

VIA ELECTRONIC SUBMISSION

May 2, 2019

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

Re: Fund of Fund Arrangements, File No. S7-27-18

Dear Ms. Countryman:

The Dimensional Funds¹ (“Dimensional Funds”) appreciate the opportunity to provide comment to the Securities and Exchange Commission (the “SEC” or “Commission”) on Proposed Rule 12d1-4 (the “Proposed Rule”) under the Investment Company Act of 1940, as amended (the “1940 Act”). The Dimensional Funds have a long and broad experience with the fund of funds structure dating back to 1996. As of April 2019, the Dimensional fund group contains 25 funds of funds representing approximately \$32 billion in assets under management, and also third-party funds of funds that invest in the Dimensional Funds pursuant to exemptive orders and that are subject to participation agreements and annual board review of the arrangements represent an additional approximate \$7 billion in aggregate assets across the Dimensional Funds. We commend the Commission’s efforts to streamline and enhance the regulatory framework applicable to fund of funds arrangements (“Fund of Funds”). However, as a stakeholder concerned with the interests of both acquired funds and Fund of Funds, we understand the importance of minimizing potential disruption to these highly successful and desired investment products.

The Dimensional Funds believe that the Commission’s current approach to regulating Fund of Funds arrangements through exemptions from the 1940 Act has been largely successful, and while we support the SEC’s goal of formalizing such exemptive relief in a rule that is available to all Fund of Funds, we believe that any Fund of Funds rule adopted by the SEC should be consistent with the current regulatory framework embodied in various exemptive orders that contain largely the same conditions and that have been successfully implemented as established market practice. In general, we agree with the comments submitted by the

¹ DFA Investment Dimensions Group Inc., Dimensional Investment Group Inc., DFA Investment Trust Company, and Dimensional Emerging Markets Value Fund are US registered investment companies and part of the same fund complex and are collectively referred to herein as the “Dimensional Funds”.

Investment Company Institute.² Separately, we would like to offer the following comments on a few key issues raised by the Commission in the Proposed Rule release.

Proposed 3% Redemption Limitation

Dimensional Funds are not in favor of the proposed introduction of a new redemption limitation applicable to Fund of Funds investments in an acquired fund. We believe that the proposed redemption limitation runs counter to the primary goals of the 1940 Act, including equal protection of all investors and the concept that open-end funds should offer daily redemptions at the net asset value per share of the fund. In addition, the practical effects of the proposed redemption limitation could be very disruptive to the operation of existing Fund of Funds arrangements, is not necessary, and we believe the imposition of such a redemption restriction would harm investors in both acquired funds and Fund of Funds alike.

Imposition of a redemption limitation would hinder a Fund of Funds' ability to manage its desired allocation across underlying funds when executing its investment strategy. It could similarly disadvantage a Fund of Funds as opposed to other direct investors in the underlying funds that may more easily change their fund investments. This concern would be particularly pronounced in a situation where an acquired fund made material changes to its investment strategy or risk profile after it was purchased by the Fund of Funds. If subjected to a redemption limitation in this scenario, a Fund of Funds could be forced to shift investments more slowly than it would otherwise, even when the Fund of Funds' investment adviser believed the material changes to the acquired fund made it a less desirable holding for the Fund of Funds.

Investment advisers and fund boards could rethink the use of a Fund of Funds arrangement altogether in some instances, as a result of the Fund of Funds structure being less attractive with the impediments introduced by the proposed redemption restrictions. This is unfortunate since the Fund of Funds structure has historically led to innovation, allowing investors to effectively access new investment strategies even before a new fund has reached scale. For example, a new fund could employ a Fund of Funds structure at the outset to permit the fund's investors to immediately enjoy the benefits of diversified market exposure and transition to direct portfolio securities once the fund's assets under management reach scale. This approach can be helpful to control fund expenses, and those cost savings are directly passed on to the fund's investors. Similarly, the redemption restriction in the Proposed Rule could make certain mutual funds, especially smaller funds, less attractive as options for investment by Fund of Funds. Many mutual funds benefit from the investment of Fund of Funds to help them reach economies of scale; therefore, any proposal that would limit or deter such investment by Funds of Funds would also negatively impact the acquired funds and their investors.

² Comment Letter of the Investment Company Institute, File No. S7-27-18 (April 30, 2019).

In addition, the proposed redemption restriction could create new liquidity concerns for Funds of Funds trying to comply with recently adopted Rule 22e-4 regarding liquidity risk management. Under Rule 22e-4, a mutual fund must treat any investment that cannot be sold in seven calendar days as “illiquid” and “illiquid investments” in the aggregate must represent 15% or less of the net assets of a mutual fund, including a Fund of Funds. The Proposed Rule would restrict redemptions of holdings above 3 percent of the acquired fund’s shares within a 30-day period. Under this restriction on redemptions, a Fund of Funds could face additional challenges created by the Proposed Rule when trying to limit the portion of its holdings in each acquired fund from being deemed “illiquid” under Rule 22e-4.

The introduction of a redemption restriction is unnecessary when the controls that are currently in use through the existing SEC exemptive orders have worked to address sufficiently any concerns regarding undue influence by a Fund of Funds that invests in an acquired fund. In fact, as discussed further below, we believe the use of a participation agreement and fund board review are superior means for an acquired fund to evaluate and protect against the risks of undue influence by a Fund of Funds. Instead of introducing a new restriction on Fund of Funds redemptions, we propose that it is more appropriate to incorporate into the Proposed Rule the controls embodied in existing SEC exemptive orders that are the product of thoughtful discourse and application by the SEC staff and fund industry.

Finally, we would like to emphasize that Fund of Funds that are part of the same fund group do not present the same concerns of undue influence that the Proposed Rule is seeking to address. In situations where the acquiring fund and acquired fund are part of the same fund group, the funds typically have the same investment adviser. As a result, the investment adviser has fiduciary obligations to both the acquired and acquiring funds, and this operates to control the threat of using the holding in the acquired fund in an inappropriate manner to exert undue influence. This was implicitly recognized by Congress when it enacted Section 12(d)(1)(G) in 1996 to allow Fund of Funds arrangements within the same fund group without any of the ownership limits of 12(d)(1). The imposition of a redemption limitation on Fund of Funds universally, including those within the same group of investment companies, is counter to principles that have formed the basis of modern regulation of such arrangements.

For all these reasons, we strongly encourage the Commission to drop the redemption limitation from the proposal. As an alternative to any redemption limit, we suggest instead that the Proposed Rule incorporate some of the controls that exist in the current regulatory framework that have been time tested as standard features of the existing Fund of Funds exemptive orders under which many firms currently operate.

Preservation of Existing Controls Would be Beneficial

Certain controls under the existing regulatory framework have been working well and should be preserved in any new Fund of Funds rule. Specifically, we believe that it would be helpful to retain: (i) the use of a participation agreement for any acquiring fund intending to make an investment in excess of the 3 percent limit in Section 12(d)(1)(A)(i), (ii) board approval by both the acquiring fund and the acquired fund of the participation agreement prior to investment in reliance on the Proposed Rule to exceed the limits in Section 12(d)(1)(A) and (B), and (iii) acquired fund board review, at least annually, of all transactions between the acquired fund and affiliates of acquiring funds to determine whether the acquiring funds influenced the transactions.

The Proposed Rule appears to have discounted the fact that the use of a participation agreement has been helpful for an acquired fund to gate-keep and refuse large investments by a Fund of Funds that is not part of the same fund complex where the acquired fund believes the Fund of Funds arrangement would present a risk of undue influence that was unacceptable to the acquired fund and its board. The use of participation agreements and the requirements for board approval and annual review of transactions with acquiring funds' affiliates also provide for greater overall transparency for acquired funds of large investments from acquiring funds and assist acquired funds in identifying and controlling undue influence by acquiring funds.

We recommend that the Commission remove the proposed redemption restriction and instead include the control features of the existing SEC exemptive orders in the Proposed Rule. Such controls are consistent with current regulation and practices for Fund of Funds and produce preferred results for funds and their shareholders.

Limit on Investments by a Fund of Funds

In the Proposed Rule release, the Commission requested comment regarding whether any changes should be made to the limit on investments by a Fund of Funds and its advisory group in an acquired fund.

First, no investment limits currently apply when both the acquiring and acquired funds are part of the same fund group under 12(d)(1)(G), as enacted by Congress in 1996. Any investment limits that the Commission considers as part of the Proposed Rule, therefore, should explicitly carve out a Fund of Funds where both the acquiring and acquired funds are part of the same fund group.

If the Commission is considering any change to the limit on investments by an acquiring fund and its advisory group in an acquired fund from a different fund complex, raising the limit could be beneficial, especially for newly launched or smaller mutual funds that may be considered for investment by Funds of Funds. The additional capacity also could make the Fund of Funds structure a more efficient option for some product sponsors. Conversely, lowering the investment limit could unduly restrict Fund of Funds arrangements and be disruptive to existing Fund of Funds.

To summarize, we believe the existing third party Fund of Funds limit on investments in acquired funds in the current regulatory framework is adequate and we would not be in favor of lowering the investment limit. However, if the SEC wished to consider an alternative to the current investment limit of 25% under the exemptive orders, we would encourage the Commission to consider allowing acquired funds and their boards, at their option, to approve different investment limits from any default limit set by the Proposed Rule. If the use of participation agreements, fund board approval and annual review are retained so that acquired funds' and their boards have transparency of Funds of Funds investment, an acquired fund and its board would be in a position to evaluate the effects of any large investment by a Fund of Funds, including any risks of undue influence, to decide on an investment limit that is either higher or lower than any default investment limit set in the Proposed Rule.



We appreciate the opportunity to comment on the Proposed Rule and are grateful for your consideration of our comments and recommendations.

Sincerely,

A handwritten signature in blue ink that reads 'Catherine Newell'.

Catherine Newell

President

DFA Investment Dimensions Group Inc.

Dimensional Investment Group Inc.

DFA Investment Trust Company

Dimensional Emerging Markets Value Fund