March 28, 2016

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: File No. S7-24-15
Use of Derivatives by Registered Investment Companies and Business Development Companies
Release No. IC-31933 (the "Proposing Release")

Dear Secretary Fields:

Stone Ridge Asset Management ("Stone Ridge") welcomes the opportunity to comment on proposed Rule 18f-4 relating to the use of derivatives by registered investment companies and business development companies. Stone Ridge believes that trust in the integrity of registered funds is essential to providing broad-based access to long-term, positive investment opportunities for investors. Thoughtful rules to manage leverage in registered funds enhance this integrity.

We propose four potential amendments to the rule that would further the integrity of registered funds consistent with the Commission's regulatory goals stated in the Proposing Release. We were grateful for the opportunity to meet with the Commission Staff to discuss certain of these proposals on March 16, 2016.

About Stone Ridge

Stone Ridge was founded in 2012 to offer registered fund investors access to valuable, uncorrelated risks not historically available in registered fund form. We draw inspiration from Vanguard and Dimensional Fund Advisors and simply apply their fundamental "buy the market" insight to asset classes that previously were not accessed with an index-like approach. Today, Stone Ridge advises registered funds with $6.3 billion of assets in two strategy categories: reinsurance risk premium and variance risk premium. We only advise registered funds – no private funds or managed accounts.

Stone Ridge products are accessible solely by large, sophisticated registered investment advisory firms ("RIAs") that have completed in-depth, in-person educational sessions with Stone Ridge about the asset class in which a particular fund invests. No investors, including RIAs, are allowed to invest in our funds "off the street." In addition to attending educational sessions, the RIAs that invest in our funds perform extensive diligence on the relevant investment strategy, and on Stone Ridge, prior to investing. Our funds are not listed on any exchange and are not

sold through any brokers or any retail distribution platforms. Further, we do not market directly to retail investors. Stone Ridge focuses solely on RIAs that have a fiduciary duty to their end investor clients and exercise discretion in making investment decisions on behalf of those clients. We do not compensate any RIA for placing our funds in client portfolios – our funds are chosen solely on their merits. The minimum initial investment size for our funds ranges from $10 million to $25 million per firm ($15 million for our interval funds, including the Stone Ridge All Asset Variance Risk Premium Fund (ticker: "AVRPX"), discussed further below).

Incentive alignment with our investors is of critical importance to Stone Ridge, and actions speak louder than words: (a) 100% of our employees invest in all of our strategies at full fees alongside the outside investors in our funds, and (b) the Independent Trustees of our funds have elected to receive 100% of their trustee compensation in the form of fund shares, which we believe to be unique in the registered fund space.

Stone Ridge has built deep relationships with over 150 RIA firms, the majority of which invest in more than one Stone Ridge fund. These are large advisory firms – the average AUM of these RIA firms is $1.5 billion. We take our fiduciary obligations very seriously. Our RIA investors view us, and we view them, as trusted partners delivering long-term value for their end investor clients. In return for that trust, Stone Ridge has rewarded its investors with steady, uncorrelated returns in very challenging markets.

About AVRPX

In general, "risk premium" is defined as the average return of a particular asset class minus the average risk-free rate of return. A common example is the "equity risk premium," which in practice is the average equity return minus the average Treasury bill return. The equity risk premium is what traditional equity index funds seek to capture. There is no guarantee that the risk premium of any asset class, including equities, will be positive, even over very long time horizons.

Stone Ridge provides registered fund investors with efficient access to risk premium sourced from other asset classes: specifically, the reinsurance risk premium and the variance risk premium.

Stone Ridge launched pioneering registered reinsurance-related funds in 2012, and those funds have produced consistently positive and uncorrelated returns since inception. Every reinsurance-related investment earns positive payments reflecting the insurance premium on an underlying reinsurance contract. However, when a loss event occurs (for example, an earthquake or hurricane in the case of catastrophe insurance), the loss may exceed the amount of these payments collected, in which case the investment will lose money. On average and over time, the total payments earned across a diversified portfolio of reinsurance risks is expected to exceed the total losses from events. Stone Ridge's reinsurance-related funds capture this "reinsurance

risk premium," with the additional portfolio diversification benefit that a stock market crash can't cause a hurricane.

Our variance risk premium strategies apply identical principles to other markets. Variance risk premium is the premium that market participants are willing to pay for protection against sudden changes in specific asset prices. Instead of investing in reinsurance-related investments, Stone Ridge funds employing the variance risk premium strategy sell ("write") options on underlying reference assets. Similar to insuring against earthquake or hurricane risk, these options have the economic effect of "insuring" against large moves up or down in the price of the underlying reference asset. When our variance risk premium funds sell options, the funds earn the price of the options sold (referred to as the option "premium", exactly akin to earning reinsurance premium). When a sharp move in the price of the underlying asset occurs, the written option position can lose money. On average and over time, the total option premium earned is expected to exceed the total losses from large price movements in the underlying assets. Stone Ridge's variance risk premium funds capture this "variance risk premium."[1]

A variance risk premium-related investment strategy can produce less volatile returns than a strategy of investing directly in the underlying asset. Imagine a fund writing (i.e. selling) a put option on a particular stock, with an exercise price of $100/share, when the current share price is also $100/share. Further, assume that the premium (i.e., the sale price) of that option is $5/share. That means that if the underlying stock price stays at $100/share or goes up, the fund earns $5 from the transaction (the premium). If the stock price goes down to $97/share, the fund earns $2 on a net basis – $5 from the premium, minus a $3 loss on the put option that is now "in the money" against the fund. If the stock goes down to $90/share, the fund loses $5 on a net basis – a $5 gain from the premium, minus a $10 loss on the put option. In each of these "down" scenarios, the fund loses *less* money than it would have lost had the fund invested directly in the underlying stock. That is because in all cases, the fund earns the premium. In fact, the only scenario in which the fund's investment strategy performs worse than a direct investment in the underlying stock is the scenario in which the stock goes *up* to a price higher than $105. Thus, a variance risk premium investing strategy can be appealing for certain, more conservative investors because the strategy reshapes the return distribution by purposely giving up the

[1] In addition to capturing risk premium on behalf of our investors, our funds provide important risk-transfer services for the global economy. The insurance-related investments made by our reinsurance funds provide capital to reinsurance companies that enable them to write reinsurance contracts to primary insurers, which allow primary insurers to provide insurance to homeowners, businesses and others who wish to purchase protection from catastrophes and other risks. Our reinsurance risk premium funds help increase insurance penetration around the world, an essential driver of economic growth. Similarly, the options sold by our variance risk premium funds allow businesses and investors to purchase protection from sharp decreases in the price of an underlying asset (e.g., protecting investors from a sharp drop in the S&P 500) or, in some cases, from sharp increases in the price of an underlying asset (e.g. protecting an airline from sharp increases in the price of oil). Our variance risk premium funds help decrease earnings volatility in businesses around the world, which leads directly to increased business investment, another essential driver of economic growth.

possibility of big gains in return for a buffer to mechanically reduce losses on the downside.[2] Variance risk premium strategies are inherently conservative relative to long only strategies, including equity index funds.

AVRPX is a closed-end "interval" fund with $900 million in net assets. AVRPX systematically sells options across different asset classes – including equities, metals, agriculture, livestock, currencies, credit and interest rates. The strategy is designed solely to capture the variance risk premium in these asset classes, rather than take directional views on the performance of any asset class. AVRPX generates returns for investors from the option premium the fund earns, and seeks to "hedge out" all directional exposure to the underlying reference assets. For example, if the fund writes a put on the S&P 500 Index in order to generate option premium, the fund will also sell a futures contract on the S&P 500 Index. As described in more detail below, because these two positions change in value in opposite directions when the S&P 500 goes up or down, the two positions offset each other, which shields the fund and its investors from the effects of movements in the S&P 500 Index itself. AVRPX adjusts its portfolio daily and intraday to maintain appropriately offsetting positions in order to minimize exposure to movements in underlying assets.[3]

Since AVRPX's launch in April 2015, this innovative strategy has been successful in achieving exactly what it was designed to do – capturing variance risk premium while experiencing low volatility and showing resilience in times of market stress. The tables below and the slides labeled as Appendix A show that AVRPX has produced returns materially in excess of major benchmarks since inception, and has done so at lower volatility than the S&P 500 Index or the GSCI Commodities Index. Further, AVRPX has offered true portfolio diversification to its investors, generating profits on average in the weeks in which the S&P 500 Index has suffered its worst losses. Stone Ridge investors find this systematic value preservation, when other risk assets are causing material wealth destruction, particularly valuable.

Further, AVRPX is designed to be a more conservative investment than a traditional investment in an S&P 500 index fund or a broad commodities fund, and it has performed exactly as designed. In this way, AVRPX contributes to an investor's portfolio in much the same way that our flagship reinsurance risk premium fund, the Stone Ridge Reinsurance Risk Premium Interval Fund (ticker: "SRRIX"), does – by producing returns that are uncorrelated to traditional asset classes, as illustrated below and in Appendix A.

[2] This loss-minimizing aspect of the strategy results from the fact that the fund collects premium from the options it writes, which creates a buffer against losses. This aspect of the strategy is further enhanced by the hedging strategy described in the immediately following paragraph, but does not depend on this hedging strategy.

[3] Because AVRPX is a closed-end "interval" fund with quarterly redemption "gates" as low as 5%, it is not susceptible to a "run," so our funds do not create systemic risks for the financial system. On the contrary, as discussed herein, our funds have offset and dampened risk in our investors' overall portfolios.

Performance and Correlation (April 13, 2015 through February 29, 2016) [4]

	Stone Ridge SRRIX	Stone Ridge AVRPX	S&P 500	Barclays US Corporate High Yield	HFRX Global Hedge Fund Index	Global Equities	GSCI Commodities Index
Performance	7.9%	1.9%	-6.3%	-8.6%	-9.4%	-12.8%	-26.4%
Correlation to AVRPX	0.16	1.0	0.02	0.15	0.11	0.10	-0.21

Volatility (April 13, 2015 through February 29, 2016)

	Stone Ridge AVRPX	S&P 500	GSCI Commodities Index
Volatility	11.4%	17.3%	24.7%

Performance During Worst Weeks for S&P 500 (April 13, 2015 through February 29, 2016)

Week Ending	S&P 500	HFRX Global Hedge Fund Index	AVRPX	SRRIX
January 8, 2016	-5.9%	-1.5%	-0.1%	0.1%
August 21, 2015	-5.7%	-1.4%	1.4%	0.3%
December 11, 2015	-3.7%	-1.2%	-1.2%	0.3%
November 13, 2015	-3.6%	-1.1%	1.2%	0.4%
September 4, 2015	-3.4%	-0.5%	0.9%	0.4%
February 5, 2016	-3.0%	-0.9%	0.8%	0.2%
July 24, 2015	-2.2%	-0.8%	0.2%	0.2%
Average of Weeks Above	-3.9%	-1.1%	0.5%	0.3%

[4] All data prepared solely for including in comment materials on proposed Rule 18f-4. Closing prices as of February 29, 2016. Inception date of AVRPX is April 13, 2015. Global Equities refers to MSCI All Country World Index. SRRIX and AVRPX returns are net of fees and expenses. S&P 500, Barclays US Corporate High Yield, HFRX Global Hedge Fund Index, MSCI All Country World Index and GSCI Commodities Index are non-investable indices and have no fees. The Stone Ridge funds' prospectuses are available at www.stoneridgefunds.com.

AVRPX's strategy, however, relies on using offsetting options and derivatives positions that, as measured under Rule 18f-4 as proposed, would result in a high aggregate notional exposure. AVRPX's aggregate notional exposure as measured under the Rule as proposed would be approximately 600-800% of net assets. As a practical matter, AVRPX simply could not operate under the Rule as proposed.[5]

Stone Ridge Asset Management Rule 18f-4 proposals

We ask that the Commission consider the following four proposals that would modify proposed Rule 18f-4:

(1) To permit netting of certain narrowly delineated, objectively-determined transactions in calculating a fund's aggregate notional exposure, but only if the fund complies with a reduced aggregate exposure limit much lower than the proposed Rule's aggregate exposure limits;[6]
(2) To provide for grandfathering of funds like AVRPX that operate under rules and guidance existing at the time of the fund's launch, with prominent disclosure that the fund operates under those old rules and guidance and not under Rule 18f-4;
(3) To permit a fund to exceed any aggregate exposure limits if its "value at risk" ("VaR") is less than that of an easily-investible benchmark such as the S&P 500 Index;
(4) To add a specific provision authorizing a fund to apply to the Commission for an order exempting the fund from some or all of the requirements of Rule 18f-4, subject to any stated conditions in such order, and making the fund exempt from the Rule while such application is pending.

We present these proposals in the alternative so that the Commission could adopt all or only some of them.

Each of these proposals is discussed below.

[5] AVRPX could not react to the Rule by modifying its strategy in any of the three ways suggested by the Commission in the Proposing Release. Specifically, first, AVRPX could not reduce its derivatives use below the relevant limit or decline to enter into transactions going forward that would exceed these limits because, as a derivatives-based strategy, AVRPX requires substantial use of derivatives – the strategy could not continue at levels of derivatives use prescribed by the proposed Rule. Second, AVRPX could not modify its investment activities by engaging in transactions that involve leverage but not the issuance of a senior security, e.g. a purchased option, because AVRPX's strategy depends on selling options to capture the variance risk premium – purchasing options would be a completely different strategy. Third, AVRPX could not reduce its use of derivatives by purchasing securities underlying its derivative instruments because AVRPX seeks to capture the variance risk premium in asset classes including commodities, so it is not possible for AVRPX to trade many of the physical assets underlying the derivatives included in our portfolio – Stone Ridge does not maintain facilities to store oil or live hogs, for example.

[6] We would propose a revised limit for such funds of half of the aggregate notional exposure limit the Commission ultimately adopts (if it adopts one). For ease of discussion, in this letter we will use the number 75% for such limit, as it is one half of the proposed notional limit for most funds.

1. Netting

We propose that the Commission consider adding an alternative aggregate exposure limit under Rule 18f-4 to account for funds, like AVRPX, that use of offsetting transactions that reduce risk and volatility in an objective, mathematically verifiable manner. Our proposal has two elements:

1. In determining its aggregate notional exposure, a fund would be able to net directly offsetting transactions that fall into one of the three specifically delineated categories described below (each, a "Defined Netting Transaction").

2. In order for a fund to rely on the alternative aggregate exposure limit that we propose, the fund's aggregate exposure under senior securities transactions, measured immediately after entering into any such transaction, could not exceed 75% of its net assets.

We would propose to limit Defined Netting Transactions to the three categories described below. In each case, the notional amount[7] of a written (i.e. sold) option could be netted against the notional amount of:

(1) **A purchased option that is the same option "type" as the written option (i.e. put option or call option) and has the same underlying reference asset, maturity and other material terms, other than exercise price** (a "capped" option position).

(2) **An opposite-way futures contract** (i.e. a written call option could be netted against a purchased futures contract and a written put option could be netted against a sold futures contract) **or similar "delta-1" derivative** (e.g. swap, forward contract or matched put-call combination) **that has the same underlying reference asset** (a "covered" or "delta neutral" option position). For the avoidance of doubt, the notional amount of a written option for which the underlying reference asset is a particular futures contract could be netted against the notional amount of an opposite-way transaction *in that exact futures contract.*

(3) **Another written option that is the opposite option type as the written option (i.e. a written call option could be netted against a written put option) and has the same underlying reference asset, maturity and other material terms, other than exercise price** (a "strangle" position).

We have attached specific proposed wording changes to the Rule to accomplish this proposal in Appendix B.[8]

[7] As used herein, "notional amount" is as defined in proposed Rule 18f-4(c)(7). With respect to options, however, we interpret this definition to refer to the "delta-adjusted notional value," as discussed in footnote 163 on page 69 of the Release.

[8] Please note that capped option positions and strangle positions could qualify for netting under the Rule as proposed, as both involve the same type of instrument (an option) and the same underlying reference asset, maturity and other material terms, if exercise price is not considered to be material for this purpose. Therefore, if the Commission prefers to clarify in an adopting release that these positions can be netted, that could limit required

Defined Netting Transactions necessarily reduces the risk of loss in a portfolio, and such transactions would be netted by a portfolio risk manager applying customary risk management techniques. This netting would be completely objective, and not subject to any discretion by the fund. In all cases, **only transactions in the same underlying reference asset could be netted**, and the netting would occur by simple addition or subtraction of the notional amounts of the netted transactions.

The examples below illustrate how each type of Defined Netting Transaction reduces exposure and risk:

(A) "Capped" option positions: If a fund writes a put option on the S&P 500 Index struck at 2,000, the fund will be responsible for paying the amount of any reduction in the S&P 500 Index below 2,000 at maturity. If the S&P 500 drops 200 points to 1,800, the fund will be responsible for paying an amount corresponding to the full 200 point drop. However, if the fund offsets that transaction by also purchasing a put option on the S&P 500 Index struck at 1,950 with the same maturity, then the fund's exposure is "capped" at 50 points of reduction in the index. This combination of transactions is often referred to as a "capped put." The fund can never be exposed for more than this capped amount of potential reduction in the underlying reference asset. As a result, the second position necessarily reduces the potential exposure and the risk of the portfolio.[9]

(B) "Covered" or "delta neutral" option positions: If a fund writes a put option on the S&P 500 Index struck at 2,000, and also sells S&P 500 Index futures, then the fund will experience a loss on the put option position whenever the S&P 500 Index goes down, but will experience a corresponding gain on the sold futures position at the same time. This is often referred to as a "covered option" position.[10] If the amount of S&P 500 Index

changes to the Rule to those relating to covered option positions. However, we have suggested specific wording changes relating to all three types of Defined Netting Transactions for clarity.

[9] In this example, the notional amount of each option can be calculated as Number of contracts * notional contract size * index level * underlying delta. Release at 69. If we assume that the fund purchases or sells 100 option contracts at each strike price, and that the options pay off $100 per index point, then the fund would be obligated to pay $10,000 for each point below 2000 that the S&P 500 closes on the maturity date of the options, capped at 50 index points or $500,000. (Without the second put option, the fund's exposure would be uncapped, so for example if the S&P 500 index closed at 1,900 on the maturity date, the fund would owe $1,000,000 without the second, "capping" option.) The netting permitted by our proposal would occur as follows. Assume that the underlying delta of the first option (struck at 2,000) is 0.5, and the underlying delta of the second option (struck at 1,950) is 0.3, and that the index level is 2,000. In this case, the notional amount of the first option position would be 100 contracts * $100 per index point per contract * 2,000 index points * 0.5, or $10,000,000, and the notional amount of the second, offsetting, option position would be 100 contracts * $100 per index point per contract * 2,000 index points *0.3, or $6,000,000, so the net notional amount of the two positions would be $4,000,000. The net amount reflects the real notional exposure of the two positions together. Even with a net notional amount of $4,000,000, however, we note that the fund's maximum loss would remain capped at $500,000.

[10] Note that, unlike in type (1) and type (3) Defined Netting Transactions, the maturity of the futures contract constituting a type (2) Defined Netting Transaction would not necessarily match the maturity of the option that it "covers." This is because futures contracts may not be available with maturity dates that match the options they are intended to offset. For example, in many markets, the fund may sell options with weekly expirations, but futures contracts may be available only with quarterly expirations.

futures sold equals the "delta" of the option position, then these gains will exactly offset these losses.[11] This combination of exactly offsetting transactions is often referred to as a "delta neutral" position.[12]

(C) "Strangle" positions: If a fund writes a put option on the S&P 500 Index struck at 1,900, and also writes a call option on the S&P 500 Index struck at 2,100, then the fund will experience a loss on the put option position whenever the S&P 500 Index goes down, but will experience a corresponding gain on the written call option position at the same time. This combination of transactions is often referred to as a "strangle" position.[13]

Because this netting would be simple, objective and mathematical, it would not be subject to the complexities that have developed under the Dreyfus no-action letter.[14] Please note that none of the Defined Netting Transactions described above matches the problematic netting scenarios described in the Release.[15]

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[11] The "delta" of an option is the amount by which the value of the option changes for any given change in the value of the underlying reference asset. So if an option is "covered" by an offsetting futures contract position in the same underlying reference asset in an amount equal to the delta of the option, the change in value of the option will exactly offset the change in the value of the futures contract position for a given change in value of the underlying reference asset.

[12] Although such a position is "delta neutral," it is not risk-free. As the price of the underlying asset changes and as time passes and other variables (e.g. interest rates) change, the underlying delta of the option can change, re-introducing "delta risk" into the position. However, this risk (i.e. the risk that the underlying delta of an option may change over time) exists in any option position, including written option positions that would be permitted under the proposed Rule. That risk is mitigated or reversed in our proposal by the requirement that a fund relying on netting of Defined Netting Transactions would not be permitted to enter into new senior securities transactions if its aggregate exposure under senior securities transactions, measured immediately after entering into any such transaction, would exceed 75% of the fund's net assets, vs. 150% for funds not relying on netting of Defined Netting Transactions. Note that even though the option transaction and the offsetting futures contract position may have different maturity dates, the fund can nevertheless realize the value of the futures contract position (by entering into an exactly offsetting futures contract position) at the maturity date of the option in order to meet its obligation under the maturing option transaction, or vice-versa.

[13] Like a "delta neutral" option position, a strangle position, although offsetting and risk-reducing, also carries risk that the underlying delta of the options can change over time. As noted in the previous footnote, this risk also exists in any option position permitted by the proposed Rule, and is mitigated or reversed by the lower notional limit our proposal imposes for funds relying on funds using the alternative exposure calculation.

[14] Dreyfus Strategic Investing & Dreyfus Strategic Income, SEC No-Action Letter (June 22, 1987), https://www.sec.gov/divisions/investment/imseniorsecurities/dreyfusstrategic033087.pdf. We have proposed that the netting of Defined Netting Transactions would not differentiate between options that are "American style" vs. "European style" vs. "Asian style" vs. "Bermuda style" or any other style. Every option of any style has an underlying delta, and therefore an objectively-derived "notional amount" as defined in the Release. However, if the Commission were concerned that options of different styles in capped option positions or strangle positions could introduce additional complexity, the final Rule could limit netting of capped option positions and strangle positions to positions where the Defined Netting Transaction is of the same option style as the option transaction against which it is netted.

[15] "For example, while a long position in a March 2016 copper futures contract could directly offset a short position in the same March 2016 copper futures contract, it would not directly offset a short position with respect to copper options or April 2016 copper futures. Similarly, a purchased option would not offset a written option that has a different maturity date or a different underlying reference asset." Release p. 81. Please note, however, that we believe that netting of any derivatives on the *same underlying reference asset* could be performed with the same objective precision as we describe for the three types of Defined Netting Transactions. We have proposed to limit

The alternative exposure calculation that we propose would not enable a fund generally to disregard or subtract from the calculation of a fund's exposure the notional amount of transactions that the fund deems to be hedging or risk mitigating. Rather, it would only allow subtraction of notional amounts of transactions in the three specifically delineated categories described above, which by definition are hedging and risk-mitigating transactions. These Defined Netting Transactions are not "strategies that seek to capture small changes in the value of such paired instruments."[16] Rather, they are very standard risk-reducing strategies that allow a portfolio risk manager to capture risk premium in underlying asset markets while controlling risk and volatility in a portfolio. In addition, our proposal would limit the aggregate notional exposure of funds relying on netting of Defined Netting Transactions to one half of the aggregate notional exposure permitted for other funds (i.e., 75% under the current proposal), greatly limiting the opportunity for increased risk in a portfolio. Thus we believe that our proposal is consistent with the Commission's goal of a limited netting provision, and sets a narrow and verifiable standard for determining circumstances under which offsetting transactions should be considered to have reduced or eliminated "the market and leverage risks associated with the positions in a manner that would appropriately limit the potential for funds to incur excessive leverage or unduly speculative exposures."[17]

2. Grandfathering

AVRPX operates in compliance with all current rules and guidance applicable to its investment strategy. Stone Ridge has made a substantial commitment of resources and personnel to this fund, having invested tens of millions of dollars in formation costs and infrastructure to launch and run the fund, and employing dozens of highly skilled professionals to manage this fund's portfolio, including all related technology, operational, legal, compliance, trading and risk management functions. These professionals, breadwinners for families, made a substantial commitment to AVRPX, leaving excellent jobs to join Stone Ridge's team of innovators. Rule 18f-4 as proposed threatens their livelihood.

In addition, investors have recognized the value of AVRPX's strategy, and have already invested $900 million in the fund within its first year of operation. All of these investors are represented by sophisticated RIA fiduciaries, and in all cases the investment in AVRPX has been approved by the investment committee of the RIA firm. These RIAs understand the strategy, its potential risks and its potential benefits. None are compensated for investing in AVRPX. Rather, they have chosen AVRPX solely based on its merits. AVRPX has rewarded its investors by performing exactly as expected, producing positive, uncorrelated returns for investors with low volatility in extremely challenging market conditions. Investors want this fund.

Funds like AVRPX, which operate under current rules and guidance and could not operate under the Rule, should be permitted to continue to operate its current investment strategy with

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Defined Netting Transactions to the three types we have described herein in order to limit changes to the proposed Rule.

[16] Id.

[17] Id.

prominent disclosure that the fund operates under old rules, and not Rule 18f-4.[18] This disclosure would make clear to investors that the fund may not comply with the aggregate exposure limits set forth in Rule 18f-4, and would let investors make an informed choice as to whether or not to invest or maintain an investment.

We understand that the law firm of Simpson Thacher & Bartlett LLP has submitted a letter (the "Simpson Thacher letter") urging the Commission to permit such "grandfathering." We fully support the views expressed in that letter with respect to grandfathering.

3. Alternative VaR test

AVRPX is designed to generate lower risk and volatility than major investible benchmarks such as the S&P 500 Index. Since launch, AVRPX has performed exactly as designed. We propose that funds that have a "full portfolio VaR," as defined in the proposed Rule, that is lower than the VaR of the S&P 500 Index (or another appropriate long-only benchmark), be permitted to exceed any aggregate exposure limits.[19] Section 18 of the Investment Company Act of 1940 (the "1940 Act") was enacted in order to avoid excessive borrowing and undue speculation in registered funds. Section 18 focuses on leverage because leverage can cause the net asset value of a fund to change more quickly for a given change in the value of the fund's investments, amplifying positive or negative price movements. Thus we believe that our proposal is consistent with the purpose and policy behind Section 18, in that it ensures that a fund relying on this test maintain a portfolio that will be at least as stable as a traditional, clearly-permitted long-only portfolio.

Under current law and under the proposed Rule, a fund is free to invest 100% of its assets in a portfolio of equity securities to replicate the S&P 500 Index, and of course many funds do exactly that. S&P 500 index funds can be purchased by any retail investor, simply by clicking on the web site of a major fund complex, with no intermediation by an investment advisor. In fact, a fund could invest in this portfolio and finance up to one third of its investment with traditional borrowing leverage under Section 18, creating 1.5x levered returns. The S&P 500 Index has experienced significant historical losses and volatility, costing retail investors trillions of dollars in lost savings and wealth. For example:

- During the financial crisis from 2007 to 2009, the S&P 500 lost more than 55% of its value, with peak 30-day volatility in excess of 80%.
- During the Great Depression from 1929 to 1932, the S&P 500 lost more than 85% of its value, with a peak 30-day volatility in excess of 90%.

[18] We note that the Commission could condition grandfathering on criteria that it deems appropriate, such as potentially (1) no exchange trading, (2) closed-end funds only, (3) marketing only to or through RIAs or other fiduciaries or (4) VaR lower than that of the S&P 500 index or other appropriate benchmark.

[19] This could be formulated either as a "relative VaR" test by benchmarking against the VaR of the S&P 500 Index or other appropriate benchmark at any time, or as an "absolute VaR" test by benchmarking against a fixed VaR limit that could be based on historical VaR of the S&P 500 Index or other appropriate benchmark. As a reference, the historical volatility of the S&P 500 Index has averaged approximately 18% since inception.

In either period, a 1.5x levered investment in the S&P 500 or any similar long-only equity portfolios, which would be permitted by Section 18, would have been nearly or completely wiped out. This is exactly the kind of outcome that Stone Ridge funds are designed to mitigate for our investors.

For example, AVRPX has produced positive returns with volatilities consistently lower than that of the S&P 500. An investment in AVRPX is materially less risky than an investment in an S&P 500 Index fund, and even more materially less risky than a 1.5x levered investment in the S&P 500 Index. We respectfully submit that a fund that consistently operates at materially lower risk than a well-established investment benchmark such as the S&P 500 should be permitted to operate without notional limits on derivatives.

We understand that other commenters will propose alternatives that generally recommend that the Commission consider a fund's portfolio VaR in comparison to a broad-based basket or market index such as the S&P 500. We support those comments, and refer you to the Simpson Thacher letter and the letters cited therein for further discussion of this issue.

4. Specific Exemptive Authority

In addition to the proposals we have set forth above, we ask that the Commission specifically provide for a mechanism that would allow a fund to apply for an order exempting the fund from some or all of the requirements of Rule 18f-4 if the fund can demonstrate that its strategy does not implicate the concerns identified by the Commission in the Proposing Release (i.e., excessive borrowing and undue speculation).[20] The Commission should embrace its ability to issue exemptive orders regardless of whether it implements our proposals, as the Commission is unlikely to settle on a final formulation of the Rule that works for all existing funds, even ones that do not engage in excessive borrowing or undue speculation. It is even more unlikely that the final version of Rule 18f-4 will account for innovative strategies that funds might employ in the future. Accordingly, the Commission's exemptive authority is an important tool in ensuring that innovative and valuable funds that do not implicate the concerns identified by the Commission in the Proposing Release, like AVRPX, could continue to operate and be created in the future.

We support Simpson Thacher's approach on this issue, which would have the Commission add a specific provision to the proposed Rule that would authorize a fund to file an application for exemption with the Commission if it could not otherwise operate under the Rule, and would exempt the fund from the Rule while such application was pending.[21]

[20] We note that the Commission could condition any such exemptive order on any conditions that it deems appropriate, such as potentially (1) no exchange trading, (2) closed-end funds only, (3) marketing only to or through RIAs or other fiduciaries or (4) VaR lower than that of the S&P 500 index or other appropriate benchmark.

[21] In the alternative, the Commission could expressly state in any adopting release that funds can rely on Section 6(c) of the 1940 Act to seek an exemptive order, but in that case, we ask that the Commission delay implementation of Rule 18f-4 for a long enough period of time that it would be able to review applications and grant orders to pre-existing funds that do not raise excessive borrowing and undue speculation concerns.

Economic Impact and Transition

If the Commission were to adopt Rule 18f-4 without incorporating any of the proposals suggested in this letter, it would truly be a disaster for innovative firms that have invested time and money to bring compliant funds like AVRPX to market, a disaster for the employees that run these funds, and most importantly, a disaster for the tens or hundreds of thousands of individual investors who would lose access to valuable, low volatility and low-correlation strategies like AVRPX.

In the Proposing Release, the Commission states that funds unable to operate under the proposed Rule "may choose to liquidate," but concludes that this "would not be significant to the industry as a whole." We respectfully disagree with this conclusion. Based on a survey of its members conducted by the Investment Company Institute, at least 369 funds with $458 billion in assets under management would be forced to de-register or substantially change their investment strategies as a result of the Rule.[22] Forced liquidation of currently-compliant funds would discourage future innovation in asset management, and would erode investor confidence. Also, forced liquidation of closed-end funds, which do not maintain liquid positions, could be directly detrimental to investors in those funds. AVRPX is a closed-end "interval" fund with quarterly redemption "gates" as low as 5%, so liquidating AVRPX could take at least five years. Pure closed-end funds could take even longer to liquidate.[23]

AVRPX could not convert to a private fund – although all investors in AVRPX are advised by sophisticated RIAs with investment discretion over client accounts, AVRPX has over 15,000 individual investors, not all of whom are accredited investors or qualified purchasers. Working together, Stone Ridge and our RIA investors democratize access to the best available long-term investments. Adoption of Rule 18f-4 as proposed, with its impact on funds like AVRPX, would reverse that valuable process.

We hope that our letter has helped the Commission understand some of the detrimental impact that the Rule would have if adopted as proposed. However, if the Commission chooses to adopt the Rule without incorporating any of our proposals, we would strongly encourage the Commission to allow a long transition period – at least five years – to allow positions to be wound down in an orderly fashion and to allow personnel to transition over a timeframe fair to them and their families. A minimum five-year transition period would be especially important

[22] We understand that the results of this survey will be included in a comment letter submitted by the Investment Company Institute. We also note that the Investment Company Institute's survey, which covers only its own membership, almost certainly understates the number of funds and the total assets that Rule would force to liquidate because not all asset managers advising registered alternative funds are members of the Investment Company Institute. For example, Stone Ridge is not a member.

[23] The Commission's analysis of the costs of the proposed Rule does not take into account the costs to funds, and to investors in funds, that cannot effectively modify their portfolio to comply with the Rule as proposed. Those costs include the potential loss of investment and commitment of personnel by firms sponsoring such funds, and the potential loss of choice for investors seeking innovative alternative strategies in registered funds, as well as the potential stifling of positive, creative innovation in investment management more generally. A Rule that would make it impossible for existing, fully compliant funds to continue accepted strategies in a registered fund would run contrary to reasonable investor expectations.

for AVRPX's investors, who chose to invest in a closed-end fund specifically because the structure facilitated a valuable strategy not designed to allow for fast liquidation.

Conclusion

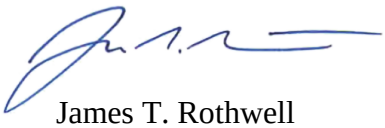
Stone Ridge contributes valuable, creative innovation to the registered funds space. We have done this with a family of highly successful "risk premium" strategies, including AVRPX, not previously available to registered fund investors. These strategies have rewarded Stone Ridge investors with steady returns in very challenging markets, and with the added benefits of low volatility and no correlation to traditional investments. In the Commission's press release on May 8, 2015, in which SEC Chair Mary Jo White announced the appointment of David Grim as Director of the Division of Investment Management, the Commission stated:

> "The SEC's Division of Investment Management works to protect investors, promote informed investment decisions, and *facilitate innovation* in investment products and services through oversight and regulation of the nation's multi-trillion dollar asset management industry." (emphasis added)

We respectfully request that you consider our proposals to modify Rule 18f-4 so that registered fund investors can continue to access AVRPX and its strategy.

We appreciate the opportunity to submit these comments for the Commission's consideration. If you have any questions or would like any additional information regarding these comments, please feel free to contact Jim Rothwell at [redacted] or james.rothwell@stoneridgeam.com.

Sincerely,



James T. Rothwell
Head of Legal
Stone Ridge Asset Management LLC

Appendix A

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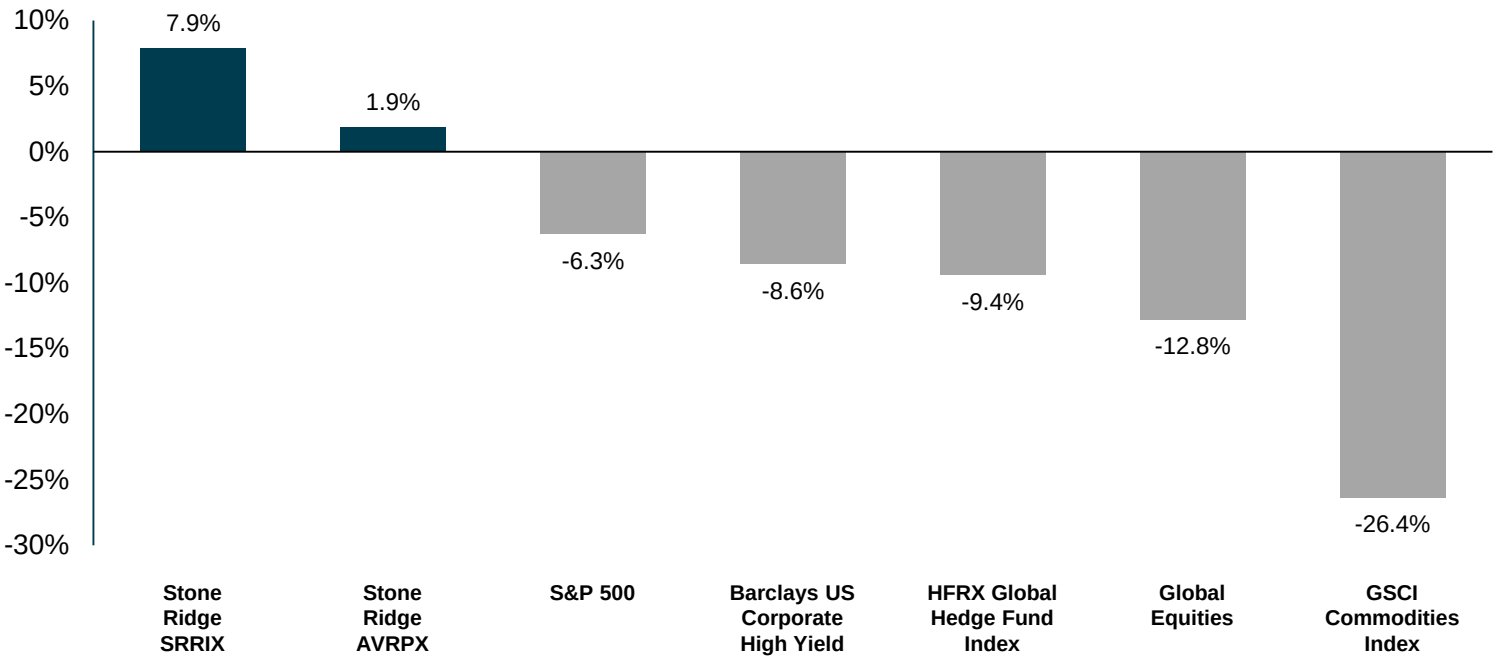
Performance Since Inception

- The Stone Ridge All Asset Variance Risk Premium Fund (AVRPX) and the Stone Ridge Reinsurance Risk Premium Interval Fund (SRRIX) have generated positive returns in a very challenging market environment with virtually no correlation to traditional asset classes

Performance Relative to Broad Market Indices (April 13, 2015 through February 29, 2016)



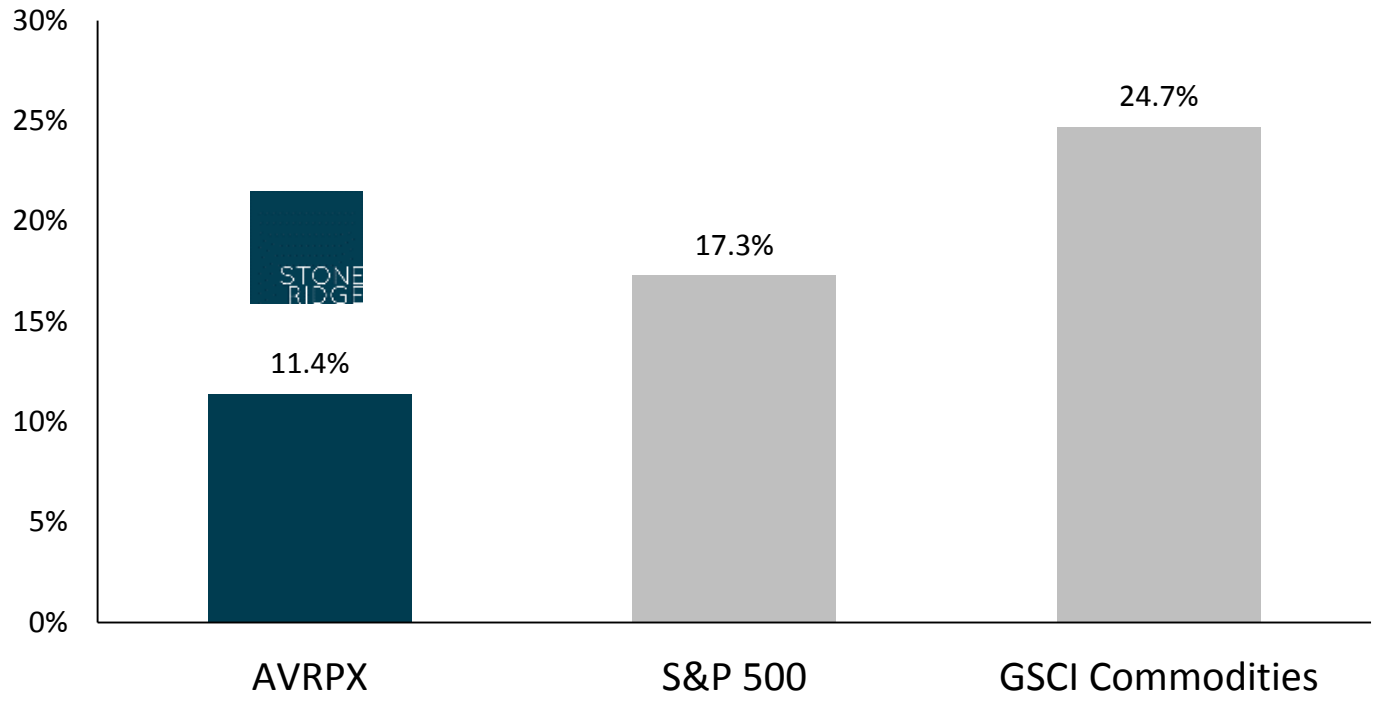
	Stone Ridge SRRIX	Stone Ridge AVRPX	S&P 500	Barclays US Corporate High Yield	HFRX Global Hedge Fund Index	Global Equities	GSCI Commodities Index
Correlation to AVRPX	0.16	1.0	0.02	0.15	0.11	0.10	-0.21

Prepared solely for inclusion in comment materials on proposed Rule 18f-4. Closing prices as of 2/29/2016. Inception date of AVRPX is 4/13/2015. Global Equities refers to MSCI All Country World Index. SRRIX and AVRPX returns are net of fees and expenses. S&P 500, Barclays US Corporate High Yield, HFRX Global Hedge Fund Index, MSCI ACWI, and GSCI Commodities Index are non-investable indices and have no fees. The Funds' prospectuses are available at www.stoneridgefunds.com .

Realized Volatility Since Inception

- AVRPX targets approximately 10% volatility over time and has experienced materially lower volatility than traditional risk assets

Volatility of AVRPX Relative to Broad Market Indices (April 13, 2015 through February 29, 2016)



Prepared solely for inclusion in comment materials on proposed Rule 18f-4. Closing prices as of 2/29/2016. Inception date is 4/13/2015. The Fund's prospectus is available at www.stoneridgefunds.com .

Outperformance in Times of Stress

- During periods of the greatest S&P 500 stress, the Stone Ridge All Asset Variance Risk Premium Fund (AVRPX) and the Stone Ridge Reinsurance Risk Premium Interval Fund (SRRIX) have shown no correlation to traditional markets and have consistently outperformed

Performance During Worst Weeks for S&P 500 (4/13/15 – 2/29/16)

Week Ending	S&P 500	HFRX Global	AVRPX	SRRIX
January 8, 2016	-5.9%	-1.5%	-0.1%	0.1%
August 21, 2015	-5.7%	-1.4%	1.4%	0.3%
December 11, 2015	-3.7%	-1.2%	-1.2%	0.3%
November 13, 2015	-3.6%	-1.1%	1.2%	0.4%
September 4, 2015	-3.4%	-0.5%	0.9%	0.4%
February 5, 2016	-3.0%	-0.9%	0.8%	0.2%
July 24, 2015	-2.2%	-0.8%	0.2%	0.2%
Average of Weeks Above	-3.9%	-1.1%	0.5%	0.3%

Prepared solely for inclusion in comment materials on proposed Rule 18f-4. AVRPX and SRRIX returns are net of fees and expenses. S&P 500 and HFRX Global are non-investable indices and have no fees. The Funds' prospectuses are available at **www.stoneridgefunds.com** . From 4/13/15 – 2/29/16 AVRPX correlation to S&P 500 and HFRX Global was 0.02 and 0.11, respectively. For the same time period, SRRIX correlation to S&P 500 and HFRX Global was 0.04 and 0.02, respectively.

Appendix B

Proposed revisions to Rule 18f-4:

§ 270.18f-4 Exemption from the requirements of section 18 and section 61 for certain senior securities transactions.

(a) A registered open-end or closed-end company or business development company (each, including any separate series thereof, a "fund") may enter into derivatives transactions, notwithstanding the requirements of section 18(a)(1) (15 U.S.C. 80a-18(a)(1)), section 18(c) (15 U.S.C. 80a-18(c)), section 18(f)(1) (15 U.S.C. 80a-18(f)(1)) and section 61 (15 U.S.C. 80a-61) of the Investment Company Act; provided that:

(1) The fund complies with one of the following portfolio limitations such that, immediately after entering into any senior securities transaction:

(i) The aggregate exposure of the fund does not exceed**:**

(A) [150**]**% of the value of the fund's net assets; or

(B) [75]% of the value of the fund's net assets, if the fund elects to net Defined Netting Transactions in the calculation of its aggregate exposure; or

(ii) The fund's full portfolio VaR is less than the fund's securities VaR and the aggregate exposure of the fund does not exceed 300% of the value of the fund's net assets.

[. . .]

(c) Definitions.

[. . .]

(2) Defined Netting Transactions means, with respect to an option written by the fund, the following types of transactions:

(i) a directly offsetting option purchased by the fund that is of the same option type and has the same underlying reference asset, maturity and other material terms, other than exercise price;

(ii) a directly offsetting futures contract, swap contract, forward contract or other derivatives contract with an underlying delta equal to one (1) and with the same underlying reference asset; or

(iii) a directly offsetting option written by the fund that is of the opposite option type and has the same underlying reference asset, maturity and other material terms, other than exercise price.

[. . .]

(~~3~~4) Exposure means the sum of the following amounts, determined immediately after the fund enters into any senior securities transaction:

(i) The aggregate notional amounts of the fund's derivatives transactions, provided that a fund may net **(A)** any directly offsetting derivatives transactions that are the same type of instrument and have the same underlying reference asset, maturity and other material terms **and (B) for funds relying on paragraph (a)(1)(i)(B) of this section, Defined Netting Transactions**;

(ii) The aggregate financial commitment obligations of the fund; and

(iii) The aggregate indebtedness (and with respect to any closed-end fund or business development company, involuntary liquidation preference) with respect to any senior securities transaction entered into by the fund pursuant to section 18 (15 U.S.C. 80a-18) or 61 (15 U.S.C. 80a-61) of the Investment Company Act without regard to the exemption provided by this section.

[. . .]

(8) Option type means a put option or a call option.