May 2, 2019

VIA E-MAIL RULE-COMMENTS@SEC.GOV

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: File Number S7-27-18 -- Proposed Rule Changes for Fund of Funds Arrangements

Dear Mr. Fields:

Federated Investors, Inc. (“Federated”) appreciates the opportunity to comment on the Securities and Exchange Commission’s (the "Commission" or the "SEC") proposed “fund of funds” rule (“Proposed Rule”) which is intended to streamline and enhance the regulatory framework for funds that invest in other funds.1 As proposed in December 2018, the Proposed Rule would permit, subject to the requirements of the Proposed Rule, fund of fund structures that exceed the limits of Section 12(d)(1) of the Investment Company Act of 1940 (“1940 Act”) without obtaining an exemptive order from the SEC. The Proposed Rule also would rescind Rule 12d1-2 under the 1940 Act and most exemptive orders granting relief under Sections 12(d)(1)(A), (B), (C), and (G) of the 1940 Act, and include amendments to Rule 12(d)(1) under the 1940 Act and Form N-CEN.2

Among other aspects of the Proposed Rule, Federated agrees with SEC’s proposal to carve affiliated fund-of-funds arrangements out from control and voting requirements. Federated also generally supports many of the comments and positions articulated by the Investment Company Institute (“ICI”) as set forth in its letter dated April 30, 2019.3 Specifically:

- **Eliminating the 3% Redemption Restriction.** Federated agrees with the ICI’s position on eliminating the 3% redemption restriction, particularly with respect to affiliated fund of funds arrangements, specifically we would oppose the 3% limit. In such arrangements,

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1 Federated is one of the largest investment management firms in the United States, managing $313.3 billion in mutual fund assets and $ 484.9 billion in total assets as of March 31, 2019. Federated provides comprehensive investment management to more than 9,500 institutions and intermediaries, including corporations, government entities, insurance companies, foundations and endowments, banks and broker/dealers.


the investment adviser to the affiliated funds has, or two affiliated investment advisers to the affiliated funds have, fiduciary duties to act in the best interests of the funds and their shareholders, mitigating or eliminating the concerns underlying Section 12(d)(1), including the risk of undue influence through the threat of large-scale redemptions. Moreover, for any fund of fund arrangement, such a redemption restriction seems inconsistent with, and raises “bucketing” questions under, Rule 22e-4 under the 1940 Act. Fund of funds arrangements, particularly affiliated fund of fund arrangements, provide more efficient access to certain securities and reduced trading costs, resulting in more efficient management and reduced operating expenses for a fund’s shareholders. Imposing a redemption limitation could disrupt these efficient management tools and eliminate the benefits to, or even harm, fund shareholders. For non-affiliated fund of fund arrangements, Federated supports the ICI’s recommendation to utilize participation agreements and related board-approved procedures.

- **Clarification on Exemptive Orders Being Rescinded.** Federated agrees with the ICI that the SEC should clarify what exemptive orders are being rescinded; however, Federated believes that exemptive orders permitting the use of “Core Funds” or “Central Funds” should be preserved. As noted above, these affiliated fund of fund arrangements provide efficiency and do not raise the same concerns as non-affiliated fund of fund arrangements. The “Core Funds” or “Central Funds” either do not charge advisory fees for duplicative services and/or waive advisory fees where such fees would be for duplicative services. In certain cases, such funds do not charge any advisory fee. In any case, the “stacking” concern is mitigated or eliminated. In the alternative, investment advisers and boards of funds involved in such affiliated fund of fund arrangements should be given the flexibility to either continue to rely on these exemptive orders or Rule 12d1-4 (modified so that a 3% redemption restriction is not applicable to such arrangements).

- **Preservation of the Thrivent and Franklin Templeton No-Action Letters.** Federated agrees with the ICI that the Thrivent and Franklin Templeton No-Action Letters should be preserved and the SEC should permit three tier arrangements consistent with those letters (or a similar exceptions when relying on Section 12(d)(1)(F) and Section 12(d)(1)(G)).

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4 Such orders provide relief from the limitations of section 12(d)(1) and section 17(a) for acquiring funds that invest in acquired funds (“Core Funds” or “Central Funds”) for the purpose of efficient portfolio management provided that: (i) the acquiring fund and the Core Funds are part of the same "group of investment companies"; (ii) an acquiring fund will not invest in a Core Fund in excess of the limits contained in section 12(d)(1)(A) of the Act except in limited circumstances; (iii) the board of the acquiring fund (including a majority of the independent directors) find that the advisory fees are not duplicative of the services provided through the Core Fund, or that the advisory fee is waived or rebated for any duplicative services; and (iv) sales and services charges of the acquiring fund and the Core Fund do not exceed (in the aggregate) the limits set forth in FINRA Rule 2341. See, e.g., In the Matter of Federated Investors, et al., Release No. IC-22903 (November 21, 1997).

5 Thrvint Financial for Lutherans and Thrivent Asset Management LLC, Staff No-Action Letter (pub. avail. Sep. 27, 2016), available at <https://www.sec.gov/divisions/investment/noaction/2016/thrivent-092716-12d1.htm>; and
Federated also recommends that the SEC consider extending the relief provided in these no-action letters to allow an acquiring fund to invest in a non-affiliated fund (“Second-Tier Fund”) that, in turn, invests in another fund in the same group of investment companies as the Second-Tier Fund consistent with either a “Core Fund” or “Central Fund” exemptive order or Rule 12d1-4. As long as the underlying funds have a complying structure, the stacking concerns would be adequately addressed.\(^6\)

Federated hopes that the Commission finds these comments helpful and constructive and is happy to provide additional information relating to our comments or discuss any questions you may have.

Sincerely,

/\s/ Peter J. Germain

Peter J. Germain
Chief Legal Officer and General Counsel

cc: The Honorable Jay Clayton
The Honorable Robert J. Jackson Jr.
The Honorable Hester M. Peirce
The Honorable Elad L. Roisman

Ms. Dalia Blass, Director of the Division of Investment Management

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\(^6\) Federated also supports the ICI’s comments regarding the SEC providing exemptive relief from Section 17(a) of the Investment Company Act, the SEC’s propose to add to Form N-CEN a requirement to report which fund of funds relief it is relying on, and not excluding private or foreign funds.