July 12, 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 as a supplement to its previously filed comments regarding the above-referenced release (the "Proposal") and as a follow up to its meeting with staff of the Division of Investment Management. This additional submission offers potential alternatives to specific aspects of the Proposal that we believe would have a harmful effect on shareholders of certain large mutual funds, including some of the Dodge & Cox Funds.

As explained in our original comment letter, as well as in the submissions of numerous other fund groups, the cumulative and individual effect of the multiple proposed changes to the liquidity classification requirements would create a distorted view of funds' liquidity risk, and have a disproportionate impact on large funds. At the same time, redemption and subscription data from our own funds, as well as industry data from the Investment Company Institute's comment letter on the Proposal, demonstrate that larger funds have less redemption-driven liquidity risk than smaller funds.

Impact of Liquidity Classifications Proposal

The Proposal's unrealistically conservative redemption assumptions do not correspond to most funds' actual redemption risk and would particularly harm large equity funds. Our analysis of the cumulative impact of the Proposal – which would include the mandated use of a 10% "stressed trade size"; the elimination of the "less liquid" bucket; the requirement to use common market impact standards of 20% of 20-day average daily trading volume ("ADTV") for exchange traded investments and 1% price movement for all other investments; and the reinterpretation of "within 3 business days" to mean T+2 (and "within seven calendar days" to mean T+6) – indicates that certain large funds could be forced to classify a significant percentage of holdings of large-cap equity securities as illiquid solely because of position size. This result would make little sense from a risk management perspective because such securities are among the most actively traded and are considered highly liquid by market participants.

Established 1930

555 California Street, 40th Floor
San Francisco, CA 94104

+1 (415) 981-1710
dodgeandcox.com

The changes would constrain the ability of advisers like Dodge & Cox to manage their funds in a manner that is consistent with the funds' disclosed mandates and the expectations of their investors. In some cases, advisers of large funds could be forced to change their investment strategies to the detriment of fund shareholders. In many instances, this negative impact to investors would not serve to align portfolio management practices with actual liquidity risk.

Alternative Liquidity Classifications Proposal

We believe there are less disruptive alternatives available that could still achieve the Commission's objective of preparing funds to manage liquidity risk in stressed markets. Our recommended alternative is described below:

SEC Liquidity Rule Proposal	**Recommended Alternative**
Standardized 10% Stressed Trade Size	Enable funds to base Stressed Trade Size on their fund's specific redemption history, subject to a size-dependent floor, for example: • The minimum stressed trade size could be the higher of: (a) 2x a fund's one-day net redemptions in a 99th percentile scenario looking back at least 3 years or (b) 1% for funds with more than $10B in assets, 2% for funds with $1B-$10B in assets and 5% for funds with less than $1B in assets. • The SEC could instruct liquidity risk managers to determine whether a fund's stressed trade size should be higher than the above minimum and provide guidance as to the factors that should be considered in making this determination. Such factors could include: average levels of cash and cash equivalents held by the fund; shareholder concentration and composition; access to committed lines of credit; recent and/or historical redemption patterns; and current market conditions.
Eliminate "less liquid" classification category	Maintain this classification category, but require funds that typically invest more than

	15% of their assets in less liquid and illiquid investments (based on prior year's data) to maintain a higher HLIM (e.g., 10%).
Interpreting "within three business days" to mean T+2 rather than T+3	Withdraw this interpretation, which is not consistent with common usage.
Standardized market impact standards of 20% of 20-day ADTV (for exchange traded securities) and 1% price movement (for other investments)	Make 20% of **30**-day ADTV and 1% price movement standards safe harbors, but allow funds the flexibility to adjust market impact standards to meet specific facts and circumstances.

In considering any specific revisions to the Proposal, we recommend that the SEC avoid a "one-size-fits-all" approach in recognition of the fact that different funds can have vastly different liquidity risk profiles, and that overly conservative liquidity risk management requirements are likely to negatively impact returns for shareholders of funds with low liquidity risk. Even within our small complex of seven funds (which includes both large and small funds), liquidity risk varies greatly by size, shareholder base, redemption history, portfolio holdings and strategy, and other factors. The final rule amendment should also recognize that portfolio investment liquidity classifications are not the only means by which funds manage liquidity risk. We and other fund advisers rely on a variety of tools and measures to assess and manage the risk of large redemptions and apply these tools to varying degrees depending on the circumstances of a particular fund.

Proposed Changes in Schedule for Publishing Form N-PORT Data

We also ask that the Commission withdraw or revise its proposal to increase the frequency of public disclosure of Form N-PORT data. Under the current schedule, the SEC publishes quarterly portfolio holdings information, while under the Proposal the SEC would require funds to publicly disclose portfolio holdings on a monthly basis. More frequent publication of portfolio holdings is likely to harm shareholders of a number of large, actively managed equity funds, including several of the Dodge & Cox Funds, by exposing such funds to predatory trading practices.

For some asset managers, particularly value managers, price discipline is an important contributor to performance. Accordingly, such managers often implement new investment decisions over a period of weeks and months, in order to buy or sell within target ranges and to minimize the impact of their trading activity. At Dodge & Cox, we generally purchase and sell securities within a narrow predetermined price range. Depending on the size of a desired position and market conditions, it often takes us several months to fully implement an investment decision.

For price-sensitive managers of large funds, predatory trading is a real threat. It is well known that stock prices rise following corporate buy-back announcements and that a company's stock price will surge following an announcement that the security will be added as an index constituent – in each case based on knowledge of significant pending purchase activity. Similarly, hedge funds and

algorithmic traders seek to capitalize on proprietary trading decisions of fund managers by looking for information about the trading activity of large funds.

Our analysis of price movements following public disclosures of our fund portfolio holdings confirms this, showing a measurable increase in the price of new holdings after we make quarterly disclosures. For example, since 2007, the price of new holdings in the Dodge & Cox Stock Fund have, on average, increased approximately twice as much as the average increase in S&P 500 constituents on the day of such disclosures.

While we try to time our purchases of new investments to avoid being active in the market at the time we make such disclosures, moving to a monthly disclosure schedule would impede these efforts and increase the likelihood that our investment decisions will be exposed before they are fully implemented. This would likely increase the trading costs that fund shareholders bear. Trying to condense our buying activity into shorter time periods would also lead to an increase in trading costs by affecting our ability to maintain an optimal degree of price discipline. In either case, fund shareholders would suffer a reduction in performance as the result of higher trading costs. We do not believe that any theoretical benefit to more frequent public disclosure of fund holdings would offset the harm to fund shareholders of such increased trading costs.

Recommended Alternative

In light of the above, we recommend that the Commission maintain the current schedule of public N-PORT data disclosure. If the Commission believes that it needs more frequent data from funds for regulatory purposes, it could require such data be reported monthly on a confidential basis. Alternatively, the Commission could increase the percentage of assets that can be withheld or "masked" from public disclosure. We would also ask that funds be permitted to continue making intra-quarter filings using T+1 data, rather than in Reg S-X-compliant form (which requires the use of T+0 data), given the minimal differences in information and the substantial additional operational burden that would result from a requirement to file Reg S-X-compliant data on a monthly basis.

* * * * *

We appreciate the opportunity to share our views with the Commission and its staff and are especially grateful to the Commissioners and staff members who took the time to meet with us in person or by video and listen to our concerns. We would welcome further opportunities for engagement if the Commission or staff have any questions or would like additional detail.

Sincerely,

Roberta R.W. Kameda
General Counsel

CC:
Commissioner Mark T. Uyeda
Commissioner Hester M. Peirce
William Middlebrooks, Counsel to Commissioner Hester M. Peirce
Parisa Haghsenas, Counsel to Commissioner Jaime E. Lizárraga
Heather Slavin Corzo, Policy Director, Office of the Chair
Jacob D. Krawitz, Policy Counsel, Office of the Chair
Sarah ten Sietoff, Deputy Director and Associate Director for Rulemaking, Division of Investment Management
Angela Mokodean, Branch Chief, Division of Investment Management