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**December 19, 2016**

Mr. Douglas Scheidt, Esq.  
Associate Director and Chief Counsel  
Division of Investment Management  
United States Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-2736

Re: American Century Investment Management

Dear Mr. Scheidt:

We are writing on behalf of American Century Investment Management, Inc. ("ACI") to request that the Staff of the Division of Investment Management agree not to recommend enforcement action to the Securities and Exchange Commission (the "Commission") under section 15(a) of the Investment Company Act of 1940 (the "1940 Act") against the American Century family of investment companies (the "Funds") or ACI if ACI reallocates to an "Investing Fund" the unitary fee that is paid to ACI by an "Underlying Fund," as those terms are defined below, without obtaining the approval of the shareholders of the Investing Fund.

## **FACTUAL BACKGROUND**

**ACI and the Funds.** Each Fund is registered with the Commission under the 1940 Act as an open-end management investment company. ACI is registered with the Commission as an investment adviser and serves as investment adviser to each of the Funds. Certain of the Funds operate as funds of funds (each, an "Investing Fund"), whereby they seek to achieve their investment objectives by investing in other ACI-managed funds (the "Underlying Funds").<sup>1</sup>

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<sup>1</sup> The Investing Funds, which include but are not limited to target date funds, currently invest in 13-20 Underlying Funds, although the number and identity of

**Unitary Fee Structure - Generally.** The American Century family of funds generally operates under a unitary fee structure. Under the unitary fee structure, ACI is paid a single fee per class for providing or obtaining all of the services that are necessary for fund operations, including, but not limited to, investment advisory, custody, audit, administrative, compliance, recordkeeping and shareholder services.<sup>2</sup> Under section 15(a) of the 1940 Act, the unitary fee cannot be increased without shareholder approval.

By contrast, most other funds in the mutual fund industry pay a variety of fees, including an investment advisory fee, a custody fee, a transfer agency fee, an administrative fee, and other expenses that are charged directly to the funds. Other than their investment advisory fees and any applicable Rule 12b-1 Fees, all fees paid by these funds may be increased without shareholder approval. ACI, and the Boards of Directors of the American Century Funds (including a majority of the Independent Directors),<sup>3</sup> believe that the unitary fee structure is a benefit to Fund shareholders

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Underlying Funds may vary over time. Each target date Investing Fund engages in what is called the “glidepath roll-down,” which is dictated by the target date Investing Fund’s investment objectives and policies. For instance, a target date Investing Fund will allocate more assets to fixed income focused Underlying Funds as it moves toward its target date, which is expected to reduce fees over time.

- <sup>2</sup> Fund expenses not covered by the unitary fee include interest, taxes, brokerage commissions, extraordinary expenses, the fees and expenses of the Independent Directors (including counsel fees), and expenses incurred in connection with the provision of individual shareholder services and distribution services under a plan adopted pursuant to rule 12b-1 under the 1940 Act (“Rule 12b-1 Fees”). These expenses are reflected in separate line items in the Fees and Expenses Tables in the Funds’ prospectuses (each a “Fee Table”).
- <sup>3</sup> Certain of the Funds are organized under state law as corporations, which have boards of directors, and others are organized as trusts, which have boards of trustees. For the sake of simplicity, as used herein, the term “Directors” refers also to the Trustees of any Fund. Also, as used herein, the term “Independent Directors”

because it clearly discloses the cost of owning Fund shares, shifts to ACI the risk of increasing Fund operating costs, and provides ACI with a direct incentive to minimize operational and administrative inefficiencies. Similarly, as described in this letter, ACI's proposal to reallocate the fees it collects from the Underlying Funds by "bringing up" the unitary fees from the Underlying Funds to the Investing Funds will provide clarity to shareholders about the costs of owning Fund shares.

**Unitary Fee Structure - Investing Funds and Underlying Funds.** ACI provides services to each of the Investing Funds and the Underlying Funds under their respective Management Agreements. The amount of the fee that any Fund pays ACI under its Management Agreement varies by class of shares in accordance with the different levels of shareholder and other services that are provided in connection with the class of shares. The amount of the fees paid to ACI by the Investing Funds does not include a component for investment management services, although the Management Agreements specifically call for ACI to provide such services, including asset allocation services. Thus, in essence, there is no investment advisory fee paid to ACI by the Investing Funds. While ACI typically refers to the fees paid to ACI by the classes of shares of the Investing Funds as administrative fees (because they do not include asset management), it is a unitary fee as described above (an "IF Administrative Fee").

As a result, the bulk of the fees that ACI receives in connection with the Investing Funds consists of the unitary fees that are paid by the Underlying Funds to ACI. An Investing Fund bears those fees indirectly as an investor in the Underlying Funds. Those fees are reflected in the Investing Funds' Fee Tables as Acquired Funds Fees and Expenses ("AFFE").<sup>4</sup>

**Proposed Fee Change.** ACI seeks to reallocate the fees it collects from the Underlying Funds by "bringing up" the unitary fees from the Underlying Funds to the Investing Funds without shareholder approval. Specifically, ACI would assess a new

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refers to persons who do not meet the definition of an "interested person" in section 2(a)(19) of the 1940 Act, with respect to the Funds or ACI.

<sup>4</sup> AFFE, which is defined in Instruction 3(f) to Item 3 of Form N-1A, represents the indirect costs of investing in underlying investment companies.

unitary fee on each class of each Investing Fund (a “New Fee”) that would reflect the services rendered by ACI to the applicable Underlying Funds as well as the services provided to the Investing Fund. The amount of each New Fee will be equal to or less than the aggregate costs that a shareholder in an Investing Fund would experience under the current fee structure. The New Fee would appear in the Investing Fund’s “Management Fee” line item in the Fee Table.

**The New Fee.** Each Underlying Fund would create a new class of shares and ACI would agree contractually to waive the entire unitary fee of that class (the “New Class”). An Investing Fund would exchange its shares of the class of the Underlying Funds then held for those of the New Class. New Class shares would be available only to the Investing Funds and other ACI advisory clients.<sup>5</sup> In addition, the IF Administrative Fees that are currently charged to certain classes of the Investing Funds would be consolidated into the respective New Fees. The reallocation to an Investing Fund of the unitary fees of the applicable Underlying Funds would largely eliminate the amount of AFFE that the Investing Fund reports in its Fee Table. The Investing Fund would essentially “bring up” the AFFE attributable to the Underlying Funds’ unitary fees into the Investing Fund’s “Management Fee” line item in the Fee Table. Bringing up the AFFE will enable ACI to waive fees at the Investing Fund level, which it currently cannot do with AFFE.

The New Fees will not increase the amount of the total fees to be borne by Investing Fund shareholders, including for asset management services. The New Fee of a class of shares of an Investing Fund would not fluctuate on a daily basis, as does the current amount of AFFE that is attributable to the applicable Underlying Funds. Each year, as part of the annual process for the consideration and renewal of the Investing Funds’ investment advisory agreements by the Boards of Directors of such Funds pursuant to section 15(c) of the 1940 Act, the New Fees (the “annual Fee Cap”) would be set, based on the target allocations and fees of the relevant Underlying Funds (the “Target Allocation”), subject to the Board’s approval. If ACI changes an Investing

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<sup>5</sup> “Other ACI advisory clients” would generally include those institutional clients for which ACI provides investment management services for a fee pursuant to an investment advisory agreement.

Fund's Target Allocation, during a contract year, to a mix of Underlying Funds with higher annual operating expenses, ACI would nevertheless maintain the present level of the New Fee and forgo an increase. Conversely, if ACI changes an Investing Fund's Target Allocation, during a contract year, to a mix of Underlying Funds with lower annual operating expenses, ACI would notify the Investing Funds' Independent Directors and implement a fee waiver to eliminate the excess.

The New Fee is likely to vary year-over-year.<sup>6</sup> It would be possible for the New Fee for an Investing Fund to increase from one year to the next depending upon the target allocations, and subject to the approval of the Board of Directors of the Fund (as described below). Each year, however, the New Fee will be less than or equal to the amount that the Investing Fund would have paid absent the reallocation of fees as described in this letter. The New Fee presents the Investing Funds with the opportunity to reduce their fees. The Boards of Directors of the Investing Funds have considered the proposed fee change and the Boards, including a majority of the Independent Directors, and ACI believe that the proposed fee change is in the best interests of the shareholders of the Investing Funds.

**The Board and the Shareholders.** The modified Management Agreements pursuant to which the Investing Funds would pay ACI the New Fees would comply with all of the requirements of section 15 of the 1940 Act, except that shareholder approval for reallocating the fee would not be sought.<sup>7</sup> Prior to the original implementation of the New Fees, Investing Fund shareholders would be provided with a prospectus sticker that would describe in detail the fee reallocations.

Each year, the Boards of the Investing Funds and Underlying Funds would review the Management Agreements pursuant to the requirements of section 15 of the 1940 Act, whereby each Board has a duty to request and evaluate, and ACI has a duty

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<sup>6</sup> As noted above, the New Fee of the target date Investing Funds is expected to decline year-over-year due to increasing allocations to fixed-income focused Underlying Funds.

<sup>7</sup> Wording changes to the Investing Funds' Management Agreements would be made to effect the fee reallocation.

to furnish, such information as may be reasonably necessary to evaluate the terms of the Management Agreements. As part of that process, the Board of each Investing Fund will consider, among other things, the calculation of the New Fee along with the target allocations into the Underlying Funds for the coming year and the allocations made in the prior year. The Board will consider, consistent with its general oversight responsibilities for the Funds, the target and prior allocation decisions in light of the investment objectives and policies of each Investing Fund.<sup>8</sup>

**Benefits.** The fee change would have several benefits, including:

- Greater clarity of the fees borne by investors in the Investing Funds by eliminating the unitary fees that are currently borne indirectly through AFFE.
- Investing Fund shareholders will have greater certainty regarding the management fee they will be charged during the year as a result of the annual Fee Cap.
- The ability of the Investing Funds to invest in Underlying Funds with higher annual operating expenses without automatically increasing costs to Investing Fund shareholders.
- The ability of the Investing Funds to more efficiently add additional share classes with less expensive structures, which may help them garner new assets.
- The potential for lower expenses for the shareholders of the Investing Funds as a result of management fee waivers.

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<sup>8</sup> See, e.g., Fund of Funds Investments, Investment Company Act Release No. 27399, at n.52 and accompanying text (June 20, 2006) (“[F]und directors have fiduciary duties, which obligate them to protect funds from being overcharged for services provided to the fund . . . .”); also Investment Company Governance, Investment Company Act Release No. 26520, at § II.B (July 27, 2004).

## APPLICABLE LAW AND ANALYSIS

**Section 15 of the 1940 Act.** Section 15(a) of the 1940 Act provides, in pertinent part, that it shall be unlawful for any person to serve or act as an investment adviser of a registered investment company, except pursuant to a written contract, which contract has been approved by the vote of a majority of the outstanding voting securities of such registered company and precisely describes all compensation to be paid thereunder. In our view the addition of the New Fees to the Management Agreements of the Investing Funds should not be viewed as a material modification to the agreements requiring shareholder approval. The shareholder approval requirement of section 15 of the 1940 Act was intended to protect fund shareholders from “trafficking” in advisory contracts, or other material modifications that may harm shareholders, such as unwarranted fee increases or a decline in the services for which funds pay fees.<sup>9</sup> The addition of the New Fees does not involve trafficking and will not affect the services provided to the Investing Funds by ACI. Moreover, as described above, shareholders of the Investing Funds will not experience any increase in their expenses due to the fee reallocation.

The Staff has issued several no-action letters regarding changes to investment advisory agreements that were made without shareholder approval. For example, in RiverNorth/DoubleLine Strategic Income Fund (pub. avail. July 28, 2014), the Staff agreed not to recommend enforcement action if prior shareholder approval was not obtained to reallocate the fees payable under a fund’s advisory and sub-advisory contracts that resulted in an increase in fees payable to the fund’s sub-adviser and a decrease in fees payable to the fund’s investment adviser.<sup>10</sup> Similarly, in Wells Fargo Bank, N.A. (pub. avail. Mar. 31, 1998), the Staff agreed not to recommend enforcement action if Wells Fargo appointed a wholly owned affiliate as a sub-adviser and

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<sup>9</sup> See Franklin Templeton Group of Funds, Staff No-Action Letter (July 23, 1997) (“Franklin Templeton”); American Odyssey Funds, Inc., Staff No-Action Letter (Oct. 7, 1996) (“American Odyssey”).

<sup>10</sup> See also INVESCO (pub. avail. Aug. 5, 1997).

reallocated certain advisory responsibilities and fees to the newly appointed sub-adviser without obtaining shareholder approval.<sup>11</sup>

In each case, the Staff's positions hinged on the facts that the nature and level of services provided under the contracts would not be reduced, that the total investment advisory fee to be borne by shareholders would not increase and that the expense and other burdens associated with seeking shareholder approval were not warranted. "Bringing up" the Underlying Funds' unitary fees to the Investing Funds does not entail any change in the provision of investment management services to any Fund. Neither the Investing Funds nor the Underlying Funds will change their investment objectives, strategies or investments as a result of that change. As explained above, the New Fees will be calculated in a manner designed to prevent a net increase in the total expense incurred by shareholders of the Investing Funds as a result of the proposed change. The New Fees will be approved by the Boards of Directors of the Investing Funds, including a majority of the Independent Directors.<sup>12</sup>

## CONCLUSION

The Staff's prior no-action letters, as described above, provided no action assurances concerning the shareholder approval requirements of section 15(a) in circumstances in which changes to an investment advisory contract do not result in increased fees or a reduction in services. We believe that the addition of the New Fees to the Management Agreements involves those same circumstances as the nature and level of services being provided by ACI will not change and the total fees borne by

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<sup>11</sup> In *Emerging Global Advisors, LLC* ("EGA") (pub. avail. Feb. 27, 2013), the Staff permitted the fund's subadviser to become the primary adviser and to modify its advisory contract to, among other things, remove references to the oversight of the sub-adviser by the former primary adviser. Imposition of the New Fees as contemplated by ACI likely would be even less meaningful to shareholders than the changes contemplated in EGA, as ACI is the investment adviser to the Investing and Underlying Funds.

<sup>12</sup> The Boards of Directors of the Investing Funds will formally consider the proposed fee change upon receipt of no-action assurances from the staff.

shareholders for such services will not increase as a result of the reallocation. We believe that the following representations address the concerns underlying the shareholder approval requirement of section 15 of the 1940 Act:

- The New Fees will serve to annually cap the management fees payable by shareholders of the Investing Funds at or below the fees that would have been collected under the current fee structure;
- ACI will not reduce or modify in any way the nature and level of its services with respect to the Funds;
- The Management Agreements of each of the Investing Funds will be amended in accordance with the provisions of section 15 of the 1940 Act, other than the shareholder approval requirement, to reflect the reallocation; and
- The Investing Funds will provide appropriate notice about the amendments to their existing and prospective shareholders.

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For the reasons set forth above, we respectfully request that the Staff confirm that it will not recommend enforcement action to the Commission under section 15(a) of the 1940 Act against the Funds or ACI if ACI adopts the New Fees for each Investing Fund without obtaining the approval of the shareholders of such Funds.

Should you require additional factual information or further analysis, please telephone me at (202) 419-8412. Thank you for your consideration of this matter.

Very truly yours,



Alison M. Fuller

Cc/ Brian L. Brogan, Esq.