Federated Hermes, Inc.

January 4, 2021

VIA E-MAIL RULE-COMMENTS@SEC.GOV

Ms. Vanessa Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549
rule-comments@sec.gov

Re: File No: S7-09-20; Tailored Shareholder Reports, Treatment of Annual Prospectus Updates for Existing Investors, and Improved Fee and Risk Disclosure for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements

Dear Ms. Countryman:

Federated Hermes, Inc. ("Federated Hermes") appreciates the opportunity to comment on the Securities and Exchange Commission's (the "Commission" or the "SEC") proposed new approach to shareholder and investor communications by investment companies registered on Form N-1A under the Investment Company Act of 1940, as amended (the "1940 Act"), in prospectus, statement of additional ("SAI"), shareholder report and advertising disclosure (the "Proposal").[1] The Commission is proposing rule and form amendments that it believes would modernize the disclosure framework for open-end management investment companies ("open-end funds") by creating a layered disclosure framework that would highlight key information for assessing and monitoring a fund investment and informing investment decisions, with "less retail-focused" additional information available online and upon request.[2]

Federated Hermes commends the Commission's support for electronic delivery of shareholder disclosures, as well as the Commission's efforts to modernize the disclosure framework for open-end funds through alternative disclosures tailored to retail investors. However, we believe the Proposal undermines these objectives by introducing new disclosure elements and prescriptive requirements that will create confusion, provide only marginal benefit to shareholders, harm the businesses of fund sponsors and

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[1] Federated Hermes is a leading global investment management firm, managing $436.8 billion in fund assets and $614.8 billion in total assets as of September 30, 2020. Federated Hermes provides comprehensive investment management to more than 11,000 institutions and intermediaries including corporations, government entities, insurance companies, foundations and endowments, banks and broker/dealers.

[2] *Tailored Shareholder Reports, Treatment of Annual Prospectus Updates for Existing Investors, and Improved Fee and Risk Disclosure for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements*, Investment Company Act Release No. 33963. 85 Fed. Reg. 70716 (November 5, 2020) ("Proposing Release").

advisers, and increase fund expenses that will either be passed-through to shareholders or, as a result of the harm caused to sponsors/advisers, harm shareholders and families of funds by potentially reducing the number of funds made available by fund sponsors to investors. In addition to questioning the necessity of the proposed rule, we also respectfully question whether the marginal benefits of such changes outweigh the harm and significant costs to open-end funds, investment advisers, financial intermediaries, fund administrators, printers and other fund service providers to make all of the formatting, system programming, website development, and other changes that will be necessary to comply with the Proposal. We respectfully request the Commission should further consider whether the costs that will be required to be incurred to comply with the Proposal are justified by its marginal benefits to shareholders. These comments, and others, are discussed in greater detail below.

I. ELECTRONIC DELIVERY OF SHAREHOLDER DISCLOSURES

For over a decade, the Commission has been moving towards permitting the electronic delivery of various forms of shareholder disclosures. Rule 498 under the Securities Act of 1933, as amended (the "1933 Act"), has permitted incorporation of shareholder documentation and a form of electronic delivery since 2009. More recently, the SEC adopted Rule 30e-3 under the 1940 Act, and Regulation Best Interest and Form CRS, each of which provide a negative consent or "notice and access" model of electronic delivery. Additionally, the U.S. Department of Labor ("DOL") adopted a "safe harbor" rule that permits retirement plan documents to be electronically delivered in a negative consent or "notice equals access or delivery" model of electronic delivery.

Federated Hermes fully supports effecting changes that would permit open-end funds to more efficiently and effectively deliver required disclosures to shareholders through electronic means. This includes retaining the applicability of Rule 30e-3 to open-end funds and expanding modern methods of delivery and access by adopting a notice with access equals delivery model ("notice and access").

a. Retention of Rule 30e-3 for Open-End Funds

While Federated Hermes endorses the Commission's efforts to modernize methods of shareholder communication, we believe amending the scope of Rule 30e-3 to exclude open-end funds would be contrary to the intent of both the Proposal and Rule 30e-3 to modernize the methods of communication between mutual funds and shareholders. This exclusion would also limit the effectiveness of the "layered" disclosure framework around which the Proposal is designed.

We believe the investor experience would be much improved by expanding the current "notice and access" method of shareholder report delivery outlined in Rule 30e-3 to draw shareholder attention to both the shareholder report and additional web site disclosures in one message. Providing one easily digestible electronic message that guides shareholders to all available information removes the burden from the shareholder to review multiple communications and search out information on their own initiative. Shareholders receiving physically mailed copies of shareholder reports are less likely to seek out the same reports on a website and therefore may not benefit from interactive and other features presented directly to shareholders who have opted-in to e-delivery.

Further, the industry has been providing notices to shareholders of what to expect as a result of the pending changes resulting from the adoption of Rule 30e-3. Federated Hermes, along with many other complexes, has already invested two years and significant resources to prepare for early implementation of

notice and access delivery and intends to rely on Rule 30e-3 beginning January 1, 2021. Federated Hermes has included the notice required by Rule 30e-3 in approximately 448 annual and semi-annual shareholder report, and summary and statutory prospectus, filings over the past 24 months, which were mailed to the multitudes of shareholders of the Federated Hermes family of funds. Accordingly, shareholders will begin receiving notices in lieu of shareholder reports well before the adoption of the Proposal. Requiring fund complexes to discard their Rule 30e-3 efforts and revert to delivering shareholder reports would be burdensome and is likely to lead to significant investor confusion regarding the availability of fund documents. We believe this would increase complexity for shareholders and exacerbate shareholder frustrations and disregard with disclosure. In addition, shareholders will ultimately bear the costs incurred by fund complexes that have to re-implement legacy shareholder report delivery processes. To the extent funds are limiting or waiving expenses, the sponsors of funds, or their service providers, would bear these costs, which would harm their businesses and could harm shareholders and families of funds by potentially reducing the number of funds made available by fund sponsors to investors.

We therefore urge the Commission to permit open-end funds to continue to rely on Rule 30e-3. We believe this modernized framework for shareholder communication will benefit investors by providing a single, easily and constantly accessible electronic location where all fund disclosure documents can be reviewed on a "24/7" basis.

b. Expansion of Modern Methods of Access and Delivery

In addition to strongly supporting the retention of Rule 30e-3 for open-end funds, Federated Hermes believes that the mutual fund industry should adapt to the preferences of modern shareholders who rely on electronic communication methods for many aspects of their daily lives. Accordingly, we recommend that the Commission consider additional actions to expand the use of technology in line with these changing investor preferences.

The COVID-19 pandemic has exacerbated the need to modernize the delivery of shareholder disclosures through electronic means. The pandemic has caused unprecedented logistical disruptions in the mutual fund industry. As a result, many mutual fund complexes experienced uncertainty with respect to printing and mailing certain required mutual fund shareholder documents, requiring hyper-vigilance of printing and mailing vendors and, in certain cases, missed deadlines. Printing and mailing service providers have experienced disruptions due to COVID-19, related Center for Disease Control ("CDC") guidelines, and state and local government orders regarding physical distancing and other mitigation efforts, as well as the fact that many of their operations are overseas. The various global mail and courier services have also experienced increased volume and disruption related to COVID-19. Americans also are less inclined to want to receive paper mailings due to the potential for transmission of COVID-19.

In response to the COVID-19 pandemic, the Commission has granted extensive exemptive relief under the 1940 Act and the Investment Advisers Act of 1940, as amended (the "Advisers Act").[3] The SEC has issued exemptive orders[4] relaxing in-person board meeting requirements under the 1940 Act, relaxing

[3] K&L Gates, COVID-19: Regulatory Relief for Registered Funds and Investment Advisors (Mar. 25, 2020), http://www.klgates.com/covid-19-regulatory-relief-for-registered-funds-and-investment-advisers-03-24-2020.

[4] SEC, Rel. No. 33817 (Mar. 13, 2020), https://www.sec.gov/rules/other/2020/ic-33817.pdf; SEC, Rel. No. 5463 (Mar. 13, 2020), https://www.sec.gov/rules/other/2020/ia-5463.pdf.

funds' annual and semi-annual report transmittal obligations, and extending certain filing deadlines.[5] In taking these actions, the Commission recognized the unique difficulties posed to logistical operations during the COVID-19 pandemic.

As a result of ongoing printing and mailing concerns, COVID-19 transmission concerns, and the Commission's historical movement towards permitting electronic delivery, we urge the Commission to permit electronic delivery at least similar to Rule 30e-3, and adopting amendments to Section 5 of the 1933 Act and Rule 498, to further expand the use of electronic delivery to all applicable shareholder disclosures. We further believe that accelerating and expanding the electronic delivery of shareholder documents will improve the effectiveness of disclosure and reduce the burden and costs imposed on mutual fund companies as a result of maintaining paper delivery requirements.

We propose the Commission permit mutual funds to use electronic delivery by expanding the scope of electronic delivery contemplated in Rule 30e-3 to include all required documents for existing shareholders, including summary prospectuses, statutory prospectuses and other disclosure, and modifying the current notice and access methodology of Rule 30e-3 to permit funds to adopt an expanded notice and access model for compliance. This expanded notice and access model would involve fund complexes mailing a one-time notice to all existing shareholders regarding electronic availability of fund documents. The notice would advise shareholders where to look online for all fund documents and supplements thereto.[6] Electronic notification would be provided to all shareholders of any new material changes to fund prospectuses (*i.e.*, when a summary prospectus supplement is filed) or restatements of financial statements (in each case via email). Notices to shareholders for which no email address is available could continue to be mailed. Each shareholder notice would contain an opt-out provision, whereby a shareholder could ask to continue to receive paper disclosures through hardcopy mailings (with a notice that the printing and mailing may be delayed by circumstances beyond the fund complexes' control, such as pandemic-related causes). All new fund disclosures would include prominent notice of the default to electronic delivery of all shareholder disclosures, consistent with the notice requirements of Rule 30e-3.

We acknowledge the fact that a single notice may not always be sufficient, so we propose a list of exceptions, whereby an additional notice would be emailed or mailed to shareholders when there is a material change to a summary prospectus that requires a supplement (or that would be addressed through a reprint of the entire prospectus) or there is a restatement of an annual or semi-annual shareholder report.

Under our proposed expanded notice and access model, rather than inundating shareholders with multiple communications across multiple mediums, in addition to the many notices received by shareholders containing the Rule 30e-3 notice, a shareholder could receive an additional hardcopy notice advising them of where to locate required disclosures online and electronic notification of any new material changes to fund prospectuses (*i.e.*, when a summary prospectus supplement is filed) or restatements of financial statements (in each case via email).

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[5] SEC, Rel. No. 33824 (Mar. 25, 2020), https://www.sec.gov/rules/other/2020/ic-33824.pdf; SEC, Rel. No. 5469 (Mar. 25, 2020), https://www.sec.gov/rules/other/2020/ia-5469.pdf. The in-person Board meeting relief element was just extended by SEC, Rel. No. 33897 (June 19, 2020), https://www.sec.gov/rules/exorders/2020/ic-33897.pdf .

[6] We anticipate a mailed notice to shareholders, except in cases where shareholders have affirmatively consented to electronic delivery already.

In all cases, shareholders would always retain the ability to request delivery of disclosure documents either electronically or in paper at any time.

As noted in more detail below, Federated Hermes agrees with many of the comments of the Investment Company Institute ("ICI") in its comment letter dated December 21, 2020. In the event the Commission proceeds with the adoption of a final Proposal that does not adopt an expanded notice and access model, Federated Hermes endorses, in the alternative, the ICI's proposed approach to e-delivery.

II. ECONOMIC IMPACT OUTWEIGHS MARGINAL BENEFITS

We believe the current disclosure system is effective and that it is not necessary to modify it. The Proposal does not ease, simplify, or remove any disclosure or reporting obligations. Rather, we believe the Proposal undermines its own objectives by introducing new disclosure elements and prescriptive requirements that will create confusion. We also believe the Proposal would provide only marginal benefit to shareholders and increase fund expenses that will either be passed-through to shareholders or reduce the number of funds made available by fund sponsors to investors.

The Proposal in its current form will significantly burden fund complexes with additional disclosure and reporting requirements without a corresponding proportionate benefit to investors. Compliance with the current elements of the Proposal will require fund complexes, investment advisers, financial intermediaries, fund administrators, printers and other fund service providers to expend significant resources to make all of the formatting, system programming, and other changes necessary to create, support and administer/distribute the new shareholder report, which includes new content, disclosures, and a full redesign to incorporate graphic and text features, and the other requirements of the Proposal. Fund complexes will also need to continue to prepare the schedule of investments and other financial statements, which will be issued and posted electronically. In addition to resources dedicated to the shareholder report itself, fund complexes that have already expended resources redesigning their websites in light of Rule 30e-3 (*e.g.*, creating appropriate landing pages, adding links for portfolio holdings, etc.) would need to allocate additional resources to further redesign their websites to align with the requirements in the Proposal. Since many fund complexes already qualify for the lowest bulk mailing rates, the Proposal would not allow fund complexes to benefit from reduced mailing costs.

The above costs are compounded by the costs fund complexes already face to meet the requirements of numerous final rules the Commission has promulgated over the past two years, including new rules relating to funds of funds, exchange-traded funds, derivatives, advertising, liquidity and valuation. Resources of fund complexes are already thinly stretched to comply with these new rules, making compliance with any additional rules such as the proposed overhaul of the foundational documents of shareholder communication unnecessarily burdensome. These effects are further exacerbated during the ongoing COVID-19 pandemic, when most fund complex employees are working remotely. While many members of the industry have adapted to a remote working environment without a significant impact on employee performance, the changes outlined in the Proposal would require extensive collaboration across multiple departments within fund complexes to address. Even during a normal year, the burden of implementing the final rules that have already been adopted while also undertaking the reconstruction of shareholder disclosure templates would present an extraordinary challenge.

Accordingly, we respectfully request that the Commission consider whether the costs that will be required to be incurred to comply with the Proposal are justified by its marginal benefits to shareholders and consider not moving forward with a final Proposal.

In the event the Commission proceeds with the adoption of a final Proposal, Federated Hermes echoes many of the comments of the ICI in its comment letter dated December 21, 2020. Specifically, we concur with the ICI's comments regarding:

- Litigation risk;
- Revising the "Material Fund Changes" item to a "What has Changed" item;
- Limiting the need to provide the liquidity risk management disclosure in the new shareholder report;
- The optionality or permissiveness of proposed Rule 498B;
- Eliminating the requirement to track shareholders' continuous holding of shares;
- The retention of the existing fee table;
- The proposed changes to fee table terminology;
- Disclosure of acquired fund fees and expenses ("AFFE");
- The exclusion of performance/investing-related expenses from the fee table expense ratio;
- The abandonment of the proposed ten percent test approach to prospectus risk disclosure and retention of the current, principles-based approach;
- The abandonment of the proposed amendments to the SEC advertising rules;
- Permitting funds to comply with 1940 Act Section 19(a) and Rule 19a-1 through disclosing a website address in each shareholder report; and
- Extending the compliance period to at least 24 months.

The remainder of this letter provides Federated Hermes' further comments on matters addressed in the Proposal on which Federated Hermes disagrees with the ICI's comment letter or that Federated Hermes wants to emphasize.

III. OTHER COMMENTS ON TIMING OF DISCLOSURE

The Proposal would require that shareholders be sent notice of a material change within three business days of either the effective date of the fund's post-effective amendment filing or the filing date of the prospectus supplement. We believe this period is insufficient from a practical perspective and that, in general, specifying a particular number of days is overly prescriptive. Rather than focusing on disseminating material information to investors as soon as possible, fund complexes will be put in the position of attempting to synchronize a filing with the operational aspects of notifying shareholders in a compressed time frame, which could result in delays in filing to ensure the timely delivery of notices to shareholders. While we understand the Commission's purpose is to ensure shareholders are sent timely disclosure, this requirement in practice may create significant inadvertent, non-material rule violations based on notices that are sent on day four or five after the filing of a prospectus supplement, rather than within the specified three-day period. We believe a more reasonable, principles-based standard would be a requirement to send the notice "promptly" or "as soon as reasonably practicable." Such a standard would achieve the Commission's desired result (i.e., ensuring timely dissemination of notices) while avoiding unnecessary procedural rule violations. If the Commission decides prescribing a specific number of days is a better approach, we would recommend at least ten business days.

IV. SHAREHOLDER REPORT CONTENT

a. Material Fund Changes

Under the Proposal, a fund would be required to describe in its annual report any material changes that fall within an enumerated list of items (e.g., ongoing annual fees, transaction fees, maximum account fees, change in portfolio manager, change in investment objective, etc.). Federated Hermes recommends that this proposed requirement not be adopted and instead encourages the Commission to retain the same requirements as apply today for funds to transmit a summary prospectus to new investors and annual prospectus updates and stickers to existing investors. Under the current requirements, each new investor receives the fund's then-current disclosure at the time they first purchase shares and existing shareholders receive both timely notice of material changes via supplements and an updated "base" document once a year that has implemented the preceding year's supplements. In this respect, the annual update prospectus provides shareholders with a full context that would be lacking in an annual report that summarizes material changes that in most instances shareholders have already been informed about in supplements without showing how such changes affect the fund's overall disclosure when implemented. For example, summarizing in a short-form shareholder report a material change that replaces the fifth bullet in an existing list would not provide shareholders with the holistic result of being able to read the full list in the updated prospectus. In addition, we are unaware of any widespread industry issues involving a failure to properly disclose a material change under the current requirements.

If the proposed requirement to disclose material changes is ultimately adopted, we believe the provision of an enumerated list of material changes is unnecessarily prescriptive and may ultimately result in both over- and under-disclosure. While a principles-based approach has historically led to some variation in disclosure across fund complexes, industry standards and individual fund discretion allow for pragmatic decision making that does not flood shareholders with information that is not useful and allows funds to disclose changes that are material despite not being enumerated. Utilizing a principles-based approach in this instance is further supported by the Commission's recently adopted amendments to modernize the description of business and legal proceedings under Items 101 and 103 of Regulation S-K. In those amendments, the Commission reinforced the use of a principles-based approach by replacing an enumerated list of required disclosures with a non-exclusive list of disclosure topic examples. In the adopting release for these amendments, the Commission noted that "a more flexible principles-based approach is more likely to elicit the appropriate disclosures."

Under either a principles-based or enumerated list methodology, Federated Hermes recommends that disclosure of material changes relating to fund investment strategies and risks be required only where such changes required a fund to file a Rule 485(a) filing. A lesser standard of materiality could lead to the shareholder report restating an unnecessarily long list of minor changes to enumerated items. This would also eliminate any concern that the Proposal would require funds to make a Rule 485(a) filing for every "material change" (based on the enumerated list) that is disclosed in the shareholder report.

Lastly, Federated Hermes recommends that a fund be permitted, but not required, to provide forward looking information in this section of the annual shareholder report. This would provide flexibility to include changes that have occurred, or are expected to occur, after the fiscal year end while avoiding the risk of describing changes that may not yet be final and the burdens associated with tracking and projecting changes that have not yet occurred. For example, a fund may make material changes to its principal investment strategies and risks (which would be included in a filing pursuant to Rule 485(a)) and yet be

reluctant to include a summary of such items in the annual report if the SEC staff has not yet reviewed and commented on the disclosure changes.

b. Broad-Based Securities Market Index Definition

The Proposal would revise the definition of an "appropriate broad-based securities market index" to reflect the Commission's position that all funds should compare their returns to the overall applicable domestic or international equity or debt markets, as appropriate. An index tied to a particular sector, industry, geographic location, asset class, or strategy, including commonly used "growth" and "value" indexes would not be considered an appropriate broad-based securities market index. The Form N-1A instructions would permit funds to include a narrow index that better reflects the market segments in which the fund invests, but only as a secondary benchmark.

We believe the proposed definition is unduly narrow and would ultimately result in primary benchmarks for many funds that are overbroad, not representative of funds' investment strategies, and ultimately confusing and not useful tools for investors to assess fund performance. For example, the Federated Emerging Market Debt Fund uses the J.P. Morgan Emerging Markets Bond Global Index as its benchmark. Comparing this fund's performance to the wider international debt market, which would include the performance of developed non-U.S. countries, would not provide shareholders with relevant information on which to judge the fund's performance, and may even give investors the mistaken impression that this fund is managed in a manner similar to the broader benchmark.

Federated Hermes recommends that a fund be required to compare its performance to an "appropriate index" defined as "one whose objective (i.e., what it seeks to measure) is reasonably related to the fund's investment objective and principal investment strategies, and is administered by an organization that is not an affiliated person of the fund, its investment adviser, or principal underwriter, unless the index is widely recognized and used." As an additional instruction, the Commission could require a fund that uses as its primary index one that is not "broad-based" as defined in the Proposal to explain why its choice of index is appropriate. If the Commission does not revert back to a definition more closely tied to a fund's specific objective and strategies, we believe the instructions to Form N-1A should permit fund managers to include the "broad-based" overall market index as a fund's secondary benchmark, if a narrower index would—in the fund manager's view—serve as a more appropriate primary benchmark for the fund.

Fund performance comparisons to indexes are also commonly used during the annual review of advisory agreements performed by a fund's board of trustees as required by Section 15(c) under the 1940 Act. Fund complexes often present trustees with performance information that aligns with a fund's shareholder disclosure. Trustees presented with comparisons against primary benchmarks representative of the overall market may not find the information sufficient to review advisory agreements for funds that are more narrowly targeted than a broad-based securities market index and would likely focus their review on the secondary benchmark, if provided, or request additional comparisons against more appropriately tailored indices.

c. Tax Disclosure

Federated Hermes recommends that the enumerated list of items that may be included in the new shareholder report document be expanded to permit, but not require, the inclusion of certain tax disclosure. With regard to capital gain dividends as well as certain other types of distributions (e.g. exempt-interest

dividends) and with respect to certain credits (e.g. foreign tax credits) and other tax characteristics (e.g. qualified dividend income) that are permitted to be passed-through to shareholders, a registered investment company has a reporting requirement to perfect the "pass through" tax status of these distributions. Although the 60-day period in which such reporting was previously required has been removed, there remains a requirement to report the tax characteristics in "written statements furnished to shareholders." As not all shareholders receive year-end tax reporting forms, another means of reporting is needed, a need that has always been met by the inclusion of this information as part of the fund's financial statements included in its annual report. Due to a combination of Rule 30e-3 and the Proposal providing for only a limited number of specified items to be included in the shareholder report, the ability for registered investment companies to meet their tax reporting requirements through traditional means is severely impaired. If the Proposal is not modified and/or the Internal Revenue Service does not permit other means of meeting its notification requirements (*e.g.*, website reporting), registered investment companies may have to resort to a separate mailing/distribution of tax information, which would be inefficient, costly, and possibly confusing to shareholders. The increased cost also would harm the businesses of fund sponsors and advisers, and increase fund expenses that will either be passed-through to shareholders or, as a result of the harm caused to sponsors/advisers, harm shareholders and families of funds by potentially reducing the number of funds made available by fund sponsors to investors.

V. PROSPECTUS CONTENT

a. Methodology for Ordering Prospectus Risks

Under the Proposal, funds would be required to describe principal risks in order of importance (with the most significant risks appearing first), and would be expressly prohibited from listing risks alphabetically. We believe this requirement exposes funds to significant risks of liability in the event that the investment manager does not "accurately" rank a risk that ultimately results in large losses. This concern is even greater given the constant evolution and volatility of the markets, which could impact a fund's risk-ranking system on a monthly, weekly, or even daily basis. For example, a pandemic risk factor would have been ranked very differently by a fund updating its prospectus in February 2020 versus April 2020. Accordingly, we request that the Commission state in the adopting release that the ordering of risks, and allocation of risk disclosure among summary prospectuses, statutory prospectuses and SAIs, is not intended to affect a fund's or a fund manager's liability under the federal securities laws. We also request that the Commission state in the adopting release that funds are not required to continually monitor and supplement or otherwise amend their prospectuses every time a market event or shift in the fund's holdings could cause a change in how risks are ranked by importance.

The risk-ranking requirement is inconsistent with the Commission's recently adopted amendments to modernize risk factor disclosures under Item 105 of Regulation S-K, which does not require registrants to prioritize the order in which they discuss their risk factors, and only requires that such risk factors be "organized logically." In the adopting release, the Commission stated that the amendments to Regulation S-K: "should afford registrants flexibility to determine the order to most effectively present the material risks that make an investment in the registrant or offering speculative or risky… Retaining this flexibility should also help address concerns expressed by some commenters that it could be difficult to evaluate and rank often equally significant and evolving risk factors." Under these amendments to Regulation S-K, any risk factors that may generally apply to an investment in securities, (e.g. credit risk, interest rate risk, market risk) may be disclosed at the end of the risk factor section. We fully agree with the positions the Commission adopted when amending Regulation S-K.

In addition, the Proposal would create unnecessary variance across the industry by requiring risks to be ranked by importance, but leaving funds to develop their own internal methodology and criteria to determine what makes a particular risk more "important" than another. As a result, shareholders would not be able to accurately compare risks among funds that use different risk ranking methodologies. While we agree that weighing the importance of various risk factors for different funds should ultimately be a discretionary decision made by fund managers who understand best how each risk affects their funds, we believe that—if the Commission retains this requirement—it should provide additional principles-based guidelines regarding the criteria that should be considered. We do not believe a purely objective approach with specifically designated thresholds would be appropriate. For certain risks, such an assessment may be practically impossible and would not be useful in practice. For instance, a vast majority of funds could be required to list "market risk" first as this risk generally affects 100% of a portfolio's assets.

b. 10% Threshold for Principal Risk Disclosure

The Proposal would require a fund to disclose only "principal" risks in the prospectus, based on whether a risk would place 10% or more of the fund's assets at risk ("10% threshold), and would explicitly preclude a fund from disclosing non-principal risks. Although this bright-line rule provides clarity regarding the risks the Commission would expect to be included in a prospectus, we believe it is too prescriptive as proposed, and does not provide managers with necessary flexibility to tailor disclosures to the investment objectives and strategies of a particular fund. We believe the relevance of a particular risk does not depend solely on the percentage of a particular investment in a fund's portfolio (or the estimated percentage impact on the fund), and this threshold could ultimately prevent funds from fully informing current shareholders and prospective investors about the nature of their investment. For example, a "balanced" fund that invests 100% of its assets in U.S. equities and investment grade fixed-income securities would have prospectus risk disclosures substantially identical to a "balanced" fund that invests over 80% of its assets in such securities, but also invests in mortgage-backed securities, high yield bonds, and emerging market equities just below the 10% threshold. A shareholder reviewing the prospectuses for both of these funds would be unable to accurately compare and understand the differences between the funds' respective risk profiles. Calculating and monitoring for the 10% threshold also further increases the burden placed on the businesses of fund sponsors and service providers, and could increase fund expenses that will either be passed-through to shareholders or, as a result of the harm caused to sponsors/advisers, harm shareholders and families of funds by potentially reducing the number of funds made available by fund sponsors to investors.

The 10% threshold could also result in over-disclosure of risks that a fund manager does not believe are material to a fund's investment strategy. For example, a large cap equity fund's portfolio could vary widely between 5% and 15% in distinct sectors over a one-year period without the manager intending investments in any one of those sectors to be a material piece of the fund's strategy. Under the Proposal, if the fund determined that six different sectors each placed just over 10% of the fund's assets at risk, the fund would be required to include distinct risk factors for all six of those sectors, which could dwarf other important risk disclosures.

In addition to the above, it is unclear from the Proposal what impact the Commission intends the proposed risk factor changes to have on funds' principal investment strategies. For example, if a fund's principal investment strategies are also subject to the 10% threshold, there would effectively be no way to discern the difference in strategy and risks between the two balanced funds discussed above, without careful review of disclosures in the funds' respective SAIs and portfolio holdings. However, if the 10% threshold

is not applied to a fund's principal investment strategies, it is likely that the principal investment strategy disclosure will diverge (possibly significantly) from the risk disclosure, because not all investments discussed in the strategy disclosure will meet the 10% threshold for risk factor disclosure. Neither of these outcomes is preferable, and we ask that the Commission provide necessary clarity on this point.

c. Presentation of Fees and Expenses

i. 10% Limit for Acquired Fund Fees and Expenses

Federated Hermes strongly supports the proposed fee table change that would permit a fund that invests 10% or less of its total assets in acquired funds to omit acquired fund fees and expenses ("AFFE") from its ongoing annual fees and remove the related fee table line item in the statutory prospectus. We agree with the alignment of AFFE with the statutory limits on funds' investments in other funds under Section 12(d)(1)(A)(iii) of the 1940 Act, and believe this disclosure change will more clearly differentiate funds of funds that invest in excess of the Section 12(d)(1) limits from funds with more limited investments in other investment companies.

We further agree with the omission of money market funds from the 10% calculation, as such investments are generally made for cash management purposes rather than in pursuit of a fund's investment objective.

ii. Exclusion of Investing-Related Expenses from Expense Ratio

The Proposing Release requests comment on whether performance or investing-related expenses such as interest expense and dividends paid on short sales should be disclosed in the prospectus fee table. For the reasons outlined below, we believe these expenses should be disclosed in a fund's Statement of Additional Information and financial statements rather than in the "other expenses" line item of the prospectus fee table, and agree with the prior comments in support of this approach noted by the Commission.

Specifically, we believe the prospectus fee table should focus on ongoing operating expenses. We further believe that excluding interest and dividend expenses would provide a more stable measure of ongoing operating expenses given that interest and dividend expenses can vary widely over time based on market conditions. In addition, the exclusion of interest and dividend expenses, which are investing-related costs rather than operating expenses, would be consistent with the treatment of other investing-related expenses such as brokerage costs. Finally, we agree with the concept that including interest and dividend expenses in the fee table highlights them as an expense without providing the necessary context that these costs are often generated by an investment strategy that may also generate higher returns. For example, the fee table for a fund that shorts securities as part of its investment strategy shows an artificially high expense ratio because of dividend expenses resulting from its shorting strategy.

In order to mitigate any concerns that investors may not be aware of these expenses if excluded from the fee table, simple narrative disclosure could be included that notes the existence of additional fees and expenses not reflected in the fee table, including interest and dividend expenses.

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Federated Hermes 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,

Peter J. Germain
Chief Legal Officer and General Counsel

cc: The Honorable Jay Clayton
The Honorable Caroline A. Crenshaw
The Honorable Allison Herren Lee
The Honorable Hester M. Peirce
The Honorable Elad L. Roisman
Ms. Dalia Blass, Director, Director of the Division of Investment Management