M E M O R A N D U M

March 28, 2011

TO: File No. S7-12-10

FROM: Jane H. Kim
Division of Investment Management

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

On March 24, 2011, Susan Nash, Associate Director, Mark Uyeda, Assistant Director, Michael Pawluk, Branch Chief, David Joire, Staff Attorney, and Jane Kim, Staff Attorney, of the Division of Investment Management met with Steven Wallman, Chief Executive Officer of FOLIO*fn*, Inc., and Aaron Gonzalez, Chief Compliance Officer and General Counsel of FOLIO*fn* Investments, Inc. (collectively with FOLIO*fn*, Inc., "FOLIO*fn*"). Participants in attendance by conference call were Geoff Considine, consultant for FOLIO*fn*, Inc., and Michael Rae, Assistant General Counsel, AEGON/Transamerica.

The purpose of the meeting was to discuss certain issues raised in FOLIO*fn*'s comment letter submitted on January 24, 2011. The agenda and handout provided by FOLIO*fn* for the meeting are attached to this memorandum.

Attachments

Folio Investing

FOLIOfn Investments, Inc.
8180 Greensboro Drive
8th Floor
McLean, VA 22102

p 703-245-4000
f 703-245-4800
folioinvesting.com

SEC MEETING AGENDA- TARGET DATE FUNDS/FOLIOS

- Introduction/Overview
  - Offerings and Services of the Firms
  - The Firm Mission
- Target Date Funds/Folio Disclosure and Marketing
  - Risk versus Asset Allocation Disclosure
  - Review and Adjustment Process
  - Allocations – Detailed Enough to Use
  - “To” versus “Through”
- Questions/Answers and Discussion

FOLIOfn

Meeting with SEC Division of Investment Management Staff
March 24, 2011

Agenda

- Introduction/Overview
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Introduction/Overview

FOLIO*fn*

- Brief History of the Firm
- Services
  - Folio Investing (Retail)
  - Folio Institutional (Institutional)
- Development of the Target Date Folios

Target Date Funds/Folios

Risk vs. Asset Allocation

- Traditional "glide path" disclosure attempts to reflect target date vehicle's risk with equity asset allocation as a proxy
  - This is misleading and easily gamed as various asset sub-classes are much riskier than others – although all are "equity" or "fixed income"
    - E.g., small cap stocks and emerging market equities are far riskier than domestic larger capitalization stocks
  - Additionally, the risk implied from the asset glide path appears disclosed over time from the asset allocation, but in fact it will change through time whenever the risk levels for the asset classes, or their correlations, change

Target Date Funds/Folios

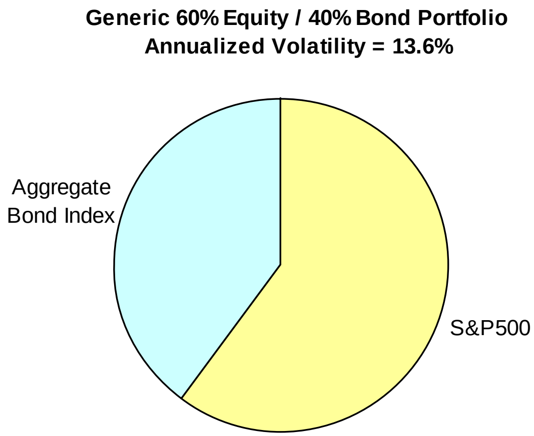
- Review and Adjustment Process
  - Philosophies differ regarding target date vehicles design
    - E.g, the “to” versus “through” debate (i.e., the assumption of whether an individual is going to save up to retirement or throughout retirement), and the risk levels
  - Asset allocation glide path obscures how or whether the allocation will change in the event of market changes, and makes disclosure of risk-based vehicles harder

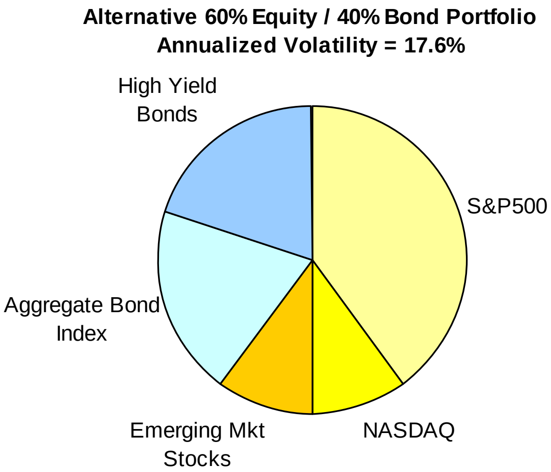
Target Date Funds/Folios

<u>The Solution</u>

- Use a risk-based glide path showing the expected risk level over time – this shows in a simpler fashion what's important, namely the target expected risk level for each stage of the investor's lifecycle
  - Have annual updates as needed for material changes in the expected risk levels
  - Consider requiring explanation of how different risk levels can be accommodated if only one risk level per target date is offered
    - If asset allocation is the focus (which we believe is not the best approach), then clarity is needed around how adjustments are to be made and under what circumstances

Comparison of Portfolios with the Same Equity/Fixed Income Allocation Highlights the Differences





- Both of the above portfolios have asset allocations of 60% Equities and 40% Bonds, but, given the allocation to riskier sub-classes of assets, the second portfolio has a 29% higher annualized volatility.