

March 28, 2016

VIA ELECTRONIC MAIL TO: [RULE-COMMENTS@SEC.GOV](mailto:RULE-COMMENTS@SEC.GOV)

Mr. Brent J. Fields  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: Use of Derivatives by Registered Investment Companies and  
Business Development Companies (File No. S7-24-15)**

Dear Mr. Fields:

American Beacon Advisors, Inc. (“ABA”) is pleased to comment on Investment Company Act Release No. 31933 (December 11, 2015) (the “Release”). ABA is an investment adviser registered with the Securities and Exchange Commission (the “Commission”) and a commodity pool operator registered with the Commodity Futures Trading Commission. Since 1986, ABA has offered a variety of products and investment advisory services to numerous institutional and retail clients, including a variety of mutual funds, corporate cash management accounts and other separately managed accounts. ABA employs a “manager-of-managers” structure in the American Beacon Funds, selecting single or multiple sub-advisors to manage each fund. As of December 31, 2015, ABA’s assets under management exceeded \$48 billion.

ABA wishes to express our support of the comment letter that the Investment Company Institute (“ICI”) has filed with the Commission. In particular, ABA would like to highlight the following points from the ICI’s letter:

- We support the requirement for formal **derivatives risk management programs** to be adopted and implemented by funds that engage in significant derivatives transactions. As a manager-of-managers, ABA believes that involvement of appropriate sub-advisor personnel in its **derivatives risk management program** will be key to its operation, but ultimate decisions regarding day-to-day risk management for a fund should reside with the lead adviser. As such, we encourage the Commission to consider permitting the derivatives risk manager role to be filled by a committee or group that could include personnel of the fund’s investment adviser(s), including sub-advisors. Such a structure would permit the lead adviser to maintain a central committee having responsibility across the fund complex, while engaging specific sub-advisor personnel, as appropriate, to assist with fund-by-fund decisions on derivatives risk.

- ABA agrees with the ICI and other commenters regarding the inappropriateness of applying **portfolio exposure limits** based on gross notional amounts to measure risk arising from leverage. The ICI's research indicates a greater impact on funds than the Commission anticipated. ABA expects that two of the 23 American Beacon Funds – a non-traditional bond fund and a managed futures fund – will either have to significantly alter their investment strategies or deregister if the portfolio exposure limits are adopted as proposed. Although the **portfolio exposure limits** are well-intentioned, we believe that the implementation of this aspect of the rule will deprive investors of a variety of investments whose goal is to reduce the volatility of a traditional portfolio of stock and bond investments. Indeed, mutual fund investors have reallocated significant assets from equity funds to alternative funds (many of which would be impacted materially by the **portfolio exposure limits**) amid recently volatility in the capital markets. In lieu of the **portfolio exposure limits**, we would encourage the Commission to pursue the other aspects of the Release and alternative solutions such as enhanced disclosure.
- If the Commission determines to move forward with **portfolio exposure limits**, we agree that the use of notional amounts provides for administrative benefits over other measurements. However, we believe for the reasons discussed in the ICI letter that it is flawed to rely on notional amounts without regard to underlying reference asset types. We support the ICI's proposal for conversion factors to be applied to notional amounts in conjunction with increasing the exposure limits, as the combination will provide funds with greater opportunity to implement their strategies while managing risk.
- The application of **portfolio exposure limits** at the time of each transaction is not operationally feasible for sub-advised funds, for which certain senior security transactions are directed by the lead adviser and others by the sub-adviser(s). When a lead adviser allocates a fund's assets among multiple sub-advisers, each of which may enter senior security transactions multiple times a day, the calculation of a fund-level exposure limit at the time of each transaction is only possible in an environment in which the lead adviser is pre-approving all transactions, a situation which is practically impossible. For these reasons, we ask that the Commission allow for funds to calculate compliance with the limits as of the end of each business day.

Thank you for your consideration of our views. Please don't hesitate to contact me if you have any questions.

Sincerely yours,

/s/ Gene L. Needles, Jr.