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March 20, 2024

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

Re: Investment Company Act Release No. 34746 (File No. S7-26-22); Open-End Fund Liquidity Risk Management Programs and Swing Pricing; Form N-PORT Reporting

Dear Ms. Countryman,

Below we submit a summary and conclusions based on our recent study of mutual fund liquidity. Our study analyzed, for the past 16 years, daily net flow data for thousands of $1 billion-plus actively-managed stock and bond mutual funds. Our findings indicate that instances of large-scale net liquidations are both rare and isolated. Accordingly, these findings suggest that further regulations as proposed by the Commission, are unwarranted.

Paul Ellenbogen Ph.D. spent over four years as Broadridge's VP of Regulatory and Risk, following 12 years at Morningstar as head of Global Regulatory Solutions. Today, as principal of Circumreferential, LLC, he provides advisory and data services to investment managers and service companies focusing on strategy, product, distribution and fund fees and expense management, as well as regulatory and Board services.

Avi Nachmany brings 38 years of perspective of the mutual fund and ETF industry. In 1986, Avi co-founded Strategic Insight (SI), a thought leadership and business intelligence firm for industry leaders. As SI's Director of Research, Avi pioneered the firm's fact-based research approach. He published numerous studies focusing on mutual fund redemptions, shareholder retention, and fund liquidity. On March 23, 2015, his study on the topic, *Mutual Funds and Systemic Risk: The Reassuring Lessons of Stability Amid Past Periods of High Financial Markets Volatility* was shared with the SEC as a Comment Letter (FSOC-2014-0001).[1]

[1] https://static1.squarespace.com/static/579505b4b8a79baa23c97c61/t/65b51ddbba4ee864a636622b/1706368477762/Strategic+Insight+Study+-+Mutual+Funds+and+Systemic+Risk%2C+March+2015+%28FSOC+Submission+Docket+2014-0001%29.pdf

Introduction: The Promise of Daily Mutual Fund Liquidity

The period we studied – the 16 years since 2008 –- captures market turmoil in 2008 and many days of market and investor anxiety since. Separately, we also focused on the past four years, to observe whether fund liquidity patterns have changed lately, due to the evolution of demand for actively-managed mutual funds, index funds, and ETFs, as well as the traumatic experience of the pandemic. Thus, we studied the 2020-2023 period: COVID-19 early days and the subsequent economic and stock market recovery; the dramatic increase of interest rates, from near zero to over 5% and the implications of such increase on bond and stock markets; geopolitical rising tension and wars; and a contentious US election. Overall, we observed and summarized, in the coming pages, 15 million daily flow observations among the industry's leading stock and bond mutual funds.

At the foundation of the mutual fund structure is investors' expectations of daily liquidity – that they can redeem their savings at any time, at today's closing price, independent of market conditions. To satisfy shareholder's expected redemptions, mutual funds hold highly liquid cash positions and highly liquid stock and bond securities. In addition, the fund and its manager typically secure contingent access to credit and lending facilities, in case such are needed for a short time period.

In total, every fund and every investment manager have a significant amount of immediate liquidity to meet investors' redemptions. Fund managers and their risk officers also pay close attention to their historical patterns of fund flows and monitor carefully pockets of high concentrations of shareholder accounts (across Broker-Dealer distributors, RIAs, institutional investors, and more).

Typically, when a distributor plans a large withdrawal (model change of asset allocation, due to fund's under-performance, or other changes), such large withdrawals are coordinated with the fund's manager who prepares sufficient liquidity in anticipation. At times such withdrawals are executed over time, allowing the fund to plan its liquidity accordingly.

This study addresses ever-present concerns of regulators, PMs, risk officers, and mutual fund industry leaders: what is the likelihood that a mutual fund experiences high shareholder-triggered redemptions over a short period of time – such as a few days?

If such event-triggered high redemptions are common, are funds structured – through cash holdings and liquidity faculties – to respond to investors' liquidity expectations, yet without meaningful cost to exiting or remaining shareholders?

If, however, high shareholder redemptions – out of funds with a diverse shareholder base – are extremely rare – regardless of stock and bond market turmoil or other triggers of investors' anxiety – then keeping unneeded cash or requiring and 'prescribing' onerous liquidity requirements to meet 'hypothetical' shareholder redemptions – is very costly to the tens of millions of mutual fund investors savings today nearly $30 trillions in mutual funds and ETFs for retirement and other purposes.

Study Methodology

- We selected $1 billion-plus actively managed funds, to focus on large, diversified funds where most industry assets reside. We then studied daily flows for these funds over the past 16 years, 2008 – 2023 (over 4,000 trading days). Our sample of such large actively managed funds include nearly 4,000 such stock and bond funds, averaging $1.2 billion each, with a total AUM of $4.5 trillion as of 12/23.

- Separately, for the same group of funds, we studied the past four years, 2020 – 2023 (over 1000 trading days), to observe the impact of recent industry development of demand for funds and ETFs, as well as the effects of COVID-19 and the recovery period since.

- Morningstar has been the data source behind daily flow and AUM information. Naturally not every fund provides daily asset and flow data to Morningstar. But we believe the large and diverse sample of industry data we used is a strong representation of the industry's experience overall.

- Our data sample excluded: passive funds; ETFs; VA underlying funds; funds under $1B; and large funds without daily flow information in Morningstar database, or with inconsistent flow data.

- In this study we define 'Asset-Flow Ratio' as a rolling-two days of flows, as a percentage of the fund's assets. The choice of two days (instead of one) allows us to identify additional instances of sizeable redemptions patterns.

- Days when the financial markets were closed were excluded, naturally. [We used: the sum of Monday and Tuesday flows, as a % of the fund's assets. Or, the sum of Friday and Monday flows, as a percentage of the fund's assets, or Friday and Tuesday if Monday was a holiday, etc.]

Executive Summary of Our Findings: 2008 to 2023

- We identified 3,801 large diversified actively managed funds with about $4.6 trillion AUM in total (on average about $1.2 billion of AUM each) where consistent flow data was available. These large, diversified funds are representatives of the mutual fund industry overall.
- The 16 years in our study cover about 4,000 trading days. Thus, for this group of funds, we have observed nearly 15 million daily fund flow observations over this entire period.
- In over 99% of these 15 million daily flow observations: the fund experienced either positive flows, or negative flows but smaller than 3% of AUM.
- Almost every day of the past 16 years: for each day, when we 'average' the flow ratio for a group of funds (in aggregate for all funds, or withing a broad investment category as captured in the table below), that 'average' fell within a narrow band of negative 1% of AUMs and positive 1% of AUMs.
- Of these 15 million daily observations: in only 0.06% of these daily observations (of rolling two-days), an individual fund experienced negative fund outflows of over 10% of assets. The probability of such high net redemptions was less than 1 in 1000.
- And, for these very rare instances of high redemption: we believe that the great majority were coordinated activities, triggered by planned changes by a distributor, or within a model; where the fund is notified ahead of the planned withdrawals so it can increase its liquidity accordingly. These funds, each bigger than one billion dollars, have 50,000, 100,000, or at times millions of individual shareholders across hundreds of distribution outlets and retirement plans – these individual investors are unlikely to redeem en-masse in a short time period, as we have observed in the fund industry data in the past five decades.

Rolling, Two-Day, Asset-Flow Ratios
2008-2023 (over 4,000 Observation for Each Fund in Our Sample)

Group	Number of Funds*	AUM [$B]*	Total Number Daily Observations MM	% > -3%**	% < -10% ***
US Equity	1,583	2,386	6.4 MM	99.7%	0.07%
Non-US Equity	614	637	2.5 MM	99.7%	0.05%
Taxable Bond	1,097	1,219	4.4 MM	99.6%	0.08%
Municipal Bond	507	332	2.0 MM	99.9%	0.01%
Total	3,801	4,574	15.3 MM	99.7%	0.06%

* $1B+ funds with consistent flow data during the 16 years of this study. AUM as of 12/31/23

** % of daily observations where flow-ratio was positive or only modestly negative - but better than -3%

*** % of daily observations where the fund experienced worse than 10% of net redemptions over any two-day period

Sources: Circumferential calculations, Morningstar, Inc.

Executive Summary of Our Findings: 2020 to 2023

- We observed the same 3,801 large diversified actively managed funds with about $4.6 trillion of AUM in total (on average about $1.2 billion of AUM each) where consistent flow data was available. We wanted to explore whether the data patterns have changed since COVID-19 early days.

- We observed 3.8 million daily fund flow observations over four years.

- Over 99% of these 3.8 million daily flow observations: the fund experienced either positive flows, or negative flows but smaller than 3% of AUM.

- Almost every day of the past four years: for each day, when we 'average' the flow ratio (in aggregate, or withing a broad investment category as captured in the table below), the 'average' fell within a narrow band of negative 1% of AUMs and positive 1% of AUMs.

- Of nearly 4 million daily observations: in only 0.07% of these daily observations (of rolling two-days), an individual fund experienced negative fund outflows of over 10% of assets. The probability of such high new redemptions was less than 1 in 1000.

- As described before, we believe most of these rare instances of high redemptions were triggered by planned changes by a distributor - coordinated redemptions where the fund is notified well ahead of the event and plans its liquidity accordingly.

Rolling, Two-Day, Asset-Flow Ratios 2020-2023 (1,008 Observation for Each Fund in Our Sample)					
Group	Number of Funds*	AUM [$B]*	Total Number Daily Observations MM	% > -3%**	% < -10% ***
US Equity	1,583	2,386	1.6 MM	99.6%	0.08%
Non-US Equity	614	637	0.62 MM	99.7%	0.06%
Taxable Bond	1,097	1,219	1.1 MM	99.5%	0.09%
Municipal Bond	507	332	0.51 MM	99.9%	0.02%
Total	3,801	4,574	3.8 MM	99.6%	0.07%

* $1B+ funds with consistent flow data during the four years of this study. AUM as of 12/31/23

** % of daily observations where flow-ratio was positive or only modestly negative - but better than -3%

*** % of daily observations where the fund experienced worse than 10% of net redemptions over any two-day period

Study Conclusions

- The patterns of mutual fund redemption activity – during multiple periods of heightened investors' anxiety over the past four years – and the past 16 years - are in line with similar reassuring experiences of mutual funds during the past four decades.

- The data as captured in this study reaffirms a conclusion that: redemptions by mutual fund investors tend to be always limited in scope and short in duration; that portfolio managers use of cash and credit facilities; and that the diversified nature of the mutual fund vehicle itself, all combine to suggest that the mutual fund industry is well prepared for future periods of market turmoil.

- Actual data for fund redemptions – over many years and decades - suggests that 'hypothetical' concern about extreme mutual fund illiquidity is not based on empirical data. If any, the empirical data over many decades contrasts the application of such 'hypothetical' concerns in regulatory initiatives.

- Furthermore, the extraordinary costs of new proposed liquidity regulations, as articulated by the ICI and many other industry participants, to be borne by tens of millions of fund shareholders, are unjustified.

- Considering the $30 trillion+ to be invested in stock and bond mutual funds and ETFs in the coming years and decades - and in a very long horizon of savings and decumulation – for many investors, over 30-50 years - unneeded cash allocations of just a few extra percentages could translate into hundreds of billions of missed earning, or more.

We appreciate the SEC's consideration of these comments and would welcome the opportunity to share the data set underlying this report with the Commission.

We can be reached at paul.ellenbogen@circumreferential.com, or AviNachmany@gmail.com.

Sincerely,

/s/ Paul Ellenbogen
Paul Ellenbogen, Principal
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/s/ Avi Nachmany
Independent Consultant
(Retired Director of Research, Strategic Insight)