

# PRINCIPLES TO ENHANCE UNDERSTANDING OF TARGET DATE FUNDS

## Recommended by the ICI Target Date Fund Disclosure Working Group

*June 18, 2009*

The *Principles to Enhance Understanding of Target Date Funds* is intended to highlight how target date funds used for retirement savings can convey effective disclosure.<sup>1</sup> The Principles were developed by a working group of Investment Company Institute members, comprising a broad range of member firms, whose target date mutual funds assets represent over 90 percent of target date mutual fund assets.

Target date funds provide an efficient way for an investor to invest in a mix of asset classes through a single fund that both rebalances its asset allocation periodically and becomes more conservative over time.

The ICI Target Date Fund Disclosure Working Group reviewed existing disclosures applicable to target date funds and determined that five key pieces of information displayed prominently can help enhance understanding of these innovative and valuable retirement savings products. The Principles set forth below reflect the consensus of the Working Group.

The Principles can be used by target date funds offered as mutual funds, collective funds, insurance company separate accounts, or customized products. Disclosures incorporating these Principles are not meant to substitute for disclosures otherwise required by securities laws or other applicable law. It is up to each company that offers target date funds to decide whether and how to implement the Principles. Target date fund providers, acting in good faith and exercising their own reasonable business judgment, should consider their own facts and circumstances in developing their particular target date fund disclosure. The “sample language” provided is meant to illustrate the Principles, not to dictate the use of particular language or its placement in offering or marketing materials.

As with all disclosures to investors, disclosures provided consistent with these Principles should be written using concise, straightforward, and easy-to-understand language in a manner calculated to be understood by the average plan participant or investor.

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<sup>1</sup> The Principles focus on target date funds used for retirement savings. Although the target date concept also is used in connection with educational savings, the Principles do not address the use of target date funds for this purpose.



*The Investment Company Institute (ICI) is the national association of the U.S. mutual fund industry, which manages half of 401(k) assets and advocates policies to make retirement savings more effective and secure.*

The working group recommends that target date funds prominently disclose:

1. **The relevance of the “target date” used in a fund name, including what happens on the target date.**

*Sample language:*

[2010] in the fund name refers to the approximate year an investor in the fund would plan to retire and likely would stop making new investments in the fund.

2. **The fund’s assumptions about the investor’s withdrawal intentions at and after the target date.**

*Sample language:*

The fund is designed for an investor who plans to withdraw the value of the investor’s account in the fund *gradually* after retirement.

*or*

The fund is designed for an investor who expects to spend all or most of his or her money in the fund at the target date.

3. **The age group for whom the fund is designed.**

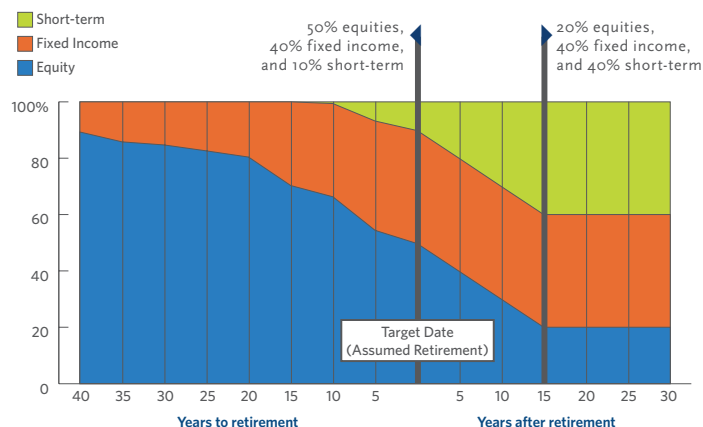
*Sample language:*

An investor who anticipates retiring at or about [2010].

4. **Illustration of the asset allocation path (or glide path) that the target date fund follows to reduce its equity exposure and become more conservative over time, supplemented by a simple narrative explanation. At a minimum, the illustration should highlight the asset allocation (in appropriate broad asset classes) at both the target date and at the point at which the glide path is expected to reach its most conservative asset allocation. If a fund manager has the flexibility to deviate from the glide path, the disclosure should state this and include the applicable parameters.**

*Sample illustration:*

The sample illustrates a fund with a glide path that is expected to reach its most conservative asset allocation 15 years after the target date, and that uses equity, fixed income, and short-term as its broad asset classes.



*Sample Narrative:*

At the target date of [2010], the asset mix in this fund is anticipated to be approximately 50 percent equities, 40 percent fixed income, and 10 percent short-term. The asset mix will progressively reduce equity exposure and become more conservative until [2025], when it will become fixed at 20 percent equities, 40 percent fixed income, and 40 percent short-term. [A fund manager may adjust the asset allocation over the established glide path within [specified] limits].

5. **A statement, added to the risk disclosure the fund provides, that the risks associated with a target date fund include the risk of loss, including losses near, at, or after the target date, and that there is no guarantee that the fund will provide adequate income at and through the investor’s retirement.**

*Sample language:*

An investment in this fund is not guaranteed, and you may experience losses, including losses near, at, or after the target date. There is no guarantee that the fund will provide adequate income at and through your retirement.

Target date fund fact sheets and marketing materials also should state where an investor can obtain more information about the investment objectives, risks, charges, and expenses for the fund and how to obtain more in-depth information about the fund, including its glide path design.

*Sample language for mutual funds based on offering legend requirement:*

You should consider the investment objectives, risks, charges, and expenses of the fund carefully before investing. For a free copy of the fund’s prospectus, which contains this and other information, visit the fund’s website at \_\_\_\_\_, or call your financial adviser or the fund at \_\_\_\_\_. Read the prospectus carefully before investing. You can obtain additional information about the fund, including its glide path design, on websites of a [fund, adviser, other affiliate or recordkeeper] at \_\_\_\_\_ or by calling \_\_\_\_\_. This information also may be available through your plan sponsor.

(Investors in non–mutual fund products similarly would be directed to sources for additional information.)

This mock-up illustrates a fund with a target date of 2010 and a glide path that is expected to reach its most conservative asset allocation 15 years after the target date and uses equity, fixed income, and short-term as its broad asset classes.

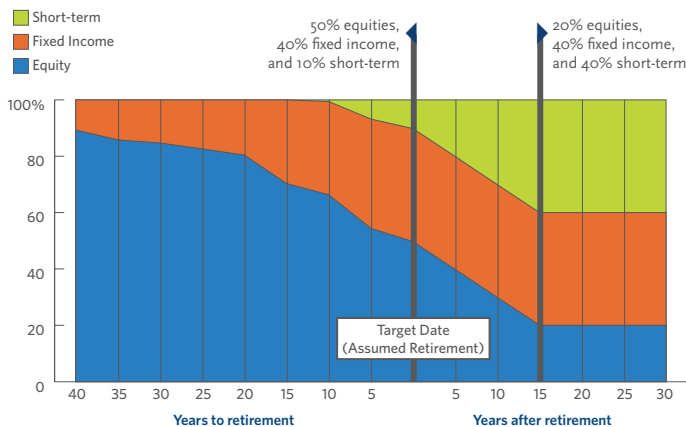
# 2010 RETIREMENT FUND

The fund invests in a diversified portfolio of stocks and bonds that is rebalanced to maintain its asset allocation and progressively becomes more conservative over time. **Principle 1.** “2010” in the fund name refers to the approximate year an investor in the fund would plan to retire and likely would stop making new investments in the fund. **Principle 2.** The fund is designed for an investor who plans to withdraw the value of the investor’s account in the fund *gradually* after retirement.

## WHO MAY WANT TO INVEST:

**Principle 2 and 3.** An investor who anticipates retiring at or about 2010 and withdrawing the value of the investor’s account in the fund *gradually* after retirement.

### Principle 4 illustration.



**Principle 4 narrative.** At the target date of 2010, the asset mix in this fund is anticipated to be 50 percent equities, 40 percent fixed income, and 10 percent short-term. The asset mix will progressively reduce equity exposure and become more conservative until 2025, when it will become fixed at 20 percent equities, 40 percent fixed income, and 40 percent short-term. [A fund manager may adjust the asset allocation over the established glide path within [specified] limits.]

## FUND INFORMATION:

Inception date  
 Total net assets  
 Expense ratio  
 Fund manager

## PERFORMANCE:

*Performance graphs are not included.*

The performance quoted represents past performance and does not guarantee future results. Investment return and principal value of an investment will fluctuate so that an investor’s shares, when redeemed, may be worth more or less than the original cost. Current performance may be lower or higher than the performance quoted. Performance data current to the most recent month end may be obtained by calling \_\_\_\_.

## RISKS:

The fund is subject to several stock and bond market risks, any of which could cause an investor to lose money. However, based on the fund’s current allocation between stocks and the less volatile asset class of bonds, the fund’s overall level of risk should be higher than those funds that invest the majority of the assets in bonds, but lower than those investing entirely in stocks. As the fund’s allocation between underlying funds gradually changes, the fund’s overall level of risk also will decline. In addition to the risk inherent in the asset classes of the underlying funds, the fund also is subject to asset allocation risk, which is the chance that the selection of underlying funds and the allocation of fund assets will cause the fund to underperform other funds with a similar investment objective. For further details on all risks, please refer to the fund’s prospectus. **Principle 5.** An investment in this fund is not guaranteed, and you may experience losses, including losses near, at, or after the target date. There is no guarantee that the fund will provide adequate income at and through your retirement.

You should consider the investment objectives, risks, charges, and expenses of the fund carefully before investing. For a free copy of the fund’s prospectus, which contains this and other information, visit the fund’s website at \_\_\_\_\_, or call your financial adviser or the fund at \_\_\_\_\_. Read the prospectus carefully before investing. You can obtain additional information about the fund, including its glide path design, on websites of a [fund, adviser, other affiliate or recordkeeper] at \_\_\_\_\_ or by calling \_\_\_\_\_. This information also may be available through your plan sponsor.