.

[13] More than 90% of all contacts by participants in Vanguard-administered defined contribution plans now occur online and new and better Web-based tools are constantly being developed to offer investors the ability to evaluate, compare, and select funds. See *How America Saves 2010 – a Report on Vanguard 2009 Defined Contribution Plan Data* at page 78.

[14] We oppose a requirement to include narrative text explaining the asset allocation at the final allocation in addition to the illustration. Such language could prompt an investor to place too much emphasis on the final asset allocation rather than considering it as one factor among many.

understanding of the benefits of TDFs.[15] While we support the Commission's initiative to educate investors through marketing materials for TDFs, we emphasize that the prospectus or summary prospectus is the primary offering document for all mutual funds, including TDFs. The Commission's proposal, by its very breadth and extent of additional disclosures in marketing materials, could overshadow the prospectus as the primary offering document for TDFs.

In this regard, it is notable that the Commission recognized, in adopting the summary prospectus, that "investment information [. . .] [should] be provided in a streamlined document with other more detailed information provided elsewhere."[16] That objective is perhaps more important for TDF marketing materials, which are not intended to provide all of the information that may be of interest or use to an investor. We urge the Commission to maximize the delivery of key investment information about TDFs without requiring additional, generic disclosure that does not aid in an investor's understanding of the fund or providing duplicative information that may be easily obtained in a fund prospectus or online.

To that end, we do not support the Commission's proposal to require additional narrative disclosure in TDF marketing materials that a fund should *not* be selected based on age or retirement. To the contrary, we believe that TDFs are designed to be selected primarily on the basis of age and/or retirement date, especially in the context of an employer plan when a series of TDFs is offered by a single provider. Equally important, employers use such data when defaulting participants into TDFs.

Moreover, we believe the suggested narrative disclosure encouraging investors to consider other factors, such as their risk tolerance, personal circumstances, and complete financial situation before investing in a TDF is too vague and generic to be helpful to the average investor. The same considerations should be made of any investment product and such disclosure does not aid an investor in comparing funds. The Commission's primary concerns relate to disclosing the differences among TDFs with respect to asset allocations and glide paths. Additional and cumbersome narrative disclosure may lead to information overload and detract from an understanding of the key differences and investment aspects of TDFs. A long litany of "buyer beware" disclosure for any product may give investors undue alarm and cause them to shy away from that product. Adding lengthy, multiple expressions of risk disclosure and boilerplate information could undermine the very real advances TDFs have brought to retirement investors and drive TDF investors back to money market and stable value funds, which our research has shown results in a less secure retirement future.[17]

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[15] In this regard, we strongly support the findings in the report of the ICI Target Date Fund Disclosure Working Group, "Principles to Enhance Understanding of Target Date Funds," June 18, 2009.

[16] "Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies," Release No. IC-28584 (Jan. 13, 2009), at 129.

[17] Ameriks, Combs, Utkus, 2010. *Target-Date Funds: A solid foundation for retirement investors.*

Vanguard believes that current fund naming conventions are simple and widely understood.

Vanguard supports the advancement of investor understanding of a fund's current target asset allocation, its allocation at the target date, and its allocation at its most conservative point. Importantly, however, we do not believe that target date asset allocation disclosure adjacent to the first use of the fund's name will aid investor understanding.[18] In fact, such disclosure would be potentially confusing, as most TDFs within the same fund family will disclose the *exact same* asset allocation at the target date. As such, this disclosure would not enable investors to distinguish one TDF within a fund family from another.[19] The result is especially confusing in the context of a 401(k) or other retirement savings plan where plan participants generally only are provided the TDF offerings of one fund family. We have provided a mock-up as an example of the generally unhelpful and potentially confusing nature of this proposed disclosure requirement (attachment).

Moreover, citing the asset allocation adjacent to the fund name may cause investors to place undue emphasis on one factor (*i.e.,* a fund's asset allocation at the target date) precisely because of the prominence of the disclosure. Such prominence may cause investors not to give proper consideration to other important information regarding the fund, such as its current target allocation, underlying investments, expenses, and glide path. For example, over the long term, a TDF's broad asset allocation to stocks, bonds, and cash investments will likely be the most significant driver of performance. But in the short run, specific sub-asset allocations within a fund's stock and bond portfolios can play a much more significant role in performance and risk exposure and cause two funds with identical stock and bond allocations to perform very differently. In short, presenting a single evaluation point within a tag line accompanying a TDF's name would be confusing and would not improve investor understanding of the product.

Finally, we believe that claims that current naming conventions are misleading are unfounded and largely discount the intelligence of the average investor. In our experience, investors do review other factors before making an investment decision and do not select an investment based solely on a fund's name. Additionally, plan sponsors who select TDFs for their plans undertake a comprehensive due diligence review that goes well beyond looking at a fund's name.

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[18] This is especially true with respect to the inclusion of the current asset allocation for a fund whose target date has passed. A fund's current asset allocation after the target date has passed has no more relevance for an investor than the fund's current asset allocation at any point along the glide path.

[19] This highlights the very important role that the target date plays in a fund's name: helping investors to distinguish among funds within a fund family.

Vanguard believes that age or retirement date is relevant to deciding which TDF is an appropriate investment.

In the Commission's words, TDFs are "typically intended for investors whose retirement date is at or about the fund's stated target date."[20] Vanguard believes that it is appropriate to suggest in marketing materials that an investor consider his or her age or retirement date as a starting point when determining in which TDF to invest. Such a simple determination helps focus the investor and demystifies the investment selection process.

Additionally, as the Commission recognizes, TDFs are "designed to make it easier for investors to hold a diversified portfolio of assets that is rebalanced automatically among asset classes over time...."[21] To market TDFs as simplified investments is not, in itself, misleading. Consequently, we believe that the proposed amendments to Rule 156 are overbroad and unnecessary and that marketing materials that may place undue emphasis on a single factor without being fair and balanced are adequately regulated under the current regime of Rule 156.[22] Moreover, as discussed above, the TDF prospectus should continue to serve as investors' primary disclosure and product offering document.

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TDFs are an important force in driving the retirement savings of hard-working Americans to well-diversified portfolios that can better assure a secure retirement. Prior to the innovation of TDFs and their designation as a QDIA, retirement plan sponsors sought to remedy asset allocation shortsightedness through a program of targeted education. Due to widespread inertia, such programs typically led solely to incremental changes in diversification of holdings by plan participants. Today, however, millions of plan participants have invested their retirement savings in TDFs, ensuring that investors' retirement savings are well-diversified and significantly advancing the retirement savings agenda.

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[20] "Investment Company Advertising: Target Date Retirement Fund Names and Marketing," Release No. IC-29301 (Jun. 16, 2010), at 6.

[21] *Id.*

[22] Rule 156(a)(1)(ii) provides that a statement could be misleading due to the "absence of explanations, qualifications, limitations or other statements necessary or appropriate to make such statement not misleading."

We understand that the rapid growth of TDFs coupled with the securities market declines in 2008 prompted the Commission to examine how TDFs are named and marketed, which we believe is warranted, and we commend the Commission for its attention to these issues. With a few important changes, we believe that the Commission's proposal can improve investor understanding of TDFs and continue the very real advancement TDFs have made in the retirement savings of Americans. We appreciate the opportunity to comment on the proposal. If you have any questions or require additional information, please contact Natalie Bej, Principal, Legal Department, at (610) 669-6860.

Sincerely,

/s/ F. William McNabb III
Chairman and Chief Executive Officer

cc: Honorable Mary L. Schapiro, Chairman
Honorable Luis A. Aguilar, Commissioner
Honorable Kathleen L. Casey, Commissioner
Honorable Troy A. Paredes, Commissioner
Honorable Elisse B. Walter, Commissioner

Andrew J. Donohue, Director, Division of Investment Management
Susan Nash, Associate Director, Division of Investment Management

Target Retirement Funds at a Glance

ABC 401 (K) SAVINGS PLAN

The plan offers the following Target Retirement Funds as investment options. Each Target Retirement Fund is a balanced fund that primarily consists of stocks, bonds, and short-term reserves. For more information about each fund, including investment strategy, visit **Vanguard.com** or call Vanguard Participant Services at **800-523-1188**.

The performance data shown represent past performance, which is not a guarantee of future results. Investment returns and principal value will fluctuate, so investors' shares, when sold, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data cited. For performance data current to the most recent month-end, visit our website at www.vanguard.com/performance. Figures for periods of less than one year are cumulative returns. All other figures represent average annual returns.

	Projected Asset Allocation as of Target Date		
Fund Name	Stocks	Bonds	Short-term Reserves
Vanguard®Target Retirement 2050 Fund Investor Shares	50%	50%	0%
Vanguard® Target Retirement 2045 Fund Investor Shares	50%	50%	0%
Vanguard® Target Retirement 2040 Fund Investor Shares	50%	50%	0%
Vanguard® Target Retirement 2035 Fund Investor Shares	50%	50%	0%
Vanguard® Target Retirement 2030 Fund Investor Shares	50%	50%	0%
Vanguard® Target Retirement 2025 Fund Investor Shares	50%	50%	0%
Vanguard® Target Retirement 2020 Fund Investor Shares	50%	50%	0%
Vanguard® Target Retirement 2015 Fund Investor Shares	50%	50%	0%

	Projected Asset Allocation as of June 30, 2010		
Fund Name	Stocks	Bonds	Short-term Reserves
Vanguard® Target Retirement 2010 Fund Investor Shares	49.25%	50.72%	0.03%
Vanguard® Target Retirement 2005 Fund Investor Shares	34.91%	61.57%	3.52%
Vanguard® Target Retirement Income Fund Investor Shares	29.15%	67.78%	5.07%

Investments in Target Retirement Funds are subject to the risks of their underlying funds. The year in the Fund name refers to the approximate year (the target date) when an investor in the Fund would retire and leave the work force. The Fund will gradually shift its emphasis from more aggressive investments to more conservative ones based on its target date. An investment in the Target Retirement Fund is not guaranteed at any time, including on or after the target date. Diversification does not ensure a profit or protect against a loss in a declining market.

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For more information about any fund, including investment objectives, risks, charges, and expenses, call The Vanguard Group at 800-523-1188 to obtain a prospectus. The prospectus contains this and other important information about the fund. Read and consider the prospectus information carefully before you invest. You can also download Vanguard fund prospectuses at www.vanguard.com.

*The expense ratio is the cost of running the fund, expressed as a percentage of the fund's assets, as of the most recent fiscal year. For funds with underlying funds, the expense ratio is the average weighted expense ratio of the underlying funds. For any fund in existence for less than one year, the expense ratio is the projected cost of running the fund. This data is as of June 30, 2010.

An additional recordkeeping fee may be charged to participants investing plan assets in investments other than Vanguard mutual funds.This recordkeeping fee will be deducted directly from participants' accounts. Please log on to your employer plan at Vanguard.com or contact Vanguard Participant Services at 800-523-1188 for additional fee information prior to investing.

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