

June 7, 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: Additional Comments on Proposed Rule Changes for Fund of Funds Arrangements
(File Number S7-27-18)**

Dear Mr. Fields:

This letter presents the additional comments of Federated Investors, Inc. and its subsidiaries (“**Federated**”) with respect to the Securities and Exchange Commission’s (the “**Commission**” or the “**SEC**”) proposed “fund of funds” rule (“**Proposed Rule**”)¹. Federated previously provided the Commission with comments on the Proposed Rule on May 2, 2019. This letter is being provided as a follow-up to a meeting Federated had with the SEC staff (Jacob D. Krawitz and others) on May 16, 2019 regarding the Proposed Rule. Specifically, this letter is intended to supplement certain matters discussed at the meeting and offers additional information related to Federated’s business structure to provide further background and support for Federated’s previous comments.

I. Common Fiduciary Duty Shared Among Federated’s Advisory Subsidiaries

In our prior May 2, 2019 comment letter, among other comments, we expressed our opposition to the 3% redemption limitation, particularly with respect to affiliated fund of funds arrangements because 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. During our May 16, 2019 meeting with the SEC staff, we discussed why we believe that two affiliated investment advisers have a common or singular fiduciary duty. We wanted to take this opportunity to memorialize our position, and note that it is consistent with their treatment under Section 17 of the Investment Company Act of 1940.

¹ See *Fund of Funds Arrangements*, SEC Release No. IC-33329, File No. S7-27-18 (December 19, 2018), available at <<https://www.sec.gov/rules/proposed/2018/33-10590.pdf>>.

Federated Investors, Inc. is a publicly traded company that conducts U.S. advisory business through investment advisory subsidiaries (each, an “**Advisory Subsidiary**” and collectively, the “**Advisory Subsidiaries**”) that are ultimately wholly-owned by Federated Investors, Inc.² Each Advisory Subsidiary is registered with the SEC and is organized as a separate legal entity for corporate and other purposes; however, each Advisory Subsidiary’s investment advisory functions, management, compliance and operations are shared across Federated’s Advisory Subsidiaries, as illustrated by the following:

- Each Advisory Subsidiary has members of Federated’s executive team acting as directors, trustees or managers of the Advisory Subsidiary;
- Each Advisory Subsidiary employs a president who is a member of Federated’s executive team;
- The executive team and certain senior officers of each Advisory Subsidiary are members of the committee at the parent company level (*i.e.*, Federated Investors, Inc.) that makes policy and/or product management/development decisions for Federated (including its Advisory Subsidiaries);
- All members of the executive team report to the same Chief Executive Officer;
- All investment management functions report up to a single member of Federated’s executive team;
- Global Chief Investment Officers are responsible for equity, fixed income, money market and other products and disciplines on an organization-wide basis across all Advisory Subsidiaries;
- Compliance oversight at each Advisory Subsidiary is provided by one Compliance department, and one Chief Compliance Officer ultimately oversees each Advisory Subsidiary;
- Legal services at each Advisory Subsidiary are provided by one Legal department and one Chief Legal Officer and General Counsel;

² Federated holds a majority interest (*i.e.*, 60% of outstanding share capital) in Hermes Fund Managers Limited (“Hermes”) and upon the exercise in the future of certain put/call rights under a Put/Call Option Deed between Federated and another shareholder of Hermes, Federated anticipates holding 89.5% of the outstanding share capital. For purposes of this letter, these “Advisory Subsidiaries” do not include the advisory subsidiaries of Hermes, including Hermes Investment Management Limited, a United Kingdom-based investment adviser registered with the SEC. However, Federated controls the Board of Hermes (and committees that govern Hermes and its advisory subsidiaries, including Hermes Investment Management Limited) with members of Federated’s executive staff serving as board members (along with certain other Federated management members), and Hermes’ Chief Executive Officer is a member of Federated’s executive team and reports to Federated’s Chief Executive Officer. Finally, to date, several “Federated Hermes” investment companies have been registered with a Federated wholly owned Advisory Subsidiary serving as the primary adviser and Hermes Investment Management Limited serving as a sub-adviser.

- Risk oversight at each Advisory Subsidiary is provided by one Risk department, and one Chief Risk Officer oversees each Advisory Subsidiary; and
- Internal audit oversight at each Advisory Subsidiary is provided by one Internal Audit department, and one Chief Audit Executive supervises each Advisory Subsidiary.

As illustrated by the above, while Federated is composed of a number of Advisory Subsidiaries, the Advisory Subsidiaries have a common advisory, management, compliance and operations structure. As such, each Advisory Subsidiary shares the same common fiduciary duty to investors in the Federated funds, notwithstanding the fact that there may be different teams of portfolio managers employed across Advisory Subsidiaries. Similar to engaging in cross-trades between registered investment companies with affiliated investment advisers under Rule 17a-7, management and investment personnel at the Advisory Subsidiaries would take into account the best interests of each of the funds, and their shareholders, in an affiliated fund of funds arrangement. This shared fiduciary duty is identical to a single investment adviser having a fiduciary duty to the investors in its funds even though the funds have different portfolio management teams. This common fiduciary duty supports Federated's comments to the Proposed Rule, as discussed further below.

II. Federated Reiterates and Expands Upon Previous Comments Regarding Core Funds and Multiple-Tier Structures

We also would like to take this opportunity to reiterate and expand upon several of our other comments contained in our May 2, 2019 comment letter that we discussed during our May 16, 2019 meeting with the SEC staff. First, we reiterate our position regarding clarification on exemptive orders being rescinded as a result of the implementation of the Proposed Rule. As stated in Federated's previous comment letter, while Federated believes that the SEC should clarify what exemptive orders are being rescinded, Federated also believes that the exemptive orders permitting the use of "Core Funds" and "Central Funds" should remain in place. Federated utilizes its Core Funds for the purpose of efficient portfolio management. Through investing in the Core Funds, the Federated funds can gain exposure to various asset classes easily with minimal investment, while also having liquid access to such investment. The Core Funds either do not charge advisory fees, or, to the extent that they do and the fees are for duplicative services, the fees are not charged or are waived at the investing fund level. Due to the purpose and structure of the Core Funds, and Federated's structure as discussed above, the Advisory Subsidiaries that serve as investment advisers to the Core Funds have common fiduciary duties with those of the Advisory Subsidiaries that serve as investment advisers to the investing Federated funds.

In relation to certain disclosure topics discussed with the SEC staff during our May 16, 2019 meeting, Federated notes that, for the Federated funds, an investing fund's ability to invest in an underlying fund is disclosed in its prospectus and/or statement of additional information, and the types of securities or other investments in which the underlying fund may invest, and their related risks, are disclosed in the investing fund's prospectus and/or statement of additional information. In Federated's case, the Federated funds that invest in our Core Funds generally have the ability to invest in individual securities or, for efficiency purposes, gain exposure to the same securities by investing in our Core Funds. Moreover, while the actual portfolio of investments of an underlying fund, such as a Core Fund, is not required to be included in the portfolio of investments of an investing fund when it is filed or published in an annual or semi-annual report (*i.e.*, the underlying fund is simply listed in the investing fund's portfolio of investments), shareholders can view the portfolio holdings of an investing fund on Federated's website.

Mr. Brent J. Fields
Secretary, U.S. Securities and Exchange Commission
June 7, 2019
Page 4

The portfolio of investments for the investing fund on the website also contains a link to the webpage for any underlying fund or Core Fund in which the investing fund is invested, and shareholders can view the portfolio of investments for the underlying fund or Core Fund. In cases where a Federated fund invests a significant portion of its portfolio in a Core Fund, the portfolio managers of the Core Fund are also disclosed (in addition to the portfolio managers of the investing Federated fund) in the prospectus and statement of additional information of the investing Federated fund. Federated believes these types of disclosures sufficiently inform investing fund shareholders regarding investments in underlying funds.³

Second, we reiterate our position that the exemptive relief in the Thrivent and Franklin Templeton No-Action Letters should be extended to allow an investing fund to invest in a non-affiliated underlying fund that, in turn, invests in another fund in the same group of investment companies as the underlying fund. These arrangements are consistent with a Core Fund exemptive order, like Federated's, and as long as the underlying funds have a complying structure, any concerns regarding excessive fees would be adequately addressed. For example, since duplicative advisory fees are not charged when a Federated fund invests in a Core Fund, there is no layering of duplicative advisory fees between the two funds, and thus the arrangement does not implicate stacking concerns.

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

Sincerely,

/s/ Peter J. Germain

Peter J. Germain
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

³ Federated does not believe additional "acquiring fund fees and expenses" related disclosures would be appropriate for investing funds in multiple-tier (e.g., three-tier) structures. Fees and expenses of a lower-tier underlying fund that currently are not required to be reflected as "Acquired Fund Fees and Expenses" in a top-tier investing fund's fee table impact the underlying fund's return or yield and are not directly paid by the investing fund.