February 27, 2023

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

Re: *Open-End Fund Liquidity Risk Management Programs and Swing Pricing; Form N-PORT Reporting – Comments on Proposal to Amend Liquidity Risk Management and Reporting Rules (File No. S7-26-22)*

Dear Ms. Countryman:

Dodge & Cox respectfully submits this letter in response to a request by the U.S. Securities and Exchange Commission (the "SEC" or "Commission") for comments regarding the above-referenced release (the "Proposal"). Dodge & Cox is a member of both the Investment Company Institute (the "ICI") and SIFMA's Asset Management Group ("SIFMA AMG"), and we wish to express our strong support for the comments submitted by both trade associations. We are writing separately to supplement the ICI and SIFMA AMG comment letters, addressing particular elements of the Proposal where we believe our perspective as an active manager of large and small mutual funds may be useful.

**Dodge & Cox and the Dodge & Cox Funds**

Dodge & Cox is a fundamental value-oriented manager serving as investment adviser to the Dodge & Cox Funds and separately managed accounts, with assets under management totaling over $320 billion. Dodge & Cox is one of the longest-standing independent professional investment management firms in the United States, with more than 90 years of investing experience. We are known for our thorough independent research, focus on the long term, and commitment to clients. We construct portfolios for the Dodge & Cox Funds and other clients from the bottom up, based on extensive research into companies and securities that we believe are undervalued by the market, and employ trading strategies that are consistent with our value philosophy.

The Dodge & Cox Funds consist of seven series (each a "Fund," and collectively, the "Funds"): Dodge & Cox Stock Fund, Dodge & Cox Global Stock Fund, Dodge & Cox International Stock Fund, Dodge & Cox Emerging Markets Stock Fund, Dodge & Cox Balanced Fund, Dodge & Cox Income Fund, and Dodge & Cox Global Bond Fund. Our first fund, the Balanced Fund, was established in 1931, while our most recent, the Dodge & Cox Emerging Markets Stock Fund, was launched less than two years ago. The Funds range in size from the relatively small to the very large—at the end of 2022, the newly launched Emerging Markets Stock Fund had $173 million in

net assets while the net assets of our largest funds, the Income Fund and the Stock Fund, were approximately $58 billion and $88 billion, respectively. The Funds are no-load and do not charge redemption or exchange fees.

Nearly three million shareholders, including retail, corporate pension, and 401(k) investors, invest in the Funds. The Funds are the primary means by which U.S. retail investors and smaller institutions can access Dodge & Cox's investment expertise, as our separate account minimums are relatively high. We believe we have served the Funds' investors well over the long term. As of December 31, 2022, each of the Funds ranked in the top third, and most are in the top quartile, for performance over the 3-, 5-, 10-, and 20-year periods when compared to their Morningstar category peers.

**Executive Summary**

In 2016, the Securities and Exchange Commission (the "SEC") adopted Rule 22e-4 (the "Liquidity Rule" or the "Rule") under the 1940 Act, requiring open-end funds to establish written liquidity risk management programs reasonably designed to assess and manage their liquidity risk. Although the Rule has been in operation for only a little more than three years, the Proposal seeks its comprehensive overhaul. It suggests multiple significant changes to the Rule's liquidity classification requirements, each of which would reduce the percentage of investments able to be classified as highly liquid and increase the percentage of those classified as illiquid.

We agree with the SEC that it is imperative for mutual funds to have effective liquidity risk management processes. In our view, it was beneficial for the 2016 Rule to require fund managers to formalize their liquidity risk management practices, but we believe the liquidity classification framework established by the Rule is of questionable utility and has limited application to the day-to-day management of liquidity risk. However, the proposed changes to the liquidity classification framework are so extreme that they would impede effective portfolio management for many funds. Liquidity classifications made in accordance with the Proposal would dramatically misrepresent portfolio liquidity for many funds, which is especially concerning in light of the proposed requirement for funds to report publicly their aggregate liquidity classifications.

We do not support the Proposal and do not believe it is a necessary or appropriate response to the fund industry's performance through the volatile and challenging period in March 2020 that immediately followed the onset of the global COVID-19 pandemic. To the contrary, we believe that we, and the fund industry generally, managed liquidity well through this and other periods of volatility, suggesting that funds have adequately responsive liquidity risk management practices and sufficient safeguards.

The changes proposed to the Rule's liquidity classification framework would result in a significant overstatement of liquidity risk for many funds and would particularly affect larger

funds despite the lower liquidity risk presented by such funds. We specifically oppose the proposed replacement of the concept of the "reasonably anticipated trade size" or "RATS" currently used to estimate investment liquidity with a standardized "stressed trade size" fixed at 10% for all funds. Making classifications using a rigid and inflexible 10% trade size would have the effect of dramatically reducing the percentage of investments classified as highly liquid and increasing those classified as illiquid in many funds that do not present any meaningful liquidity risk. Complying with this change would force certain funds, including some that invest in very liquid asset classes and that have operated and managed liquidity successfully for decades, to make significant changes to their investment strategies, which could compromise fund performance, ultimately harming the very shareholders that the Proposal seeks to protect. The Proposal would also effectively limit the investment strategies available to mutual fund investors to those that invest in a narrow range of highly liquid securities.

We also oppose the proposed changes to the N-PORT reporting regime, which would increase the frequency and scope of both reporting and public disclosure, while reducing the time allotted to prepare reports. Not only would these changes impose additional costs and operational complexity on funds, the increased pace of public disclosure would also increase the risk to certain funds of predatory trading strategies. There is no evidence that the benefits to the Commission or the public of additional public disclosure would outweigh the harm to shareholders of those funds.

Finally, we believe that the substantial disruption and confusion that would be caused by implementing the proposed "hard close" (mandating that only those orders received directly by a fund, its transfer agent, or a registered clearing agency prior to the time at which the fund sets its net asset value ("NAV") per share would be priced at that day's NAV) outweigh any theoretical benefit that might be gained by adopting swing pricing. The hard close requirements would force financial intermediaries, through which most mutual fund shares are traded, to set earlier deadlines for their clients, with different intermediaries setting different deadlines. This would result in the disparate treatment of different groups of shareholders, with those forced to make a trade decision earlier in the day disadvantaged relative to those able to make that decision closer to the hard close deadline. The hard close would create confusion among investors and impose significant costs on both funds and intermediaries, which will ultimately be borne by investors. The Commission should instead consider a more principles-based directive for funds to assess and manage dilution risk as part of their larger liquidity risk management programs.

**March 2020 Events Do Not Justify the Proposal**

The proposed changes to the Liquidity Rule are based on the premise that the fund industry was not adequately prepared to manage liquidity during the challenging pandemic-driven market conditions in March 2020. However, the Proposal offers little evidence that funds were not prepared and even less evidence that the fund industry generally failed to manage liquidity successfully. In fact, we and the fund industry in general were successful in managing

liquidity and meeting redemptions throughout this volatile period. We commend the ICI comment letter's detailed response to this charge, which is based on extensive data collected from its member funds (including Dodge & Cox) before, during, and after the March 2020 market disruptions. It suggests that asset managers were hyper-focused on fund liquidity throughout the period and acted quickly to respond to the unexpected decline in market liquidity and the heightened risk of higher-than-normal redemption requests.

The ICI's analysis is consistent with our own experience. Over the course of several weeks in March 2020, we grappled with turbulent markets and lower liquidity in some fixed income markets. Volatility in equity markets was high during this period, but liquidity was generally plentiful. Although we experienced higher than normal redemptions in our funds at this time, those redemption levels were only a small fraction of the "stressed trade size" put forward by the Proposal. Our Liquidity Risk Management Committee was active throughout the period, taking actions that included the following:

- Based on indicia of market and redemption stress, increasing the "RATS" used by our Funds to make liquidity classifications by double or triple, depending on the fund. Once we were satisfied that markets and redemption activity had stabilized, our Funds reverted to using RATS intended for normal market conditions.
- Regularly reconsidering the liquidity classification of the Funds' fixed income investments and adjusting classifications as appropriate.
- Convening ad hoc meetings of the Funds' Board of Trustees to update them on the market environment and our plans for managing the Funds through the turbulence.

In addition to frequent internal meetings, members of our Liquidity Risk Management Committee participated in various industry group discussions of the market turbulence to share our thoughts with peers and learn from their experience. While market liquidity was certainly challenged during this period, not only were we able to access sufficient liquidity to meet shareholder redemption requests, we were also able to access the liquidity needed to implement significant changes to our fund portfolios to capitalize on investment opportunities created by market dislocations. Of note, actual redemptions in the Funds were well within the estimated range implied by their RATS. Also, while our Funds have access to both a line of credit and an inter-fund lending arrangement, neither was needed to navigate this period.

**Overly Conservative Assumptions for Liquidity Classifications Would Be Harmful to Funds and Shareholders**

Using an overly conservative stressed trade size to classify investments would force funds to manage liquidity risk—and therefore to construct their portfolios—as if they were constantly subject to extreme liquidity stress. The Proposal seems to assume that the most conservative risk management programs are also the most effective. We strongly disagree with this approach. Investing is, foundationally, the intentional assumption of risk in pursuit of returns. Successful

investing requires effective risk management that seeks not to eliminate risk altogether, but rather to balance risks and opportunities against costs through thoughtful, data-driven analysis. Moreover, the appropriate balance for a given fund depends on a variety of factors that cannot be reduced to a series of uniform measures, including its strategy, portfolio composition, shareholder type and concentration, and size.

The Proposal acknowledges that its changes to the Rule's liquidity classification requirements might force some funds to rebalance their portfolios, which could negatively affect performance—but it dismisses this risk with little consideration, noting that "lack of preparation for higher-than-normal redemption can also harm performance." The Proposal overestimates the probability that most funds could be subject to redemptions at the catastrophic level implied by a 10% stressed trade size, a level that significantly exceeds even the Proposal's chosen measure of 99th percentile scenario stressed weekly outflows across all funds. The Proposal also significantly underestimates the magnitude of the immediate and ongoing harm it would cause by forcing funds to rebalance portfolios to be managed in constant anticipation of a very remote risk. Funds would be virtually precluded from investing in certain types of investments above the 15% illiquid threshold, notwithstanding the fact that there may be ready markets for such investments. Other funds would be forced to significantly alter their investment strategies – potentially replacing or decreasing their holdings in high-conviction investments - merely because of their size and regardless of their actual risk of experiencing redemptions approaching 10% of net assets. The proposed changes could even affect funds that invest primarily in very liquid asset classes such as large-cap U.S. equities.

While mutual funds have an obligation to meet redemptions within seven days, the Proposal would require funds to maintain liquidity substantially in excess of that necessary to appropriately address any risk that a fund would not meet this obligation. The adopting release for the original Liquidity Rule acknowledged that requiring a fund to eliminate all adverse impacts of liquidity risk "would be incompatible with an investment product such as a mutual fund."

The SEC's paternalistic attempt to limit liquidity risk would also limit the return potential for investors over the long term and deprive investors of the full benefit of the expertise of their chosen investment professionals. By substituting excessively prescriptive and simplistic measures for the judgment of experienced investment professionals sought by investors, the Proposal would limit investors' ability to choose the investment strategies that best suit their investment goals and risk appetite. The Proposal's narrow focus on liquidity risk also fails to consider or weigh appropriately many other risks, including the risk of diminished returns resulting from overly conservative investing (and the resulting loss of purchasing power during inflationary periods), the impact to markets of driving billions of dollars of fund investments into a limited group of widely-traded securities, and the risk of spurring investors to migrate to less regulated products in search of returns.

**A 10% Stressed Trade Size Is Not Reasonable, Nor Is Any Single Trade Size**

The most harmful element of the Proposal is its replacement of the "reasonably anticipated trade size" or "RATS" that funds currently use to make liquidity classification with a single 10% stressed trade size to be used by all funds. The stressed trade size would require funds to assign liquidity classifications based on an assessment of how long it would take to liquidate 10% of each investment in their portfolios, which implies a scenario dramatically more severe than any that we have experienced, even factoring in the 2008 global financial crisis and March 2020 onset of the global pandemic. A 10% stressed trade size would be an extremely conservative and unrealistic assumption for most funds.

The Commission derives the stressed trade size from its observation that, over the past dozen years or so, weekly outflows of more than 6.6% occurred 1% of the time across weeks and funds, inferring from this that outflows in excess of 10% might occur at the 99.5th percentile of all outflows.[1] A significant flaw in this analysis is the apparent assumption that all funds were at the same risk of experiencing daily or weekly outflows at these levels and that the risk of a large net outflow was similar on any given day (or week) over more than a decade of observations.

Liquidity risk varies substantially among funds, and many factors influence the likelihood that a fund will experience net redemptions of a large percentage of assets. One of these factors is size—generally speaking, the smaller a fund, the more likely that a large redemption or cluster of redemptions might represent a meaningful portion of net assets. In its comment letter, the ICI performs more granular analysis of the same flow data that was used by the Commission to support the proposed 10% stressed trade size; this data shows that daily net redemptions at the 99th percentile are around 1.1% of net assets for the largest quintile of taxable bond funds, but rise to 2.6% of net assets for the smallest quintile. For U.S. equity funds, the difference between the largest 20% of funds and the smallest is even greater—0.9% compared to 4.6%. See ICI Comment Letter, Appendix A. This data is consistent with our experience. Looking back over many decades, our larger Funds (i.e., those with more than $10 billion in assets under management) have consistently experienced much less volatility in subscription and redemption activity than our smaller Funds.

Shareholder composition and concentration are also important to assessing a fund's risk of experiencing large redemptions—generally speaking, a more concentrated shareholder base

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[1] The Proposal points to the existence of very large redemptions at the 99th percentile within the data set it considers, but if the Commission were to analyze the facts and circumstances of those redemptions, it would likely find that redemptions of that magnitude typically occur at smaller funds or following an extended period of poor performance or under other unusual circumstances. It is also likely that a number of large redemptions occurred with advance notice (many large redemptions by institutional investors are communicated days or even weeks in advance) allowing for an orderly liquidation process that minimizes dilution and investment strategy disruption.

correlates with higher risk. Certain types of investors tend to make "stickier" investments than others—i.e., they are more likely to hold their investments for the long term—and some investors are more likely than others to provide advance notice of significant redemptions. Fund redemption levels are also influenced by performance. Significant redemptions are much more likely to occur when a fund is performing poorly than when it is performing well, and redemption patterns are also impacted by the overall market environment (as demonstrated in March 2020). Each fund family determines, based on the facts and circumstances applicable to their specific funds, including their actual redemption history, which of these factors may be more or less relevant in estimating reasonably foreseeable redemptions. As the Proposal acknowledges, funds already consider all of these factors to determine their RATS.

To illustrate the foregoing and further demonstrate how extreme the impact of using a 10% stressed trade size would be, we offer the following example using the Dodge & Cox Funds. Our Liquidity Risk Committee sets the Funds' RATS using very conservative assumptions, considering net redemptions over rolling 5-day periods at both the 98th percentile and the 99.65th percentile, using the former in ordinary market conditions and the latter under stressed market conditions when we see indicia of elevated liquidity risk. Our data set looks back to January 2007 for our older funds in order to incorporate the stressed market conditions of the 2008 global financial crisis. We use such conservative assumptions in part to yield a RATS for classification purposes that is meaningful – were we to look to a more typical scenario (e.g., the 75th percentile of observations), net redemptions for our larger funds would be only a few basis points.

Our highly conservative approach yields results that are a small fraction of the proposed stressed trade size. Even the larger RATS used by our Funds in stressed market conditions do not approach the 10% stressed trade size proposed by the SEC. March 2020 provided an important test of our liquidity management program and the results were reassuring. Actual net outflows in March 2020, under market conditions as stressed as any since the 2008 global financial crisis, were well below the Funds' RATS, confirming the cautious nature of our existing model assumptions.

The Proposal asks whether a 10% stressed trade size is appropriate and, if not, what minimum trade size would be appropriate. The Commission seems to believe that standardizing liquidity risk model inputs will make classifications easier to compare and more accurate and will improve the effectiveness of liquidity risk management programs. We disagree. There is no single trade size that would be appropriate for all, or even most, funds. Imposing a universal trade size of any amount is a poor substitute for the kind of thoughtful, data-driven analysis that is characteristic of effective risk management programs. If the purpose of assigning liquidity classifications to portfolio investments is to help funds prepare to manage redemptions, whether in ordinary or stressed circumstances, those classifications should be based on the particular liquidity needs of each fund. To the extent the Commission believes that some funds do not adequately anticipate stressed market conditions in their liquidity classifications, it should consider providing additional guidance as to the scenario(s) that it thinks a fund's RATS should anticipate—for

example, the number of days' worth of redemptions and the percentile of historical net redemptions that should be considered.

**A 10% Stressed Trade Size Would Have an Unfair Impact on Large Funds**

Large funds would be disproportionately and unfairly impacted by a requirement to make liquidity classifications using a 10% stressed trade size. Generally, larger funds hold larger positions than smaller funds with similar strategies – and generally, the sale of 10% of a large portfolio holding is more likely to impact the market value of that investment than the sale of 10% of a smaller position. Under the Proposal, the stressed trade size, together with the proposed average daily trading volume proxy in the "value impact" standard, would mandate an artificial assumption of a linear relationship between volume and price – and therefore, large funds would often have to apply lower liquidity classifications to their positions than smaller funds with proportionate positions in the same investments. However, as discussed above, large funds are not subject to the same level of redemption risk as smaller funds – they typically have larger and more diverse shareholder bases and consistently experience lower redemptions as a percentage of assets than their smaller peers. Forcing large funds to use the same classification assumptions as smaller funds will lead in some cases to a gross overstatement of their actual liquidity risk.

Making matters worse, the Proposal's requirement that funds publicly disclose their aggregate liquidity classifications would lead investors to believe that larger funds are riskier than their smaller brethren (retail investors in particular may struggle to understand the assumptions from which the classifications are derived). In addition, for very large funds, mandating the use of a 10% stressed trade size would create an effective cap on the size of positions they can hold while complying with the 15% cap on "illiquid investments". This constraint could limit investment discretion and hinder a fund manager's ability to implement its investment strategy, an impact that is not justified by the actual flow data for large funds, which shows that the likelihood of redemptions at the level of the stressed trade size assumption is very remote. Indeed, it is quite unusual for large, well-established funds to experience net daily outflows of more than 1% — the ICI's analysis of the same flow data used by the Proposal suggests that for the largest 20% of funds (across strategies), this occurs only past the 99$^{th}$ percentile of observations. See ICI comment letter, Appendix A.

**The Proposal Overestimates the Utility of Liquidity Classifications**

We believe that both the original Rule and the Proposal focus too much on investment-level liquidity classifications as the foundation of liquidity risk management programs. While it is helpful to understand the liquidity of the various investments in a portfolio, we would challenge the Proposal's apparent conclusion that mandating ultra-conservative liquidity classifications is the best way to prepare funds to manage unexpected redemption stress. To the extent liquidity

classifications are to be helpful in the day-to-day, real-time management of liquidity risk, they should reflect current market conditions and current liquidity risk.

Underlying both the Proposal's and the original Rule's focus on the liquidity classification framework seems to be an assumption that selling portfolio investments is the primary way that funds meet redemption requests in stressed circumstances, but this is not necessarily the case. While portfolio investments are an important source of liquidity, funds also look to other sources, including reserves of cash and cash equivalents, investment income, and various forms of short-term credit. Further, many institutional investors can accept redemptions in kind. Even within a portfolio, a manager might hold a subset of ultra-liquid securities specifically as a reserve that may be drawn upon either to fund redemptions or to take advantage of new investment opportunities. Different funds may rely more or less heavily on various sources of liquidity, depending on their investment strategy, portfolio composition, shareholder concentration and composition, size, and many other factors, but these other sources of liquidity (which the Proposal overlooks almost entirely) play an important role in a fund's overall preparedness to manage unexpected stress and should be factored into any assessment of the overall effectiveness of a liquidity risk management program. If the Commission wants to encourage funds to better plan to manage unexpectedly stressed markets in the future, it could consider a more explicit directive for funds' liquidity risk management programs to anticipate stressed circumstances and develop contingencies for managing large, unexpected redemptions, taking into consideration the various sources of liquidity that are available to them.

**More Frequent Disclosure of Portfolio Holdings Will Expose Funds to Predatory Trading**

The Proposal would increase the frequency of Form N-PORT reporting and the frequency of public disclosure of fund portfolio data. Currently, funds file monthly reports on a quarterly basis within 60 days after quarter end, and the public has access only to information for the third month in each quarter. The Proposal would require monthly filings 30 days after month end and would make most information from each monthly report public 30 days later. We understand the Commission's desire for more detailed and timely information about mutual fund portfolios. However, we are concerned that the monthly filings and monthly public disclosure of portfolio holdings have the potential to harm certain funds and their shareholders. As an alternative, we recommend that the Commission (i) allow funds at least 60 days after each month end to make N-PORT filings and (ii) maintain the existing public disclosure schedule so that only the report for the third month of every quarter is made public 60 days after quarter-end.

We share the concerns raised in the ICI's comment letter relating to the possibility of unauthorized access to fund information filed with the Commission and agree that reducing the time the Commission retains nonpublic fund data would decrease the sensitivity of the information should a breach occur. Extending the filing time from 30 to 60 days after month-end would still provide the Commission with more timely portfolio holdings data than it receives under the current N-PORT filing schedule, while reducing the risk associated with a data breach.

Furthermore, we respectfully request that the release accompanying the final rule discuss the measures that the Commission will take to protect the confidentiality and security of Form N-PORT information, including the Commission's response plan in the event of a security breach. Among other measures, the Commission should have procedures in place to immediately suspend N-PORT reporting upon learning of a breach to avoid compounding the issue while any breach is investigated and vulnerabilities addressed.

We oppose the proposal to make Form N-PORT data public on a more frequent basis. The Proposal notes that some funds already release portfolio data on a monthly basis and provide such data to third party aggregators. It concludes on this basis that any risk of predatory trading as a result of more frequent disclosure is justified by the benefit to investors of increasing their access to portfolio data. While some fund managers may have determined that the risk of harm to the fund from voluntary early disclosure of portfolio data is low, this is not the case for all funds.

Funds and managers with different types of investment strategies may view their portfolio data as more or less sensitive—for example, a fund that closely tracks the composition of a broadly-available index would have little need for confidentiality, and a fund with high portfolio turnover might conclude that its portfolio data would be stale within 30 days. By contrast, a large actively managed fund with concentrated holdings may view holdings data as sensitive proprietary information that could expose the fund to predatory trading if disclosed prematurely. We view the fact that many funds choose <u>not</u> to disclose portfolio data monthly as evidence that more frequent disclosure is not appropriate for all funds. As an active manager, Dodge & Cox constructs its fund portfolios through careful and intensive research and analysis of securities that we believe are undervalued by the market—our research analysts may follow a company for years before recommending it for purchase by a Fund. The depth of our research process and our trading strategies are a key value proposition for our Funds, and we consider our research and by extension our portfolio composition to be sensitive and confidential. To protect this valuable intellectual property for the benefit of Fund shareholders, Dodge & Cox Funds do not disclose quarter-end portfolio holdings until fifteen days after the end of each quarter. Dodge & Cox Funds also do not provide nonpublic portfolio holdings to third party data aggregators that sell or publicly release such data. Actively managed funds with value-oriented managers tend to build and liquidate positions incrementally over time, making them more vulnerable to predatory trading than passively managed funds. Such funds, particularly larger funds that may take longer to fully implement their investment decisions, would be disproportionately harmed by the Proposal's accelerated public disclosure provisions.

Mutual fund investors expect professional investment advice and management services from the fund adviser of their choice. Investors select research-driven, value-oriented managers like Dodge & Cox for the research and investment expertise that enables us to identify undervalued securities that may have been overlooked by the broader market. Public disclosure of portfolio data effectively redistributes valuable proprietary information to others and increasing the

frequency of public disclosure increases the potential for free-riding and predatory investing by other market participants to the detriment of fund investors.

**We Oppose Mandatory Swing Pricing and the Proposal's One-Size-Fits-All Approach**

While we understand the Commission's objective of protecting fund investors from dilution risk during periods of redemption stress, we do not believe that mandating a single inflexible swing pricing model is the best way to achieve this goal. Not all funds have the same level of dilution risk, and different funds may take different approaches to managing this risk. We agree with the ICI that anti-dilution measures should take into consideration fund-specific factors such as fund size, investor base, and portfolio composition, rather than requiring all funds to adopt a single approach. Like the proposed changes to the liquidity rule, the Proposal's one-size-fits-all approach of imposing the same swing thresholds and market impact standards on all funds is not appropriately calibrated to address actual fund-specific dilution risk. When combined with the proposed disclosure obligations, the proposed swing pricing framework would create shareholder confusion around the value of their fund investments. Further, as discussed below, we believe the hard close requirement proposed to facilitate swing pricing would severely degrade the experience of buying and selling mutual fund shares for most investors. We recommend that the Commission consider a more principles-based directive for funds to assess and manage dilution risk within the context of their larger liquidity risk management programs.

**The Hard Close Requirement Would Disadvantage Certain Shareholders and Drive Investors to Less Regulated Products**

We oppose the proposed imposition of a "hard close," which would require that fund orders be received by a fund, a fund's transfer agent, or a registered clearing agency by the time of the fund's pricing, typically 4:00 p.m. Eastern Time. While we recognize that a hard close would help facilitate the implementation of swing pricing, we believe the substantial costs to funds, intermediaries, and investors of implementing a hard close far outweigh the benefit of any theoretical reduction in dilution risk.

As the ICI points out in its comment letter, the majority of mutual fund shareholders invest through intermediaries, many of which provide additional customer services and support. Some investors, including retirement plan participants, have no choice but to transact through intermediaries like retirement plan record keepers. This holds true for the Dodge & Cox Funds. Shareholders representing approximately 92% of Dodge & Cox Funds assets trade through some type of financial intermediary. This includes retail and institutional investors trading through broker-dealers or bank/trust companies, investment advisers placing trades on behalf of their clients, and retirement plan record keepers. About a third of Dodge & Cox Fund assets are held by defined contribution plans (e.g., 401(k) plans), which trade on retirement plan recordkeeping platforms. Furthermore, the same shareholder may invest in our Funds through multiple platforms—for example, a shareholder could hold our Funds through their 401(k) and also hold

Fund shares in an IRA or non-retirement account either through a broker-dealer or directly with the Funds' transfer agent.

Currently, investors that place orders with their intermediary by 4:00 p.m. can buy or sell fund shares at the net asset value of a fund as determined on the day of their order. Most intermediaries transmit these orders to funds on an aggregate basis (i.e., as a single order for the net amount of the total subscription and redemption orders received by the intermediary that day). As a result, many intermediaries transmit orders to funds well after the 4:00 p.m. market close, once they have sorted their own orders to determine the net amount, and some intermediaries are not able to transmit orders until early in the morning following trade date. To comply with a hard 4:00 p.m. cut-off for transmitting orders, intermediaries would be forced to set an earlier deadline for their own clients—and that deadline would likely vary significantly depending on the make-up of that intermediary's client base and its infrastructure. This would mean that different investors are likely to face different deadlines for placing orders to buy and sell fund shares, disadvantaging those forced to place orders earlier relative to those with the flexibility to delay their orders until closer to the market close. It would also mean that investors with multiple accounts could face different transaction deadlines across such accounts. All investors using intermediaries would be disadvantaged relative to those placing orders directly with funds or their transfer agents. Retail shareholders and retirement plan participants would likely be most impacted by this disparity. Not only would such differential treatment be unfair to the very investors the Proposal seeks to protect, it would also cause tremendous confusion. In addition, the substantial costs associated with forcing intermediaries and record keepers to change their systems in order to comply with the hard close could result in higher costs to investors trading on such platforms.

A hard close could make mutual funds a less attractive investment product to many investors, as the inability to execute same-day trades would create unwanted investment risk. Confusion caused by the differences in trade deadlines among intermediaries, in combination with concerns over the information asymmetry that such varied deadlines would create and the price uncertainty that would result from the implementation of swing pricing are likely to drive some institutional investors, intermediaries, and retirement plan sponsors to shift assets into other investment vehicles such as private funds and collective investment trusts (CITs). This shift will be exacerbated if proposed changes to the liquidity rule are adopted, leaving investors with only conservatively managed mutual funds from which to choose. Since private funds and CITs (which have become increasingly popular among plan sponsors) are not as closely regulated as registered investment companies, investors in those products have fewer protections overall and virtually none that address liquidity and dilution risk.

We also note that the types of mutual fund alternatives discussed above are generally only available to large retirement plans and other large institutional investors. To the extent the Proposal causes larger investors to shift assets to other investment vehicles or to separately managed accounts, smaller retirement plans and retail investors with fewer investment options

would suffer the impact of transaction costs, higher expenses, and greater volatility. Sufficiently large redemptions in response to the changes the Proposal would effect could trigger sales of portfolio investments, increasing the very dilution risk that the Proposal seeks to avoid by mandating swing pricing. The Proposal could also diminish shareholder diversity, to the detriment of remaining shareholders. Because different types of shareholders have different needs driving their purchase and redemption decisions, a diverse shareholder base benefits all investors in a fund by helping to smooth redemption and subscription activity and lowering liquidity risk.

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We appreciate the opportunity to share our views with the Commission and would welcome further dialogue if the Commission or its staff have any questions or would like additional detail.

Sincerely,

Roberta R.W. Kameda
General Counsel