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VIA ELECTRONIC SUBMISSION

August 16, 2022

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

Re: *Investment Company Names (File No. S7-16-22)*

Dear Ms. Countryman:

We appreciate the opportunity to comment on the Securities and Exchange Commission's (the "Commission") above-referenced proposed amendments[1] (the "Proposal") to rule 35d-1 (the "Names Rule") under the Investment Company Act of 1940 (the "Act").

The Capital Group Companies is one of the oldest asset managers in the United States. Through our investment management subsidiaries, we actively manage assets in various collective investment vehicles and institutional client separate accounts globally. The majority of these assets consist of the American Funds family of mutual funds, which are U.S. regulated investment companies managed by Capital Research and Management Company, distributed through financial intermediaries and held by individuals and institutions across different types of accounts.

We appreciate the Commission's ongoing efforts to protect investors against materially deceptive or misleading fund names. However, we generally believe that

[1] *Investment Company Names*, Release No. 33-11067; 34-94981; IC-34593; File No. S7-16-22 (May 25, 2022), available at https://www.sec.gov/rules/proposed/2022/33-11067.pdf.

expanding the scope of the Names Rule as contemplated by the Proposal is unlikely to further this stated policy goal. We generally agree with the comments submitted by The Investment Company Institute (the "ICI Letter") and SIFMA's Asset Management Group (together with the ICI Letter, the "Industry Letters"), and we write to share our views on the following key issues:

1. The Names Rule should continue to exclude from its scope terms that describe investment strategies.

In adopting the Names Rule, the Commission specifically focused on terms with objective meanings and excluded from the scope of the Names Rule terms that connote types of investment strategies, like "growth" and "value".[2] In our view, the current Names Rule has allowed investors to rely on the objective terms in fund names, while recognizing that disclosed investment strategies are equally important to informed investment decisions. The Commission proposes to change this approach by extending the Names Rule to terms suggesting an investment focus in investments or issuers that have particular characteristics.

As the Commission has recognized, a fund's name cannot tell the whole story about the fund.[3] This is particularly true for terms connoting investment strategies. Terms like "growth", "value", and "income" have a subjectivity that distinguishes them from terms connoting investment types, which can be more easily measured with an objective and quantitative 80% test. If a fund's name includes the term "bond", an investor would reasonably expect the fund to invest primarily in bonds. The Names Rule helps ensure that a "bond" fund provides the investor with what they expect, and investors can make apples-to-apples evaluations of "bond" funds.

By contrast, different "growth" funds may reasonably use the term "growth" in different ways. Some "growth" funds may use the term as a descriptor of assets; that is, they seek to invest in "growth" companies. Other "growth" funds may use the term to describe an

[2] See Investment Company Names, Investment Company Act Release No. 24828 (Jan. 17, 2001), 66 Fed. Reg. 8509 (Feb. 1, 2001) ("Names Rule Adopting Release"), available at https://www.sec.gov/rules/final/ic-24828.htm.

[3] See Names Rule Adopting Release.

investment objective of providing investors with growth of capital. Furthermore, "growth" funds that seek to invest in "growth" companies will have varying definitions of what a "growth" company is, and "growth" funds that seek to provide investors with growth of capital may take different approaches to achieving this objective. For example, a "growth" fund that seeks to provide investors with growth of capital may believe that companies with leading or improving market positions, seasoned management, and/or stable or improving earnings and balance sheets have greater potential to provide above-average growth of capital and focus its investments in such companies. A different "growth" fund may seek out companies with new products or technologies, distribution channels, and/or other opportunities. In short, because there is not a single, objective definition of "growth", the term "growth" in a fund's name does not provide the same informational or comparative value to investors as do objective terms like "bond" and "equity".

Similar subjectivity is found in terms like "international" and "global". The Commission notes that it is not proposing any particular definition of "global" and that a "global" fund can use any reasonable definition of "global", implicitly recognizing that terms like "global" and "international" are open to many interpretations. Because of this, investors are unlikely to have a single, objective understanding of a fund's investment focus just from seeing "global" or "international" in its name.

The Proposal explicitly declines to expand the scope of the Names Rule to cover terms that reference characteristics of a fund's portfolio as a whole, terms that reference elements of an investment thesis without specificity as to the particular characteristics of the portfolio investments, and terms that suggest possible results to be achieved. Funds may use terms like "growth", "income", "global", and "international" for these purposes, rather than using such terms to describe the characteristics of component portfolio investments. The Proposal acknowledges this possibility, specifically referencing "global" as one example.

While this reasoning would seem to exclude such terms from the scope of the Names Rule, the Proposal then states that if such a term could reasonably be understood to describe overall portfolio characteristics *or* the characteristics of component portfolio investments, such term should be considered an investment focus that would be in scope for the Names Rule. We understand that the Commission has questions about terms that reference characteristics of component portfolio investments. This approach, however, would

automatically sweep into scope all terms that could be understood to refer to such characteristics, even if funds are using such terms in a different manner that does not present any concern to the Commission.

This proposed expansion of scope is an overly broad and unhelpfully blunt solution for a problem that the Commission has not clearly demonstrated exists. For subjective terms like "growth", "income", and "global", adequate and accurate disclosure is the more appropriate means to protect investors. Some funds will disclose that "global" refers to their portfolios as a whole, while others will disclose that "global" refers to characteristics of their component portfolio investments; their respective disclosures will help investors determine which funds are more appropriate for their investment needs.

The proposed expansion of scope may have consequences that are not in the best interests of investors. This expanded scope, together with the other changes described in the Proposal, would impose significant compliance costs and burdens on funds newly subject to the Names Rule. Funds newly subject to the Names Rule would have to adopt new 80% investment policies, amend registration statements, update compliance systems and rules to implement the new 80% investment policies, update reporting systems to comply with the new N-PORT reporting requirements, and update recordkeeping policies and procedures to implement the new recordkeeping requirements. Due to the subjectivity of the terms the Commission proposes to bring into the scope of the Names Rule and variation across funds, portfolio managers, and market cycles, our investment professionals would likely need to devote significant time to classifying holdings rather than on research and other activities with more direct benefit to fund investors.

Such funds may also experience adverse impacts to investment results as they adopt new 80% investment policies that constrain how investment portfolios are managed. We believe these costs to funds and their investors would far outweigh the benefit, if any, from subjecting such funds to the Names Rule. Given these costs and the uncertainties involved in implementing 80% investment policies for subjective terms like "growth", "value", and "global", funds may instead elect to adopt more generic names which do not describe their investment strategies (for example, "ABC Opportunities Fund"), which would be less useful for investors.

If the Commission believes that existing disclosure requirements do not provide investors with sufficient information about how a fund defines and pursues its investment strategy, a more appropriate and targeted approach would be to ensure that funds have adequate disclosure about investment strategy terms in their names. The Proposal already outlines one such approach, which is to require funds to define terms used in their names and the specific criteria used to select investments for their investment strategies.

For these reasons, we believe the Names Rule should continue to exclude from its scope terms that describe a fund's investment strategy, and funds should not be required to adopt 80% investment policies for terms used to describe a focus in investments or issuers that have particular characteristics. This would not limit the Commission's existing authority to determine that a fund's name is materially deceptive or misleading, and appropriately enhanced disclosure and reporting obligations would assist the Commission in its ongoing review of funds' names.

2. An 80% investment policy measured at the time of investment balances the need for clear disclosure and asset manager flexibility.

In adopting the Names Rule, the Commission specified that funds would be required to comply with the 80% investment requirement "under normal circumstances" and that the 80% investment requirement generally applies at the time a fund invests its assets. The Proposal would make this an ongoing test, with permissible departures only under certain specified circumstances. This would have meaningfully negative impacts on certain strategies, particularly those related to small capitalization stocks.

As proposed, a fund that makes a permitted departure from its 80% investment requirement would have to take all actions necessary to come back into compliance within 30 days. This could force the fund to sell certain investments at undesirable times and values or to purchase certain investments it would not otherwise make. Alternatively, if a fund were in danger of departing from its 80% investment requirement for a reason not permitted by the Proposal, it would need to make such undesirable sales or purchases even before it departed from its 80% investment requirement.

Although we recognize the Commission's concern over funds "drifting" from the investment focus suggested by their names, we do not believe that all investors share the

same concern or would support the Commission's proposed solution to such concern. As the Commission acknowledges in the Proposal, investors may prefer that funds have flexibility to depart from their 80% investment policies and to deliberately and prudently return to compliance with such policies. While certain investors may appreciate the stricter standard set forth in the Proposal, we do not believe that most investors would prefer such standard at the cost of investment results. These investors would still have the ability to weigh the investment merits of a fund based on its historical adherence to the standard they expect.

This is particularly true for funds which have 80% investment policies based on characteristics that may evolve over time. Take, for example, "small-cap" funds which invest in companies with small market capitalizations. Many small-cap funds seek to provide investors with growth of capital. They pursue this investment goal by identifying small-cap companies with high growth potential and holding investments in such companies as their market capitalizations grow. A small-cap fund may continue to hold certain investments past small-cap status for further capital growth, until the fund's adviser deems it most appropriate to sell. Such market appreciation is not necessarily inconsistent with what an investor in such a small-cap fund expects and seeks.

Despite this, the proposed rule could force such a small-cap fund to sell its investments in high-performing small-cap companies prior to the most beneficial time to sell, since the fund would need to sell such investments right as they lose small-capitalization status. Periods of market volatility may cause market capitalizations to oscillate above and below a limit. If the Names Rule were expanded to cover more subjective terms like "growth" and "value", these constraints could also result in unnecessary turnover as an asset manager assessed the growth trajectories of portfolio companies in those strategies. In a prolonged bear (or bull) market, it may become difficult to differentiate between these terms on a company-by-company basis.

We believe that the current standard for compliance with the 80% investment requirement effectively balances protections for investors against materially deceptive or misleading names with the benefits for investors provided by the appropriate flexibility found in the current standard. We urge the Commission to retain this standard. If, however, the Commission determines that updates to the Names Rule are needed to address concerns about drift, the Commission could instead require additional disclosure and reporting to

provide investors with additional information for evaluating whether a fund is a suitable investment.

For example, funds could be required to disclose the reasons why their 80% baskets might drift below 80% and the extent to which they would permit their 80% baskets to drift below 80% for an extended period of time. Such disclosures would help investors to assess whether the fund is (or remains) an appropriate investment for their goals. Such enhanced disclosure could be coupled with a strict floor on funds' 80% baskets, with funds being prohibited from departing from their investment focus further below that floor for any reason. A 50% floor would preserve the benefits for investors provided by the flexibility of the current standard, while preventing funds from drifting to such an extent that investments in the fund's investment focus constitute a minority of the fund's investments. Furthermore, the Proposal's guidance regarding "antithetical" investments could, with greater clarity as suggested below, address any concern that the remaining portion of the fund's investments would be antithetical to the fund's investment focus.

3. The Commission should clarify its guidance regarding the understanding that the Names Rule is not a safe harbor.

As the Commission notes in the Proposal, the Names Rule was not intended to create a safe harbor for materially deceptive or misleading names. We agree that, in certain circumstances, a fund's name can be materially deceptive or misleading even if the fund is in compliance with its 80% investment policy. The Commission should, however, revisit and clarify its statements in the Proposal about the application of this principle, as these statements will lead to substantial uncertainty about compliance with Section 35(d) of the Act.

The Commission states that a fund's name can be materially deceptive or misleading, even if the fund is in compliance with its 80% investment policy, if the fund makes a substantial investment that is "antithetical" to its investment focus. While the example provided in the Proposal of a "fossil fuel-free" fund investing substantially in an issuer with fossil fuel reserves is clear, this "antithetical" investments guidance will lead to considerable uncertainty in other cases. A fund's name may suggest a focus in a particular industry or geographic focus (for example, the "ABC Utilities Fund" or the "XYZ Japan Fund"). Would any investment outside that industry or geographic area be considered "antithetical" to the fund's

investment focus? Or would only investments in certain other industries or geographic areas be considered "antithetical"? How much would a fund need to invest in "antithetical" investments before its name becomes materially deceptive or misleading? Similar uncertainties arise from the Commission's statement that a fund's name could be materially deceptive or misleading if the fund invests in a way that the source of a substantial portion of the fund's risk or returns is different from that which an investor reasonably would expect based on the fund's name.

These uncertainties could force funds to effectively adopt 100% investment policies, which the Commission declined to do when adopting the Names Rule. As the Commission recognized then, a fund's name cannot be expected to fully inform investors about all of the investments of a fund, and restricting the investment of the remaining 20% of a fund's assets would unnecessarily reduce the fund manager's flexibility to manage the fund's portfolio without providing significant additional benefit to investors.[4]

The Names Rule should continue to impose an 80% investment policy requirement. Accordingly, we urge the Commission to clarify its guidance regarding this safe harbor clarification, as such guidance should not result in funds needing to amend or adopt policies to have higher investment requirements than the current 80% requirement.

4. Although certain additional disclosures regarding compliance with the Names Rule may be useful for investors, not all of the proposed amendments to Form N-PORT are necessary or appropriate.

We recognize that investors may benefit from certain disclosures regarding a fund's compliance with the Names Rule. Investors may find it helpful to understand whether a fund is subject to the Names Rule, so funds could be required to explicitly report whether they are subject to the Names Rule. But we do not believe that investors would find it useful for funds to publicly report on Form N-PORT either the number of days that the value of a fund's 80% basket fell below 80% of the value of the fund's assets during the reporting period, or whether each portfolio investment is included in a fund's 80% basket.

[4] See Names Rule Adopting Release.

Funds may depart from their 80% investment policies in certain circumstances without violating the Names Rule. As a result, the number of days the value of a fund's 80% basket falls below 80% of its assets would not be a particularly useful data point for investors and could cause confusion if investors attempt to evaluate funds based on such data. Suppose Fund A's 80% basket fell below 80% of its assets for 30 days in its reporting period, all due to a permitted departure, and Fund B's 80% basket fell below 80% of its assets for 5 days in its reporting period, where none of these days were due to a permitted departure. Simply knowing that Fund A had 30 days of departure and that Fund B had 5 days of departure would not be helpful for investors, who would lack necessary context about the reasons for departure and which departures are permitted under the Names Rule.

Similarly, it is not clear that investors would benefit from funds reporting which portfolio investments are counted towards their 80% baskets. The Commission proposes that this data could help investors better understand how a fund implements its investment focus. But absent significant explanation about the fund's categorization of each individual investment, investors would find it difficult to understand why each investment is categorized the way it is. As the Commission recognizes in the Proposal, funds with similar names and investment focuses may reasonably make different determinations about whether an investment qualifies for their 80% baskets. It is likely that different funds will categorize the same investments in different ways for the proposed reporting requirement, such that this information could lead to confusion about how funds apply their 80% investment policies.

5. Funds should be permitted, but not required, to value derivative instruments in accordance with the proposed requirements in the Proposal, pursuant to an appropriate and reasonable exposure-based methodology.

We agree with the Commission that a derivative instrument's notional value is often an appropriate measure of economic exposure from such derivative instrument, and that funds should be permitted to convert interest rate derivatives to their 10-year bond equivalents and to delta adjust the notional amounts of options contracts. However, we also agree with the comments in the ICI Letter that the Commission's proposed treatment of derivative instruments does not always represent the most appropriate measure of economic exposure for all derivative instruments. For this reason, we believe funds should be permitted, but not required, to use notional value and to make the proposed adjustments in assessing Names

Rule compliance, consistent with the framework for permitted adjustments under Rule 18f-4 of the Act. Such permitted use of notional value and adjustments should be part of a flexible, exposure-based approach to valuing derivative instruments where funds determine, disclose, and consistently apply an appropriate and reasonable methodology for assessing the economic exposure of derivative instruments.

6. The Commission's ESG proposal sufficiently addresses potentially misleading naming conventions for funds that integrate ESG.

Many funds integrate ESG considerations in pursuit of their stated financial objectives without specifically pursuing ESG strategies or objectives. We concur with the Commission that investors may be confused about the prominence of ESG factors in such investment process if a fund's name references ESG factors. At the same time, we note that the Commission's proposal to enhance fund disclosures regarding ESG investment practices[5] (the "ESG Proposal") would define "ESG-Focused Funds" to include funds whose names include terms indicating that the funds' investment decisions incorporate one or more ESG factors. This should deter integration funds from adopting ESG terms in their names, as doing so would make them ESG-Focused Funds and subject to the heightened disclosure requirements applicable to ESG-Focused Funds. Accordingly, to the extent the Commission determines to keep this aspect of the ESG Proposal, we believe it would be unnecessary to additionally define integration funds as having materially deceptive and misleading names if they use terms in their names referring to ESG factors.

7. Given the scope of the proposed changes to the Names Rule, the transition period should be at least two years.

We agree with the comments in the Industry Letters that the proposed one-year transition period would provide funds with insufficient time to implement the changes required under the Proposal. Funds and their advisers will need time to determine required changes to fund names or investment policies and to implement such changes, including seeking required approvals, updating compliance systems and processes, and updating

[5] *Enhanced Disclosures by Certain Investment Advisers and Investment Companies about Environmental, Social and Governance Investment Practices*, Release No. IA-6034; IC-34594; File No. S7-17-22 (May 25, 2022), available at https://www.sec.gov/rules/proposed/2022/ia-6034.pdf.

policies and procedures. We concur with the Industry Letters that a transition period of at least two years would be appropriate.

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We appreciate the opportunity to comment on the Proposal and are grateful for your consideration of our recommendations. If you have any questions regarding our comments, please feel free to contact Tim Moon at [redacted].

Sincerely,

Donald H. Rolfe
Senior Vice President and Senior Counsel
Capital Research and Management Company

Tim Moon
Counsel
Capital Research and Management Company

cc. The Hon. Gary Gensler, Chairman
The Hon. Hester M. Peirce, Commissioner
The Hon. Caroline A. Crenshaw, Commissioner
The Hon. Mark T. Uyeda, Commissioner
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William A. Birdthistle, Director, Division of Investment Management