Allianz Global Investors

May 27, 2020

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Via E-mail: rule-comments@sec.gov

Re: *Request for Comments on Fund Names (File No. S7-04-20)*

Dear Ms. Countryman:

Allianz Global Investors U.S. Holdings LLC, on behalf of the broader Allianz Global Investors organization, welcomes the opportunity to respond to the recent request for comment (the "Release") by the Securities and Exchange Commission (the "Commission") on a framework to address names of registered investment companies and business development companies under section 35(d) of the Investment Company Act of 1940 (the "1940 Act"), Rule 35d-1 thereunder (the "Names Rule") and the antifraud provisions of the Federal securities laws.[1] As a global firm with a longstanding emphasis on sustainable investing, we hope this letter will aid the Commission in its analysis of the Names Rule.

Allianz Global Investors is highly supportive of the Commission's openness to hear from the industry on this important topic. As described below, we feel that Rule 35d-1's current scope, which is limited to types of investment to the exclusion of styles of investing, remains appropriate. The area of environmental, social and governance investing and other forms of responsible investing are of particular importance to our firm, and we believe that the best regulatory approach to this changing field is to defer to market participants to provide clarity in their disclosures as to their interpretation of names indicating this kind of investment focus. Ultimately, our letter includes several concrete suggestions as to disclosure and regulation that we hope will contribute to the ongoing dialogue.

I. Background on AllianzGI

Allianz Global Investors U.S. Holdings LLC is the direct parent of Allianz Global Investors U.S. LLC, a registered investment adviser, and Allianz Global Investors Distributors LLC, a registered broker-dealer, which act as investment adviser and principal underwriter, respectively, for a proprietary US fund complex (the "AllianzGI Funds") of over 50 open- and closed-end

[1] *See* Request for Comments on Fund Names, SEC Release No. IC-33809 (Mar. 2, 2020), available at https://www.sec.gov/rules/other/2020/ic-33809.pdf

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registered investment companies sponsored by the Allianz Global Investors organization ("AllianzGI"). AllianzGI is one of the world's leading diversified asset managers with over 2,700 employees in 25 offices worldwide. The firm manages over $600 billion in assets for individuals, families and institutions across the United States, Europe and Asia Pacific. We offer our clients a wide range of actively managed strategies and solutions across the risk / return spectrum. With over 800 investment professionals, we have established expertise in equities, fixed-income, multi-asset and alternative investments.

While the comments in this letter reflect AllianzGI's broad experience with product development and the complexities of naming funds, we believe that our firm's insights with respect to two areas will be of particular interest to the Commission and its staff: firstly, our experience with environmental, social and governance ("ESG") investing and related concepts; and secondly, our experience with developing and maintaining publicly offered fund products broadly in Europe and other non-US jurisdictions.

AllianzGI is an industry leader in sustainable investing and has long taken an integrated approach to ESG investing philosophy. For example, our portfolio team is responsible for questioning any potential holdings with low ESG ratings and contributing to the firm's "digital debate" about companies' ESG risks. This internal crowdsourcing ensures that experienced portfolio managers, industry analysts and ESG analysts contribute their views on ESG risk. Our dedicated ESG research team provides our portfolio managers and sector analysts with ESG knowledge and insights contributing to better investment decisions as they consider ESG risks and opportunities that may not be fully priced by the markets. Our sustainable and responsive investing ("SRI") strategies aim to create a sustainable portfolio by combining financial and sustainability assessments in investment analysis and portfolio construction. We aim to incorporate ESG criteria throughout our entire investment value chain and believe this approach is better than relying entirely on external ESG ratings and buying into third-party methodologies and judgments.

AllianzGI has longstanding experience in product development and management of publicly offered investment funds in Europe and Asia. Of particular relevance to the Commission's requests is the firm's management of UCITS vehicles domiciled in Luxembourg, which spans a range of asset classes and investment strategies that mirror the types of products offered in the US.

II. How AllianzGI Selects Fund Names

The Release seeks comments on how fund sponsors select names for their registered funds, including whether funds use their names to market themselves to investors or to convey information about their investments and risks.[2] AllianzGI considers a range of qualitative and quantitative factors when naming its funds, but the main takeaway is that landing on a fund name requires reconciling a complex web of considerations. There is no single formula for fund names, as a range of qualitative and quantitative factors play a role in determining a fund's name. Considerations that go into the name selection process include the following themes:

[2] *Release* at 10.

- *Investment Team Discussions*. The naming process begins with detailed discussions with investment teams and an assessment of the model portfolio.
- *Distribution Team Input*. An important aspect of selecting a name is direct feedback from the AllianzGI distribution teams. For example, the feedback from the AllianzGI distribution teams is that financial advisors and consultants believe it is their responsibility to manage client exposures in non-U.S. securities as part of their overall assessment in designing the asset allocation and risk profile for a client's portfolio. In this context, the SEC staff's current interpretation of the requirements of Section 35(d) for using "global" in a fund's name often results in the need for additional adjustments by the financial advisor or consultant to fit the product into their guidelines. This ultimately leads to confusion when certain third party rating services such as Lipper and Morningstar, which use portfolio holdings for determining categories, place a fund with a generic name but holding a wide range of geographic exposures into a global or international category. Also, the use of "global" in a fund's name may be misleading as many large-cap companies have built global supply chains to produce and sell goods into a wide range of markets with no one particular market consistently representing a majority of the firm's revenues or profits. This also creates an administrative burden on compliance departments, which are tasked with monitoring arbitrary percentage minimums when "global" is included in a fund's name.

  Another example relates to the use of "SRI" in a fund's name, which may suggest a "negative screening" process that could result in underperformance by excluding from the investment universe entire industries or sectors. In the U.S., SRI was historically used to describe an investment portfolio that sought to meet specific client dictated constraints. There was a general belief that the constraints introduced the risk for potential underperformance and therefore the use of SRI in a fund name would not be helpful in marketing the strategy to a broad audience. In contrast, ESG strategies seek to meet a common non-investment objective without detracting from return relative to cap-weighted benchmarks. Unfortunately, there is no commonly accepted term for strategies that fit between SRI and ESG leaving asset managers with the challenge of finding ways to differentiate the two approaches within their organization and marketing products to with these features to investors.
- *Peer Fund Analysis*. We conduct extensive analyses of similar funds offered by our peers in respective markets, including fund names as well as their underlying investments and polices.
- *Marketplace Understanding*. We also assess how the investment community will understand a proposed fund name and whether it will resonate with target markets. Understanding how financial advisors and potential beneficial owners might assess and buy the fund is vital to the naming process, and we do so in a number of ways.
  - For example, we may consider a "vanilla" fund name – *e.g.*, a name focusing on an asset class or type of investment – because such a name could optimize marketing and investor research, allowing the fund to reach more investors.

- Conversely, if dictated by fund strategy, we may consider fund names geared toward a specific industry or investing philosophy (*e.g.*, ESG investing, which we discuss in more detail below).
- We also scrutinize how Morningstar and other third-party firms will categorize the fund.

- *Legal Requirements*. We engage in careful review of applicable legal and regulatory requirements in all relevant jurisdictions.
- *Compliance Review*. The implementation process requires discussions with compliance teams to assess the viability and oversight of the model portfolio.
- *Consistency Across Jurisdictions*. Where AllianzGI applies a strategy across a range of vehicle types and jurisdictions, we seek to maintain a level of consistency of naming. The more that an individual regulator imposes substantive restrictions or requirements on particular names, the harder this process of harmonization can be.
  - Arbitrary naming conventions that divide the same strategy can create operational difficulties and actually introduce confusion. In an increasingly globalized market for asset management products, the ability of AllianzGI to distribute a strategy across multiple jurisdictions using a single name is of critical importance.

For example, we recently changed the name of the US domiciled AllianzGI Global Water Fund to AllianzGI Water Fund to give the investment team, which is based in the EU, additional flexibility to participate in expanding investment opportunities in the US. Removing "global" from the fund's name was solely implemented for the US fund and the change was not made for the same strategy that is offered in the EU. Overall, these and other processes are intended to ensure that our funds are appropriately marketed to investors interested in a fund's strategy and who understand its risks.

III. Types of Investments Versus Strategies – Analogy to Ponds and Fishing

The prior section underscores that fund names are being used to market funds to investors, as well as to convey information about their investments. In our experience, however, the use of fund names to convey information about risks is not common, and investors typically rely on a fund's prospectus details to describe the risks of investing in the fund. Given the wide variety of details, nuances and risks associated with an investment program, the industry widely understands the limitation on what can be accurately conveyed in a fund name. It is important to recognize that for most investors the fund name is part of an initial screen – hence the importance of getting the name right – but then there is additional due diligence, both by the ultimate retail investors and by the intermediaries and other gatekeepers that support the broader dissemination of mutual funds. Fund prospectuses and other disclosures are critical for ensuring that product is consistent with its name.

The current Names Rule covers asset class and type of investment, so to use an analogy, it is focusing on "the pond one is fishing in" rather than "the way of fishing". We consider this to be appropriate. As noted in the prior section, there are typically a number of other considerations for naming conventions – for example, how to ensure that the fund in question is correctly compared

to similar funds – that may lead to a decision to include in the new fund's name a reference to an investment strategy (e.g., growth, value, income) or to a targeted outcome (e.g., low volatility).

We agree that a strategy should be differentiated from a type of investment. The type of investment would typically offer a more specific, more focused description of an investment within the selected asset class (e.g., large cap equity, high yield bond, sovereign/corporate bond). Typically there are established, commonly used definitions of major asset types in the market. To use our previous analogy, we would consider anything that describes a "fishing pond" to be a "type of investment".

By contrast, a fund's strategy would refer to the "way of fishing", and would be very difficult to regulate with a prescribed percentage test or other mechanical requirements. For example, it may not always be self-evident how to put companies into "growth" or "value" buckets, and different asset managers may develop differing methodologies for designating companies along these kinds of categories. These terms are qualitative and different definitions of "growth" or "value" can be used by different fund houses. Furthermore, there are different valuation techniques and many different fundamental ratios, so any attempt to regulate investment strategy definitions will be tantamount to selecting the best way to value companies, and will impose significant restrictions on the investment industry, thus limiting investment approaches. Indeed, in some instances, an investment adviser's "special sauce" might actually relate to the innovative way it applies factors, such as growth or value, to categorizing issuers or securities. In such instances, placing substantive requirements on strategies – other than a mandate to provide full and fair disclosure of its interpretation – can have the unintended and counterproductive effect of squelching innovation that would otherwise benefit retail investors.

At the same time, the ability of including reference to a strategy (e.g., income or growth), or to an expected outcome (e.g., managed volatility), or to some other "way of fishing", in the fund name is valuable as it helps investors to identify funds that are more likely to meet their specific needs.

Equally, research teams and institutional consultants perform rigorous due diligence reviews on funds with "ESG" or "Sustainable" or "Impact" and similar terms in their name to determine whether the underlying investments and the investment process of these strategies meet their criteria for ESG/Sustainable/Impact investing. Increasingly, financial advisors and consultants are looking for a manager's commitment to ESG factors when determining whether a strategy will be placed on a firm's recommended list. Investors looking for ESG integration are spending time on their due diligence reviews to ascertain whether sustainability is part of an asset manager's culture and leadership.

We believe that any reference to "ways of fishing", such investment strategy or targeted outcome, in the fund name should be supported and explained in the prospectus disclosure, but does not need to be regulated through the Names Rule or similar prescriptive rules. Neither should there be a catalogue of set approaches or strategies, as this would limit flexibility and innovation, and it furthermore might negatively impact the diversity and quality of fund offering.

IV. The Particular Case of ESG- and SRI-Oriented Funds

One particular area of focus for AllianzGI globally is strategies referencing ESG or sustainability aspects. We currently sponsor and manage several strategies in the US that apply this type of strategy in retail mutual funds, including the AllianzGI Green Bond Fund, the AllianzGI Global Sustainability Fund, AllianzGI Emerging Markets SRI Debt Fund, and AllianzGI Water Fund. Each of these strategies is also pursued in other formats, which may include institutional separate accounts, European UCITS funds, private funds, among others. While we have extensive experience in presenting these types of strategies to retail investors, we note that there is a tendency in the market to include ESG and sustainability terms in their fund names without either consistency in naming convention or sufficient transparency in accompanying disclosures as regards ESG characteristics. This creates the possibility of "greenwashing", which we see as a significant threat to the orderly dissemination of legitimate ESG and SRI products. Our experience suggests that the Names Rule, with its 80% investment policy requirement, is not effective at preventing funds from engaging in greenwashing, nor is this sort of prescriptive, percentage-based testing requirement especially well suited to the purpose of preventing abuses such as greenwashing.

It is our view that there is a significant confusion among investors as to whether terms such as "ESG" or "sustainable" indicate the types of assets in which a fund invests, an investment strategy or a fund's objectives. There is currently no sustainable investing taxonomy in the United States (or in the world) that could help create common understanding and expectations associated with different terms currently used to indicate sustainability considerations applied as a part of the investment approach. The lack of a sustainable investing taxonomy could lead fund producers to use fund names that could raise different expectations among different stakeholders depending on their subjective interpretation of specific terms used in the name. This situation also creates considerable difficulties for fund producers as it limits their ability to effectively use the fund name to attract the right type of investors or differentiate their funds from competition. In particular we note that, when it comes to sustainable investing, different platforms are currently using different approaches and definitions, adding complexity and creating the need to adjust fund disclosures to reflect these different requirements.

For example, there is often a perception that ESG integration and exclusionary screening are the same, whereas there are fundamental differences between these two broad approaches. First, screening-based approaches typically reduce the investment universe, while ESG-integrated approaches do not. Second, screens are often employed to reflect "values" or identify certain desired ESG characteristics of investments, while ESG integration is used to enhance investment value with a focus on financial materiality of ESG factors and risk management. However, both approaches explicitly use ESG factors as part of the investment process and, therefore, it is not surprising that the term "ESG" is being used in fund names for both approaches. We support requiring enhanced disclosures by asset managers about their investment process for implementing ESG-integrated and SRI strategies.

We believe that at this stage there is no need for specific requirements under the Names Rule, or any similar percentage-based prescriptive rule, on when a particular investment may be

characterized as ESG or sustainable – in the current circumstances where neither regulators, nor fund producers or investors have developed a common understanding of sustainable investing related terms, having a prescriptive regulation would be counterproductive. Given the rapidly changing vocabulary across US and non-US distribution markets, we believe that fund producers and investors alike would benefit from having the latitude to develop the broader understanding of commonly used terms referring to sustainable investing, thus effectively creating a voluntary sustainable investing taxonomy. We believe that, over time, this would naturally lead to more clarity and would help establish common understanding of the terms such as "ESG", "SRI", "Impact", "Carbon Transition", "Sustainable Bond", "SDG", "Green Bond", "Sustainable", etc. in the US market.

Furthermore, AllianzGI believes that the application of the Names Rule to sustainable or ESG investing terms should be consistent with its general application. We observe that in most cases sustainable investing terms refer either to an investment strategy or the targeted outcome – the "way of fishing" – rather than the types of investments. Similarly to our comment related to the application of the Names Rule to investment strategies, we note that where ESG/sustainability considerations are part of the investment process, these will be applied differently by different funds using different methodologies, tools and seeking different outcomes; hence, regulation in this case would be very difficult and counterproductive. We also note that the instances where sustainable investing terms would refer to a type of investments would be similar to other thematic funds, and would, therefore, fall under the existing regulation. These might include, for instance, "green bond" funds, where there is a more concrete understanding that a green bond is a particular subset of bond that can be defined and subjected to percentage-based tests (such as the 80% test required by Rule 35d-1).

While we do not believe that top-down regulation is especially well suited to dictating the meanings of the rapidly developing terms that comprise the ESG and SRI investing market, we do agree that the SEC would be well positioned to require funds using terms referring to sustainable investing in the fund name to explain to investors what they mean by the use of these terms. This should enable investors to look for internal coherence between the fund's name and the asset manager's strategy. Our more specific proposal in this regard is included below.

Finally, we would strongly encourage the SEC to seek maximum alignment with the definitions and terms currently under consideration in the European Union's legislative package concerning sustainability related disclosures. In particular, we note that the forthcoming EU regulation for sustainability related disclosures is placing emphasis on the pre-contractual and periodic sustainability related disclosures at the fund/product level, including their sustainability objectives, KPIs and performance, without seeking to regulate fund names or strategies/approaches employed to achieve specified sustainability objectives. As a fund house, we currently see a significant risk of divergence in the regulation of ESG and sustainable investing across different markets, which we hope can be avoided by better coordination at a global level. Ultimately, industry practices and initiatives, including the efforts of global asset management firms like AllianzGI, are better positioned than domestic regulators in individual countries to build a much-needed consistency of vocabulary and nomenclature for ESG and SRI investing on a global level.

V. Calculation Metrics – Industry Attribution, Testing for Derivatives

The Release requests comment on a range of specific methods of calculating exposures referenced in a fund's name. Below are specific views on industry attribution and the mechanics of calculating exposure attributable to investments in derivatives.

We believe that percentage of revenues/assets exposure should not be the sole determinant of industry attribution, when an industry or sector is referred to in a fund's name. For example, in new/emerging industries and economic activities or services, even a relatively small revenue/asset exposure to a particular activity could be a key value driver for a company in view of potential growth expectations. In such cases, the company's historical revenues, profits or asset base may be more representative of established business lines that are not reflective of the growth areas that drive the investment case and stock market interest in the company.

Separately, we understand that the Commission will be receiving considerable industry comment on the Names Rule's treatment of exposure to underlying investments through derivative positions. We believe the SEC should address the challenge for funds that invest in derivatives, and would welcome a solution that provides significant flexibility for firms to establish, within reason, how they calculate exposure through the use of derivatives. We note that different funds and strategies may approach their efforts to achieve investment exposures differently, and that derivatives can be used in dramatically varied ways, both to amplify and to hedge other exposures. We believe that a mark-to-market asset-based test may not provide an appropriate framework when the market values of derivative investments held by funds are relatively small but the potential exposure is significant and drive the fund's risk and return profile. This is another reason we believe a test that considers risk and return measures would be appropriate, but ultimately we see many advantages to requiring the industry to make clear its approach, rather than dictating one or the other particular metric.

VI. Calculation Metrics – Global and International Funds

Another specific area of testing where AllianzGI has extensive experience is with respect to funds that include "global" or "international" in their names. As a global investment firm with portfolio management teams located around the world, AllianzGI has long differentiated itself on the basis of the broad geographic reach of its investment portfolios.

We observe that the marketplace understanding of what constitutes a "global" investment program keeps changing, as operating companies are increasingly multi-national. For instance, should "global" refer to a number of countries that the issuers of securities we invest in are domiciled in/represent? Or should it refer to a percentage of a portfolio based on what each investor would consider a global company? Is it necessary to provide a detailed description of how global test is implemented?

We believe that it is impossible to establish a clear definition of global/international as this relies on the real world being static, which is not the case. We believe that an easier way to classify global/international would be by reference to the investment universe. If a fund is allowed to invest in a global benchmark or is unconstrained in terms of geography of investments (i.e. can

go global), this should be sufficient for the name purposes, and should not be misleading, provided that the fund's disclosures provide ample clarity about what is meant by the reference to "global" it its name.

VII. Notices and Approvals

The Release requests a range of comment on the mechanics for board and shareholder approval and/or notification of changes to names and related policies. We support the continuation of the requirement that any change in a fund's name require a 60-day notice period to shareholders before implementation. We further support a requirement that such changes should only go into effect at the beginning of the following month to allow for a cleaner track record with the new name and potentially approach.

Within the notice requirement under Rule 35d-1, we would suggest that the rule be reformed to allow that the formatting of notices not need to be as formalistic. Currently Rule 35d-1(c)'s requirements of separate writings and prominent placement on envelopes are outdated and imposes costs without clear advantage. Given that other, potentially more material, changes involving a fund are not subject to these formal requirements, there can be inconsistent messaging sent to shareholders on the arbitrary basis of the specific nature of an upcoming change. Furthermore, given that fund sponsors often seek to print and distribute information relating to multiple funds together, the requirement of additional highlighting or written documents for certain funds can lead to confusion on the part of investors. It would be preferable to relax the formal requirement for Rule 35d-1 notices so that they need only provide clear and unambiguous disclosure of upcoming changes. Furthermore, it would be helpful to the industry only to require formal notices where changes are "material", as the current rule does not distinguish between material and material changes to definitions or other aspects of a Names Rule test, thus creating ambiguity where shareholders' interests may not be served by requiring the cost and delay of meeting the detailed, augmented notice requirements where the content is limited to non-material changes.

VIII. Specific Additional Proposal – Disclosure in Proximity to Fund Name

Aside from our more narrow proposed improvements laid out above, AllianzGI proposes an additional approach to public disclosures that considers risk and return measures (even if they are backward looking) as well as additional disclosures. We believe this approach could be helpful for investors to identify attractive investment opportunities and reduce concerns over misleading use of these terms in the fund name. We propose Disclosure in Proximity to the Fund Name to be in addition to the more comprehensive disclosures in the fund prospectus. We believe this would be especially in context of ESG/sustainable strategies, and the examples below reflect that particular application.

As discussed above, we do not believe that there should be limits on a fund's ability to characterize its investments as ESG or sustainable. For example, given that ESG/sustainable terms refer to a "way of fishing" such as a fund strategy or a targeted outcome, we do not believe that the 80% rule test should apply. However, we believe that there should be robust disclosure requirements in the prospectus and other relevant fund disclosures to ensure that investors have

sufficient information to understand how ESG/sustainable component of the fund strategy is achieved, and, where applicable, what ESG/sustainable outcomes the investor should expect.

Below are two examples of how the Disclosure in Proximity to Fund Name proposal would work in practice.

- Global Equity Growth ESG fund
  Sustainability Objective: Actively include ESG factors in investment analysis and decisions and create societal benefits via targeted company engagement and active exercise of voting rights.
  Portfolio Constraints from ESG Factors: Low (c. 5% of investable universe unavailable due to minimum ESG exclusions)

- Global Fixed Income SRI fund
  Sustainability Objective: Actively allocate capital to bond issuers with superior sustainability practices using "best-in-class" approach.
  Portfolio Constraints from ESG Factors: Medium (c. 30% of investable universe unavailable due to minimum ESG exclusions and best-in-class requirements)

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We appreciate the opportunity to provide comments on the framework for addressing names of registered investment companies and business development companies that are likely to mislead investors about a fund's investments and risks. If you have any questions, please contact me at [redacted]

Sincerely,

Angela Borreggine
Director and Senior Counsel
Chief Legal Officer, AllianzGI Funds

cc: The Honorable Jay Clayton
The Honorable Hester M. Peirce
The Honorable Elad L. Roisman
The Honorable Allison Herren Lee

Dalia O. Blass
Director, Division of Investment Management