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May 2, 2019

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

Re: File No. S7-27-18; Proposed Rules for Fund of Funds Arrangements

Dear Ms. Countryman:

We appreciate the opportunity to comment on the SEC's proposed changes to the regulatory framework for fund of funds arrangements ("FoFs").[1] T. Rowe Price is a global investment adviser serving a wide array of clients, from individual savers to large institutions and funds. We have extensive experience operating and managing FoFs, including target date retirement funds and various other asset allocation funds.[2] As a result, we are keenly interested in the Release and the potential impact of the SEC's proposed approach on FoF investors.

As the SEC clearly recognizes, FoFs offer many benefits, including providing investors with vehicles that feature efficient portfolio management, enhanced diversification, and reduced trading costs. For example, target date retirement funds, which are usually structured as FoFs, make it easy for shareholders to obtain a dynamic asset allocation strategy without undertaking the monitoring and periodic rebalancing that would be involved if they wanted to invest directly in the underlying funds. A FoF structure can also benefit the underlying fund and its shareholders by helping that fund diversify its shareholder base and achieve scale. As a result of these benefits, FoFs have proven to be very popular in the marketplace, as noted in the Release.

T. Rowe Price has played a significant role in that success, with some of the earliest FoFs. T. Rowe Price-sponsored FoFs focus on using proprietary funds as the underlying components. Given that long history and the breadth of our FoF lineup, it is unsurprising that we rely on many of the regulatory approaches discussed in the Release. Some of our FoFs utilize exemptive orders, whereas others rely on statutory exemptions in Section 12(d)(1) of the Investment Company Act (the "1940 Act") or the rules adopted thereunder.

We agree that simplifying this complex regulatory regime could be beneficial in a number of ways, and we generally support the SEC's proposed rules (the "Proposed Rules"). That said, we believe rescinding most existing exemptive orders and replacing them with the

[1] See https://www.sec.gov/rules/proposed/2018/33-10590.pdf (the "Release").

[2] As of March 31, 2019, our US mutual fund line-up includes 42 FoFs representing over $202 billion in assets under management (see attached exhibit for further details). Across all our investment mandates, T. Rowe Price Associates, Inc. and its affiliates managed $1.08 trillion in assets as of March 31, 2019.

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Proposed Rules in their current form will inadvertently disrupt the marketplace for FoF products. Broadly speaking, we are concerned that the proposed framework for FoFs does not sufficiently distinguish proprietary or affiliated FoFs from other FoFs that invest in funds outside that fund family. Often, the policy issues that the Proposed Rules are intended to address are different in those contexts. We are also concerned that the Proposed Rules are too prescriptive, and we believe the SEC's objectives – particularly with respect to the proposed constraints on FoF redemptions and complex structures – can be achieved more directly through a combination of existing regulatory requirements and a principles-based approach.

More specifically, we are deeply concerned that the proposed redemption limits and provisions relating to complex structures would unnecessarily constrain the ability of FoFs' advisers to efficiently construct and manage their portfolios. While we understand the SEC's concerns with the potential for large redemptions, layering of fees, and investor confusion, we do not believe that our FoFs present the type of undue influence risks contemplated by Section 12(d)(1) of the 1940 Act and, in practice, we have not encountered attempts within T. Rowe Price's FoFs to exercise undue influence. Rather, we manage our FoFs to avoid actions that would harm the FoFs, their underlying funds, and their collective shareholders. We fear that the constraints related to redemptions and complex structures, beyond being unnecessary, could potentially incentivize some FoF providers and shareholders to consider non-mutual fund vehicles to avoid those constraints.[3]

These comments are described in more detail below. Given FoFs' scale, commercial impact, and importance to meeting the needs of a broad range of individual and institutional investors, we strongly urge that the SEC reconsider its approach regarding the redemption limit and complex structure constraints.

Redemption Limit

For the reasons explained below, our greatest concern is with respect to the application of the proposed 3% redemption limit to affiliated FoFs (herein, the term "same family FoFs" refers to arrangements where the underlying funds are all from the same group of investment companies). T. Rowe Price's FoFs have operated successfully over many years in many market environments without such a restriction, and we believe that the limit will do more harm than good, disrupting ordinary FoF portfolio management and creating unnecessary costs and implementation challenges without providing meaningful additional investor protections. We strongly urge the SEC to reconsider this aspect of the Proposed Rules.[4]

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[3] For example, many retirement plan sponsors recognize the benefits of target date retirement FoFs for their employees and utilize these FoFs as the plan's default investment option. If these FoFs became subject to redemption limits, it could cause some sponsors to re-evaluate their designation of the FoF as the default investment option and/or its inclusion in the plan line-up.

[4] We are also troubled by the notion of a redemption limit outside of the same family FoF context since we act as sub-adviser to sponsors of other FoFs that invest in a combination of T. Rowe Price funds and the sponsor's funds. Therefore, to the extent an unaffiliated FoF could present potential undue influence risks, we believe the alternatives to the redemption limit recommended by the ICI in that regard are a better way to manage those risks (see section II.C. of the ICI comment letter dated April 30, 2019).

The proposed limit is not necessary to carry out Congressional intent. The proposed redemption limit is intended to address the risk that the FoF will exercise undue influence over an underlying fund. In terms of historical context, the 12(d)(1) investment limits were enacted by Congress in 1966 due to concerns the FoF could control the assets of the underlying fund and use those assets at the expense of the underlying fund's other shareholders (with control being exercised through voting power or coercion through the threat of large-scale redemptions). Congress was also concerned about the excessive layering of fees and overly complex structures confusing investors when it enacted the 12(d)(1) limits. With the passage of time and the opportunity to observe the development of the FoF market, Congress' views regarding certain FoFs evolved. Recognizing that undue influence is not an area of concern in same family FoFs, Congress enacted the statutory exception in Section 12(d)(1)(G)[5] in 1996 to the 12(d)(1) limits.

The proposed limit runs counter to other core tenets of the 1940 Act, including portfolio liquidity and the redeemability of fund shares. Although the proposed 3% redemption limit is technically structured as an obligation of the FoF to not redeem more than a designated amount of its investment in an underlying fund, in practice this limitation has similarities to a fund suspending redemptions, which Section 22(e) of the 1940 Act generally prohibits. From the FoF perspective, that suspension of redemptions creates significant challenges with respect to compliance with the SEC's recent liquidity risk management rule, which in part is intended to ensure that open-end funds are able to meet their redemption obligations.[6] The proposed redemption limit strikes us as out of sync with the 1940 Act in both regards.

There is commonality of interests in same family FoFs. When the same investment adviser (or its affiliates) serves as the manager of the FoF and its underlying funds, we believe that there are no incentives for the FoF's portfolio manager to purposefully disrupt the operations of any of the underlying funds. In fact, just the opposite – the adviser's interests are best served by maximizing the benefits to fund shareholders across the entire fund complex and not disrupting, either intentionally or unintentionally, the operations of its funds at any level. An adviser's fund family would no doubt suffer reputational harm whether an upper-tier fund took action that was harmful to the lower-tier fund or vice versa. We believe this commonality of interests, which is recognized by the statutory exception in Section 12(d)(1)(G), distinguishes

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[5] This exception generally allows for unlimited investment by the FoF in other open-end funds that are in its same family. By way of background, existing Rule 12d1-2 allows FoFs whose only underlying funds are those in its family to continue to use Section 12(d)(1)(G) even if the FoF also invests in other securities. A peculiarity of the Proposed Rules is that because the Release calls for rescinding Rule 12d1-2, once a same family FoF decides to also invest in other securities such as stocks and bonds, 12(d)(1)(G) would no longer be available and the FoF would have to rely on proposed Rule 12d1-4 and be subject to its redemption limit, even though the FoF's relationship with the underlying funds has not changed nor have the investments in individual securities presented any of the risks that Section 12 was designed to address. See further details on this issue in ICI's comment letter.

[6] It is also noteworthy that under new Rule 22e-4, a fund (including an underlying fund used by FoFs) is expected to consider the extent to which its shareholder concentration affects its liquidity risk. A liquidity risk management program that takes into account shareholder concentration is a more comprehensive approach than the proposed limit on FoF redemptions. After all, other large investors in an underlying fund that are not FoFs would not be subject to the redemption limit (nor do we believe they should be).

these funds from other FoFs for purposes of the SEC's policy reasons underlying the proposed redemption limit.

The SEC draws this distinction in other parts of the Release. For example, the SEC proposes that the control and voting conditions for exceeding the 12(d)(1) limits not apply in the case of same family FoFs. As part of the discussion of this exception in the Release, page 38 states: "Based on our experience overseeing fund of funds arrangements, we believe the proposed exceptions are appropriately tailored to except only those fund of funds arrangements that do not raise the concerns of undue influence that underlie Section 12(d)(1) from the control and voting conditions." This section of the Release also correctly points out that the best interests of both the acquiring and acquired funds are served in same family FoFs because the adviser is a fiduciary to each fund.[7] For the same reasons, the proposed limit on redemptions should also not apply to same family FoFs given the threat of large-scale redemptions is merely an indirect way to attempt to unduly influence (as contrasted with directly coercing by voting or controlling more than 25% of a fund).

Our experience as a manager of same family FoFs with significant scale is that portfolio managers of both the FoFs and their underlying funds work together so that an underlying fund can manage redemption risks related to significant redemptions by FoFs. We also have governance/oversight committees in our Multi-Asset Division, which select the underlying funds used as components of FoFs; establish strategic asset allocation weighting changes; and approve or develop various investment procedures, including processes for rebalancing and investing our FoFs' cash flows. This governance framework oversees our FoFs' investing activities and helps ensure that the rationale for any investment-related decisions that could drive significant asset shifts, including redemptions, in the underlying funds is appropriate. We also utilize redemptions-in-kind in certain instances to mitigate the impact of a large redemption from an investor in the FoF, such as a large retirement plan that is changing its investment options. As a result, we simply have not seen the types of undue influence that would warrant the proposed redemption limit.

A 3% redemption limit would harm FoFs and their investors and restrict FoFs' ability to fully carry out their investment objectives. We evaluated the investment activity from 2016 - 2018 for a subset of our FoFs and identified at least 17 instances (after excluding redemptions from affiliated money market funds) across six FoFs where redemptions by the upper-tier fund appeared to exceed the proposed limit. Redemptions in these instances were for a variety of purposes: (1) satisfying client outflows from the FoFs; (2) adjusting the FoFs' asset allocation; and/or (3) replacing or adding certain underlying funds held by the FoFs. This highlights an obvious, but important factor for the SEC to keep in mind when structuring sound rules for FoFs - that those rules need to protect both the FoF and the underlying fund, and that with respect to the former, a key fiduciary responsibility of the FoF's adviser is to make investment decisions as to the proper allocation of its assets. The possibility that those decisions may result in a sizable redemption or complete liquidation of the position in an underlying fund is a necessary byproduct of allowing FoF advisers to act as responsible fiduciaries and evolve the investment

[7] See page 41 of the Release.

strategy in the best interests of fund shareholders. It would be an unfortunate outcome if the FoF was implementing strategic changes (such as migrating to an underlying fund with a different investment objective) and had to delay the transition due to the redemption limit hindering the liquidation of the FoF's position in the fund being replaced. Also, a redemption limit seems to ignore the realities that redemptions can be caused for reasons outside the control of the upper-tier fund portfolio manager, such as redemptions by fund shareholders in the upper-tier fund or significant changes to the underlying fund (i.e., a fund liquidation, merger, strategy change) that make the fund no longer an eligible investment for the FoF. In some cases, such as a large client redemption from the FoF, the FoF may not be in a position to control the timing of the redemption and the FoF might be forced to liquidate another portion of its underlying assets to avoid the redemption limit. This would cause the FoF's asset mix to deviate from its intended allocation for potentially long time periods, causing tracking error and a potential adverse performance impact to FoF investors – all to avoid what we believe is a theoretical risk to the underlying fund.

A rolling 30-day 3% redemption limit would be challenging to implement. We have not yet explored the details of how we would operationally implement a daily rolling 3% limit, but we believe this work would be significant. Any system enhancements would have to take into consideration multiple redemptions within any rolling 30-day period, apply those calculations to outstanding share balances that change daily, and then build in alerts to stop violations and manage redemptions from multiple investors through a variety of sources at the upper-tier fund level that could collectively cause a violation. The calculation of the redemption limit is not entirely clear in the Release, which could foster inconsistency in how the limit is calculated, monitored and applied by different fund families.

The liquidity risk management rule presents additional challenges in terms of classifying FoF holdings subject to the 3% redemption limit. The Release notes that the FoF should take the redemption limit into account when classifying its investment in the underlying fund for purposes of liquidity risk management programs under Rule 22e-4.[8] The complexities arising from this statement should not be underestimated. Firms would need to develop operational mechanisms so that a single CUSIP representing shares of an underlying fund has different liquidity classifications depending upon who holds these shares (the FoF versus other types of portfolios investing in the underlying fund) and how much is owned (i.e., whether the FoF owns more than 3% of the underlying fund). In our view, this downstream impact would be a complex and resource-intensive exercise when the redemption limit is not necessary.

Redemption risk should not be viewed in a silo – underlying funds can benefit from FoF arrangements. We urge the SEC to avoid evaluating potential redemption risks faced by an underlying fund from the FoF in isolation, and instead to view FoF arrangements holistically and consider their long-term advantages to underlying funds and their shareholders. FoFs can facilitate an underlying fund reaching its critical mass, diversify its shareholder base and because the FoF represents a single account in an underlying fund, the FoF can help the underlying fund

[8] See footnote 128 of the Release.

reduce its operating expenses, benefiting all the underlying fund's shareholders.[9] A more diverse shareholder base also creates varying cashflow patterns as fund investors (including the investors of the FoFs) have different needs and make different investment decisions, which can lessen redemption pressures on the underlying fund at certain times.

We believe there are other existing mechanisms besides redemption limits to consider the interests of, and protect underlying funds from, possible "undue influence" of the upper-tier funds. In the case of same family FoFs, when the FoF's adviser constructs the arrangement, determines its underlying funds, and then manages both the FoF and underlying funds day-to-day, the adviser must consider the best interests of and benefits to both the FoF and its underlying funds because the adviser is a fiduciary to all funds in the complex. As described above, T. Rowe Price utilizes various processes, policies, and governance committees to help ensure that the interests of all funds in its FOFs are being considered in the operations of the funds. As a result, a redemption limit is not needed to protect or empower the underlying fund.[10] Also, same family FoFs are typically managed in a transparent way which helps protect underlying funds and their shareholders. Given the legislative history regarding the lack of undue influence concerns in same family FoFs, the apparent absence of actual observed harm by the SEC in this arena, and the commonality of interests, the proposed redemption limit inappropriately harms funds and their investors without providing any meaningful benefit.

Complex Structures

We understand that the SEC is concerned that certain three-tier structures can result in duplicative and/or excessive fees and investor confusion. That said, prior exemptive orders and no-action letters have permitted certain three-tier structures involving investment levels beyond the Section 12(d)(1) limits recognizing that such arrangements have not implicated fee or investor confusion policy concerns. For example, T. Rowe Price has an order permitting any underlying T. Rowe Price fund held by one of our FoFs to invest in another T. Rowe Price fund in excess of the 3% limit in Section 12(d)(1). If an underlying fund invests in another T. Rowe Price fund, the management fee paid by the investing fund must be reduced to ensure that the fund does not incur duplicate management fees as a result of its investment. This additional investment flexibility provides efficient and cost-effective exposure to certain asset classes where holding individual securities in sufficient quantities can be more costly or difficult to diversify for an underlying fund, such as bank loans or high yield debt.

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[9] At T. Rowe Price, on an annual basis and as a condition of our exemptive order that permits the push-down of direct operating expenses of certain FoFs to their underlying funds, our fund board reviews a detailed cost-benefit analysis to help measure the benefits to an underlying fund of servicing a single omnibus account for the FoF versus the numerous shareholder accounts that would otherwise need to be established if the FoF were not present to consolidate end-investors' records and activity.

[10] We recognize the dynamic is very different under the Proposed Rules when the FoF uses unaffiliated underlying funds because the FoF can unilaterally make the investment without consent from the underlying fund. To address this problem, we support the ICI recommendation that FoFs using unaffiliated funds would need to enter into participation agreements so that the underlying fund would have an opportunity to evaluate the arrangement's benefits and, if appropriate, not agree to the relationship. The terms of a participation agreement could also include advance notice of significant redemptions to help the underlying fund manage its redemption risk.

Unfortunately, the Proposed Rules attempt to distinguish acceptable three-tier structures from those that are problematic through a general prohibition with narrowly tailored exceptions (i.e., master-feeder arrangements; investment in a wholly owned-subsidiary; investment for short-term cash management purposes; and certain interfund lending/borrowing arrangements). In our view, this approach to multi-tier structures is too rigid and destined to constrain legitimate three-tier arrangements that do not present the investor protection concerns the SEC is trying to address with the Proposed Rules. We recommend an alternate, principles-based approach as discussed below.

Concerns over excessive fees. To directly address the potential risk of excessive fees in multi-tier structures, other aspects of the Proposed Rules should be relied on, specifically the requirement proposed in Rule 12d1-4(b)(3) that the FoF must: (1) evaluate the complexity of the structure and aggregate fees associated with the FoF's investment in the underlying fund; and (2) find that it is in the best interest of the FoF to invest in the underlying fund.[11] In fact, the language in proposed Rule 12d1-4(b)(3)(i) already contemplates the FoF considering any third-tier fund exposure and indirect fees that may result.[12] Thus, it is not necessary to layer on the broad prohibitions on three-tier structures laid out in Rule 12d1-4(b)(4)(ii) and (iii) to address the risk of excessive fees.

FoF advisers and FoF boards have a variety of ways (i.e., fee waivers, expense limitations, fee offsets) to structure fees in FoF arrangements so that they are not overly layered or complex from the standpoint of fund investors.[13] Some fund complexes also utilize underlying funds which do not charge an investment management fee. Overall, the FoF board is already charged with evaluating the terms of the FoF's advisory agreement, which would address the concerns over fees in multi-tier structures identified in the Release.

Concerns over potential investor confusion. We also think that proposed 12d1-4(b)(3)(i) appropriately addresses investor confusion by requiring the FoF adviser to evaluate the complexity of the structure and determine that the arrangement is in the FoF's best interest (and notify the board accordingly).[14] However, if the SEC feels more clarity is needed under 12d1-4(b)(3)(i), we would support more explicit language to highlight the expectation that the FoF adviser must consider whether the third tier is likely to create confusion. We also would not oppose enhancing the proposed report to the board to include a statement that the adviser

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[11] As proposed, these requirements would be carried out at least annually and the adviser would report its findings to the board. Also, fund boards already have existing fiduciary and statutory obligations under Section 15(c) of the 1940 Act to determine that advisory fees of FoFs are based on services that are in addition to, and not duplicative of the services provided by the underlying fund (see page 63 of the Release).

[12] See page 61 of the Release.

[13] For example, the advisory fees owed by the T. Rowe Price New Income Fund (which is a middle-tier fund in some of our FoFs) are reduced to adjust for the indirect advisory fees the New Income Fund incurs because it invests in the T. Rowe Price Institutional Floating Rate Fund.

[14] We think the permissible ways of achieving the reporting to the board contemplated under 12d1-4(b)(3)(i) should be flexible and not limited to in-person meetings.

believes the FoF's structure and disclosure documents sufficiently mitigate the risk of the three-tier structure being overly confusing to investors.

Although acceptable three-tier structures are not limited to those offered by a complex only using its own funds, same family FoFs are particularly well-positioned to avoid confusing FoF investors since the treatment of fund expenses and fees can be aligned. When the FoF and underlying funds are in the same family, there is also the ability, where appropriate, to utilize consistent disclosures which should facilitate investors' overall understanding of multi-tier structures in the FoF.

In sum, we feel the policy concerns are adequately dealt with by requiring the FoF's adviser to consider the fee and potential investor confusion implications of the third tier and conclude that the structure is in the FoF's best interest, with oversight provided by the fund board through its statutory obligation to evaluate fund advisory agreements.

Other Miscellaneous Issues

Rescission of existing exemptive orders. To create a more streamlined regulatory framework for FoFs, an important element of the Proposed Rules is that most existing FoF exemptive orders would be rescinded. As a general concept and given the maturity of the FoF marketplace, we support the SEC's objective of migrating from exemptive orders to a more rule-based approach to accommodate many of the FoF arrangements that require relief from Section 12(d)(1). However, some of the FoF orders for exemptive relief also include relief for other matters or from aspects of Section 12(d)(1) that are not discussed in the Release. For example, certain aspects of our orders address unique structural elements of our FoFs (such as the push-down of expenses mentioned in footnote 9 of this letter) and these elements are not covered in the Release or proposed Rule 12d1-4. As a result, it is unclear whether our exemptive order would be rescinded if the Proposed Rules are adopted. We encourage the SEC to further clarify which orders, and what aspects of such orders, would be rescinded under the Proposed Rules.

Status of existing SEC guidance. The Release also indicates that the Division of Investment Management is reviewing staff no-action and interpretive letters relating to Section 12(d)(1) to determine whether any of these letters should be withdrawn. As further detailed in ICI's comment letter, we encourage the SEC to exercise caution in its review of guidance and relief and recommend the SEC publicly indicate which specific letters could be withdrawn so that fund groups have an opportunity to comment and address potential concerns of the SEC staff prior to any guidance being revoked.

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We appreciate the opportunity to provide our comments on this matter. Should you have any questions regarding this letter, please feel free to contact Jon Siegel (Senior Legal Counsel, Legislative & Regulatory Affairs) at 410-345-2284 or Brian Poole (Senior Legal Counsel, US Collective Funds) at 410-345-6646.

Sincerely,

David Oestreicher
Chief Legal Counsel

Charles Shriver
Portfolio Manager (Multi-Asset Division) & Co-Chair of T. Rowe Price Asset Allocation Committee

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Exhibit to T. Rowe Price May 2, 2019 Comment Letter

T. Rowe Price Funds-of-Funds Series

As of March 31, 2019

	Fund-of Funds Series				
	Retirement Funds	Retirement I Funds	Retirement Income 2020	Target Funds	Spectrum Funds
Number of Funds/Vintages in Series	13	13	1	12	3
Fund Series AUM as of 3/31	$121.5B	$33.0B	$34.1M	$2.0B	$11.7B
No. of Underlying Funds as of 3/31	25	25	25	25	36
Underlying Share Class	Investor	I	I	I	Investor
Series Inception Year	2002	2015	2017	2013	1990
Description of Investment Program	Diversified portfolios consisting of a mix of stock and bond funds that becomes more conservative over time based on a specific retirement year	Diversified portfolios consisting of a mix of stock and bond funds that becomes more conservative over time based on a specific retirement year	A diversified, managed payout portfolio consisting of a mix of stock and bond funds designed to provide consistent income throughout retirement	Diversified portfolios consisting of a mix of stock and bond funds that becomes more conservative over time based on a specific retirement year	Three broadly diversified portfolios that focus on a mix of either U.S. and international stock funds; U.S. and international bond funds; or international stock funds

Number of underlying funds includes any funds listed as underlying in the prospectus, which may or may not currently have an allocation.

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