January 4, 2021

VIA ELECTRONIC DELIVERY

Vanessa Countryman
Acting Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Investment Company Act Release No. 33963 (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,

The Coalition for Business Development (the "**Coalition**")[1] appreciates the opportunity to respond to the request by the U.S. Securities and Exchange Commission ("**SEC**" or "**Commission**") for comments regarding the above-referenced release (the "**Proposing Release**")[2] in relation to the proposed revisions to "acquired fund fees and expenses" ("**AFFE**") disclosure requirements. The Commission is proposing to permit funds that make limited investments in other funds to disclose AFFE, the fees and expenses associated with those investments, in a footnote to the fee table and fee summary instead of reflecting AFFE as a line item in the fee table and fee summary (as all funds do today). In the Commission's view, the proposed amendment is designed to enhance consistency of funds' prospectus fee disclosure in recognition that, for funds whose investments in other funds are limited, the fees and expenses of the underlying funds may more closely resemble other costs of investment that are not currently reflected in the prospectus fee table. We agree with and applaud the Commission for the

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1 The Coalition is a member-driven, Washington-based trade association that advocates exclusively on behalf of business development companies ("**BDCs**") to expand their ability to provide necessary growth capital to small- and medium-sized Main Street businesses so they can expand, invest and create jobs.

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, SEC Rel. No. IC-33963 (August 5, 2020) ("**Proposing Release**").

proposed AFFE amendment and support its adoption as a first step to addressing the unintended negative consequences caused by the current AFFE disclosure requirements.
The proposal indicates a keen awareness by the Commission of the market distortion and investor confusion caused by the application of the current AFFE disclosure requirements to BDC investments. Indeed, we applaud the Commission for expressing the view that:

> [The Commission is] sensitive to the concern that requiring every fund to include AFFE in its fee table as a component of the fund's ongoing annual fees reduces consistency with the fund's financial statements and may in some cases magnify the presentation of AFFE by requiring fee table disclosure of this discrete category of performance expenses even though the fund does not invest significantly in acquired funds and may incur other indirect costs that are not reflected in the fee table. We understand these factors may contribute to investor confusion.[3]

Sharing this concern, and consistent with the views of other industry groups, including those representing mutual funds and other investors, we believe the AFFE rule, as currently applied, distorts the actual costs of investing in BDCs and does not provide investors with an accurate comparison of costs of investing in BDCs. We believe that the primary policy goal of the AFFE rule – providing investors with transparency into the costs of investing in underlying funds - is not being achieved with respect to BDCs. Correcting the distortive impact of the AFFE disclosure obligations of BDCs is one of the Coalition's highest priorities and we believe that this correction will promote job growth and the extension of financing to businesses crippled by the COVID-19 pandemic and desperately in need of capital.

I. AFFE Disclosure Requirements and Business Development Companies

The AFFE disclosure problems started with a 2006 rule adoption of amendments to the forms for registration statements used by registered investment companies and BDCs to register their securities under the Investment Company Act of 1940 and/or the Securities Act of 1933, Forms N-1A, N-2, N-3, N-4 and N-6 (the "**Forms**").[4] The amendments required an acquiring investment company ("**acquiring fund**") to, among other things, aggregate the amount of total annual fund operating expenses of securities issued by acquired investment companies ("**acquired funds**") and express the total amount as a percentage of the average net assets of the acquiring fund. The adopting release indicates that the purpose of the 2006 amendments was to provide investors with (i) "a better understanding of the actual costs of investing in a fund that invests in other funds" and (ii) "the means to compare directly the costs of investing in alternative funds of funds, or the costs of investing in a fund of funds to a more traditional fund."[5]

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[3] Proposing Release at 296.

[4] Fund of Funds Investments, Investment Company Act Release No. 27399 (June 20, 2006), available at: http://www.sec.gov/rules/final/2006/33-8713.pdf ("**2006 Fund of Funds Rule**").

[5] *Id.*

The 2006 Fund of Funds Rule required the AFFE expense line item to be added to the acquiring fund's actual operating expenses, which increased the "total annual fund operating expenses" line item (*i.e.*, the "bottom line" operating expense percentage shown in the prospectus fee table). The problem, however, is that the AFFE line item component of a fund's operating expense percentage is not a true fund operating expense; it is not deducted from the fund's net investment income and therefore does not reduce the fund's total return or net asset value. In recognition of this discrepancy, the Commission allowed funds to clarify in a footnote to the fee table that the total annual fund operating expenses shown in the fee table (which include AFFE) do not correlate with the ratio of expenses to average net assets shown in the fund's financial highlights. While helpful, this footnote did not solve the problem created by the AFFE disclosure requirements. Potential investors typically only refer to a fund's operating expense percentage when evaluating investments in funds and therefore, a high operating expense percentage, without regard for the financial statements that do not correlate with the AFFE line item, may preclude an investor from pursuing an investment in an acquiring fund. Therefore, instead of creating a rule that meets the its purpose, we believe that the AFFE rule creates an artificial operating expense ratio with far too much complexity and confusion.

In addition, in adopting the amendments, the Commission did not apply AFFE disclosure requirements to very similar investment products, such as real estate investment companies ("**REITs**"). BDCs and REITs are characterized as nontraditional investments that are designed to provide yield to investors. BDCs and REITs are taxed identically under Subchapter M of the Internal Revenue Code of 1986, and, due to these similarities, they are often accepted in the same distribution channels. A REIT's fee and expense structures are materially identical to those of BDCs. The Commission still, rightly, does not apply AFFE disclosure to an acquiring fund's investment in securities issued by REITs. We believe that it is incongruous to exclude REITs but not BDCs from the meaning of the term "acquired fund" because they both function like operating companies and not like traditional investment vehicles, which were at the heart of the Commission's policy rationale for the requirement of the AFFE disclosure. Indeed, other organizations commenting on the proposed AFFE amendments, including those representing mutual funds and other investors, have also concluded that a BDC's expenses are more like an operating company's expenses.

A. The AFFE Rule Makes the Prospectus Fee Table Confusing

The AFFE rule requires funds to add the actual expenses that acquired funds incur to their own operating expenses, resulting in an inflated, artificial percentage for the "total annual fund operating expenses" line item in the prospectus fee table. Furthermore, to add to the significance of the inflated, artificial operating expense percentage, the Forms require an "Expense Example" that follows the fee table and use the inflated, artificial percentage to calculate the operating expenses for various time periods (1, 3, 5 and 10 years) of a $10,000 investment in the acquiring fund. The inclusion of AFFE in the calculation of the Expense Example inflates actual expenses exponentially over the various time periods. Unfortunately, the clarifying footnote allowed by the Forms to explain that AFFE is not reflected in the acquiring fund's financial highlights does not resolve the problem caused by AFFE, and in fact, it undermines a stated objective of the AFFE rule by suggesting to investors that expenses incurred by the acquired fund are expenses

incurred by the acquiring fund. Accordingly, we believe that AFFE does not provide "a better understanding of the actual costs of investing in a fund that invests in other funds."

B. The AFFE Disclosure Requirements Disproportionately Harm BDCs

At the time BDCs were created by Congress in 1980, registered investment companies had already existed for forty years. Registered investment companies typically invest in publicly traded companies. Recognizing the need to make capital available to smaller, non-traded businesses, Congress passed legislation to create a new form of investment vehicle distinct from traditional registered investment companies, BDCs. BDCs have a specific Congressional mandate, which has never been more important than today: to make capital available to small, developing and financially troubled companies that do not have ready access to the public capital markets or other forms of conventional financing. Unlike registered investment companies, which generally have the ability to tailor their investment strategies to various asset classes, BDCs are required to focus their investment strategy. The 1940 Act requires a BDC to invest 70% of their assets in privately-owned U.S. operating companies or U.S. companies with a market capitalization of less than $250 million.[6] Further, BDCs are statutorily required to make available managerial assistance to a large number of the companies in which they invest, which is a significant differentiator between traditional registered investment companies and BDCs.

Due to a BDC's statutory mandate, BDC costs and expenses significantly differ from those of registered investment companies. As mentioned above, BDCs generally do not invest in publicly-traded securities. Instead, BDCs focus their investments on securities issued by small and medium-sized companies, many of which are private. These investments require a more robust infrastructure than that required to invest in publicly-traded securities and includes a greater emphasis on deal sourcing and due diligence. Further, unlike purchasing publicly-traded securities, BDCs often are required to negotiate and structure the terms of the securities in which they invest. After a BDC has made an investment, it must have the appropriate resources to monitor and manage its portfolio, which generally requires direct contact with companies in which it invests. Finally, should a BDC's portfolio company accept the managerial assistance it offers, the BDC, like an operating company, must further allocate resources to assist the portfolio company. Traditional registered investment companies, on the other hand, generally do not have to bear the these costs and expenses and consequently have lower operating expenses.

Since BDCs are generally more expensive to operate than other registered investment companies and, therefore, have higher expense ratios, sponsors of mutual funds, closed-end funds, ETFs and other registered investment companies have been discouraged from investing in BDCs because of the requirement to disclose an artificially inflated expense percentage. Additionally, a significant number of BDCs use modest leverage and, consequently, debt servicing costs can further increase the AFFE line item.

Following the promulgation of the AFFE rule, investments in BDCs have sharply declined. Additionally, beginning in 2014, major index publishers Russell, S&P and MSCI "de-indexed" BDCs. In announcing its decision to de-index BDCs, Russell cited the "distortive impact" of

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[6] 15 U.S.C. 80a-2(a)(48).

AFFE on index fund expense ratios.[7] During the 2014 de-indexing, BDC share prices plunged as funds that track or benchmark to indices dumped their shares. Investors bore the brunt of this selloff. In 2014 alone, institutional ownership of BDC shares fell by 25%, from 42.2% in in the fourth quarter of 2013 to 31.7% in the fourth quarter of 2014[8] and has continued to fall to 27.6% in the fourth quarter 2018[9] – a nearly 35% reduction since the end of 2013. Mutual fund ownership of BDCs have declined from about 14% in the pre-2014 period to less than 5% in the post-2014 period.[10] As institutional investors left the space, much of the vitality of the BDC market left with them – average daily trading volume of BDC shares fell by 50% between 2014 and 2018.[11] If the Russell index funds continued to include BDCs, the expense ratio of overall index would have increased by 20-25% over its current level of 20-30 basis points.[12]

The disruption of AFFE not only affected institutional investors but also affected retail investors. BDCs are attractive to retail investors because they provide access to an asset class typically only accessible to institutional and wealthy investors that can invest in private funds. The significant decline of institutional ownership negatively affected, and continues to affect, retail shareholders. Further, because major index publishers no longer invest in BDCs, the market depth and liquidity for BDC shares has sharply declined. This has resulted in less independent, third party coverage of the market. Though the SEC's stated goal of AFFE disclosure was to provide investors with more information, it has inadvertently decreased investor access to information. Further, the sharp decline in institutional ownership also potentially negatively affects corporate governance, as greater institutional ownership results in more engaged shareholders.[13]

C. The AFFE Requirements Inhibit Capital Formation

As discussed above, BDCs were created by Congress to help direct additional financing to small- and mid-sized U.S. companies, which has never been more important than during the worldwide, COVID-19 pandemic. BDCs are required to invest 70% of their assets in U.S. privately-owned operating companies or U.S. companies with a market capitalization of less than $250 million

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[7] *See*, Barrons, *Russell Sets Terms for Booting BDCs: Should You Buy the Dip?* (Mar. 4, 2014) (Brendan Conway), available at https://www.barrons.com/articles/russell-sets-terms-for-booting-bdcs-should-you-buy-the-dip-1393960960.

[8] Wells Fargo, 2Q18 BDC Scorecard.

[9] Unpublished report with data sourced from FactSet; institutional holdings for December 31, 2018, and December 31, 2015, excluding holdings from private banks/wealth management firms, brokers and investment banks; and insider holdings.

[10] T. Davydiuk, T. Marchuk, and S. Rosen, "Direct Lending in the U.S. Middle Market," available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3568718. See Figure 20.

[11] *Id.*, see Figure 21.

[12] *Id.,* at 27.

[13] Wells Fargo 1Q17 BDC Scorecard" ("[L]ower institutional ownership led to a much less engaged shareholder base, which, in turn, led to much less corporate governance on behalf of retail investors. . . . Large institutional investors are often much better about actively vetting corporate/board proposals").

(referred to as "**qualifying assets**"), the very businesses that are impacted by COVID-19. BDCs are a vital source of financing to these businesses. However, due to the artificially inflated expense percentage caused by the AFFE disclosure requirements, mutual funds, closed-end funds and ETFs are discouraged from making investments in BDCs, thus curtailing Congress' mandate and stifling economic recovery from the effects of COVID-19.

Further, changes in banking regulation have caused banks to significantly reduce lending, particularly to smaller and less-established companies that (i) lack credit ratings, (ii) are otherwise subject to greater credit risk, and (iii) are adversely affect by COVID-19. These changes include the repeal of the Glass-Steagall Act of 1933, which led to a number of bank consolidations; heightened capital and liquidity requirements imposed by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010; and the U.S. implementation of the international Basel III Accord, which limits a bank's ability to hold unrated debt. BDCs have helped, and can continue to help, fill this void.

BDCs are a vital source of financing for small- and medium-sized U.S. businesses. In recognition of this fact, Congress passed the Small Business Credit Availability Act of 2018, which facilitated the ability of BDCs to raise capital by engaging in additional borrowing and accessing certain streamlined securities registration rules. Further, in recognition of the importance of BDCs to the US economy, on April 8, 2020, the Commission issued temporary, conditional exemptive relief to BDCs to enable them to make additional investments in small and medium-sized businesses, including those with operations affected by COVID-19.[14] In a press release announcing the relief, Chairman Jay Clayton stated, "Many small and medium-sized businesses across the country are struggling due to the effect of COVID-19, and today's temporary, targeted action will enable BDCs to provide their businesses with additional financial support during these times."[15] Finally, a recently published academic paper found that the rise of direct lenders, such as BDCs, has positive effects on the middle-market sector – the target borrowers of BDCs. Specifically, upon review of investments by BDCs in various U.S. counties, it was found that BDC financing has stimulated employment and productivity, which emphasizes the importance of credit availability for economic growth.[16]

II. Proposed Amendments

The Commission is proposing to modify the current AFFE prospectus fee table requirements by refining the scope of funds that must disclose AFFE as a component of bottom-line annual fund operating expenses. Specifically, the amendments would permit funds that invest 10% or less of their total assets in acquired funds to omit the AFFE line item in the fee table and instead disclose the amount of the fund's AFFE in a footnote to the fee table and fee summary. Funds that invest more than 10% of their total assets in acquired funds would continue to present AFFE

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[14] Investment Company Act Release No. 33837 (April 8, 2020), available at: https://www.sec.gov/rules/exorders/2020/ic-33837.pdf.

[15] See, "*SEC Provides Temporary, Conditional Relief for Business Development Companies Making Investments in Small and Medium-sized Businesses*," available at: https://www.sec.gov/news/press-release/2020-84.

[16] *Supra,* note 10 at 36.

as a line item in the prospectus fee table and include AFFE in the bottom-line expense figure, as they do today. Although we do not believe that the proposal is the full policy solution that is needed, which would be to eliminate the AFFE line item altogether or make it inapplicable to BDCs, the Coalition applauds the Commission's effort to resolve some of the unintended consequences caused by the AFFE disclosure requirements.

A. Benefits of Proposed Amendments

We believe that the proposed amendments to the AFFE disclosure requirements can provide help to the BDC industry, and the Main Street businesses that rely on BDCs for capital. We believe the benefits would be maximized if as a result of those amendments, index sponsors revise their investment criteria to include BDCs. As discussed above, the "de-indexing" of BDCs was the beginning of a significant decline in institutional investment in the industry. However, if, for example, Russell were to revise its investment criteria to include BDCs like it had previously, there would be a significant increase in demand for BDCs shares. If Russell revised its investment criteria, two BDCs would be included in the Russell 1000 and up to 36 BDCs would be included in the Russell 2000. For these 36 BDCs, the market capitalization held by the Russell 2000 would represent between 6.9% and 9.1% of each BDC.[17] Further, it is not expected that either of the Russell 1000 or Russell 2000 would come close to the 10% AFFE line item disclosure threshold, which would allow for growth in the BDC industry in the foreseeable future.[18]

BDCs: Reviewing Eligibility for Russell Index Inclusion at Recon 2021
If a Rule Change is Announced

Source: KBW Research, Bloomberg, Factset	Ticker	Company Name	Mkt. Cap ($M)	Price ($)	R3000 Member Removed in 2014 Recon	Est. Index Inclusion	Est. # Shares to Buy (M)	Est. $ Value to Buy ($M)	Est. $ Value to Buy as % Mkt. Cap
Est. R1000 Eligible	ARCC	ARES CAPITAL CORP	6,255	$14 80	Y	R1	12 6	187	3 0%
	ORCC	OWL ROCK CAP CORP	4,716	$12 26		R1	11 4	140	3 0%
Est. R2000 Eligible	FSKR	FS KKR CAPITAL CORP II	2,599	$15 12		R2	15 8	239	9 2%
	MAIN	MAIN STREET CAPITAL CORP	2,162	$32 82	Y	R2	5 7	187	8 7%
	GBDC	GOLUB CAPITAL BDC INC	2,097	$12 54	Y	R2	14 3	179	8 5%
	FSK	FS KKR CAPITAL CORP	2,005	$16 20		R2	11 3	184	9 2%
	PSEC	PROSPECT CAPITAL CORP	1,876	$5 08	Y	R2	24 9	127	6 7%
	HTGC	HERCULES CAPITAL INC	1,341	$11 74	Y	R2	10 0	118	8 8%
	TSLX	SIXTH STREET SPECIALTY LENDI	1,225	$18 12		R2	5 9	108	8 8%
	NMFC	NEW MOUNTAIN FINANCE CORP	992	$10 24	Y	R2	8 0	82	8 3%
	OCSL	OAKTREE SPECIALTY LENDING CP	715	$5 07	Y	R2	11 1	56	7 9%
	SLRC	SOLAR CAPITAL LTD	707	$16 73	Y	R2	3 6	61	8 6%
	BCSF	BAIN CAP SPECIALTY FIN INC	698	$10 81		R2	4 8	52	7 5%
	AINV	APOLLO INVESTMENT CORP	652	$9 70	Y	R2	6 1	59	9 1%
	GSBD	GOLDMAN SACHS BDC INC	650	$16 06		R2	3 1	50	7 7%
	TCPC	BLACKROCK TCP CAPITAL	575	$9 95	Y	R2	5 3	52	9 1%
	CGBD	TCG BDC INC	519	$9 21		R2	5 2	48	9 2%
	NEWT	NEWTEK BUSINESS SERVICES CP	415	$19 59		R2	1 8	36	8 7%

[17] *Russell Recon 2021: The Early Bird Special Edition – Getting Ahead of the Curve at Identifying Opportunities*, Keefe, Bruyette & Woods, a Stifel Company, (August 16, 2020).

[18] If the 36 BDCs were added to the Russell 2000, as of December 15, 2020, they would represent 2% of the index's total assets.

BDCs: Reviewing Eligibility for Russell Index Inclusion at Recon 2021 If a Rule Change is Announced									
Source: KBW Research, Bloomberg, Factset	Ticker	Company Name	Mkt. Cap ($M)	Price ($)	R3000 Member Removed in 2014 Recon	Est. Index Inclusion	Est. # Shares to Buy (M)	Est. $ Value to Buy ($M)	Est. $ Value to Buy as % Mkt. Cap
	BBDC	BARINGS BDC INC	399	$8 31	Y	R2	3 1	26	6 5%
	TPVG	TRIPLEPOINT VENTURE GWTH BDC	384	$12 48		R2	2 8	35	9 1%
	CCAP	CRESCENT CAPITAL BDC INC	352	$12 50		R2	2 6	32	9 1%
	PFLT	PENNANTPARK FLOATING RT CAP	337	$8 70	Y	R2	3 5	30	9 0%
	GAIN	GLADSTONE INVESTMENT CORP/DE	321	$9 66	Y	R2	3 0	29	9 0%
	CSWC	CAPITAL SOUTHWEST CORP	273	$14 67	Y	R2	1 6	23	8 5%
	FDUS	FIDUS INVESTMENT CORP	261	$10 66	Y	R2	2 2	24	9 1%
	PNNT	PENNANTPARK INVESTMENT CORP	242	$3 61	Y	R2	5 9	21	8 8%
	GLAD	GLADSTONE CAPITAL CORP	236	$7 56	Y	R2	2 8	21	9 0%
	WHF	WHITEHORSE FINANCE INC	220	$10 69	Y	R2	1 3	14	6 5%
	SUNS	SOLAR SENIOR CAPITAL LTD	217	$13 52	Y	R2	1 3	18	8 1%
	BKCC	BLACKROCK CAPITAL INVT CORP	216	$3 08	Y	R2	6 3	19	9 0%
	SSSS	SURO CAPITAL CORP	214	$12 80	Y	R2	1 2	16	7 4%
	HRZN	HORIZON TECHNOLOGY FINANCE	213	$12 33	Y	R2	1 6	19	9 0%
	SAR	SARATOGA INVESTMENT CORP	201	$17 91		R2	0 8	15	7 4%
	OCSI	OAKTREE STRATEGIC INCOME CP	192	$6 50		R2	2 0	13	6 9%
	SCM	STELLUS CAPITAL INVESTMENT	166	$8 52	Y	R2	1 7	14	8 6%
	MRCC	MONROE CAPITAL CORP	160	$7 50		R2	1 9	14	8 9%
	MVC	*MVC CAPITAL INC*	*141*	*$7.98*	*Y*	*R2*	*1.3*	*10*	*7.4%*
	OXSQ	OXFORD SQUARE CAPITAL CORP	139	$2 80	Y	R2	4 2	12	8 4%
ELIGIBLE BUT Currently Below 2020E R2 Cut-off	FCRD	First Eagle Alternative Capital BDC, Inc	105	$3 49	Y	N/A	N/A	N/A	N/A
	OFS	OFS Capital Corp	66	$4 96		N/A	N/A	N/A	N/A
	GARS	Garrison Capital, Inc ^	*56*	*$3.48*	*Y*	*N/A*	*N/A*	*N/A*	*N/A*
	PTMN	Portman Ridge Finance Corporation	56	$1 25	Y	N/A	N/A	N/A	N/A
	GECC	Great Elm Capital Corp	52	$4 92		N/A	N/A	N/A	N/A
	ICMB	Investcorp Credit Management BDC, Inc Red	45	$3 25		N/A	N/A	N/A	N/A
	MCC	Medley Capital Corporation	43	$15 80	Y	N/A	N/A	N/A	N/A
	CPTA	Capitala Finance Corp	36	$2 23	Y	N/A	N/A	N/A	N/A
	SVVC	Firsthand Technology Value Fund Inc	35	$5 13	Y	N/A	N/A	N/A	N/A
INELIGIBLE DUE TO SIZE	RAND	Rand Capital Corporation	29	$11 26		N/A	N/A	N/A	N/A
	HCAP	Harvest Capital Credit Corp	22	$3 77		N/A	N/A	N/A	N/A
	EQS	Equus Total Return Inc	19	$1 43		N/A	N/A	N/A	N/A
^ Indicates Acquisition Target								**Average:**	8 1%
								Current BDC Market Cap ($M):	35,647
								Estimated Buying Power ($M):	2,371

The 10% limit may not be sufficient to assure index funds that there is no risk that they will be required to include the AFFE line item in their fee tables if they track indices that include BDCs. Without this assurance, it is unclear whether the index providers will again include BDCs in their indices. We note, however, that even if the index sponsors do not revise their investment criteria, resulting in the Commission's policy goals not being fully met, the benefits of the proposed amendments justify the rule's adoption. Nonetheless, we encourage the Commission to direct the Commission staff to revisit the AFFE disclosure amendments for BDCs if index sponsors have not included BDCs in their portfolios and, if so, to take further action that would strongly encourage the index sponsors to make such changes.

B. Other AFFE Line Item Disclosure Triggers

In issuing the AFFE proposal, the Commission requested comment about whether it would be more appropriate to determine the 10% threshold by calculating the amount of AFFE as a percentage of net assets rather than the proposed approach of calculating the threshold by reference to the percentage of total fund assets invested in acquired funds. We believe that the proposed approach better meets the Commission's policy goals, while also enhancing consistency of disclosure.

To reiterate, we believe a more appropriate policy choice is for the SEC to exclude investments in BDCs from AFFE disclosure altogether, as it has done for REITs and certain other investments. Short of this action, we believe any threshold should be calculated based on a percent of total fund assets invested in acquired funds.

Determining the threshold based on AFFE as a percentage of net assets will result in significant variability in that ratio and, consequently, wide variability in reporting. Fund advisers generally have the capability to manage a fund's investments, not a fund's AFFE as a percentage of net assets, which is beyond their control. Given the potential volatility of the AFFE numerator in that equation, we believe fund advisers will be less inclined to invest in BDCs and risk AFFE disclosure. Using acquired funds as a percentage of total assets is a bright line test, with consistency across fund disclosures, that fund advisers can manage to ensure that funds do not trigger AFFE line item disclosure.

C. Application to Other Funds

The proposed amendments only apply to funds registered on Form N-1A (i.e. mutual funds and exchange traded funds). We believe that the Commission should amend AFFE disclosure requirements in Form N-2 as well.

Closed-end registered investment companies and BDCs register shares on Form N-2. The same policy considerations for amending AFFE line item disclosure for mutual funds and exchange traded funds apply equally to registered closed-end funds and BDCs. Amending Form N-2 would also enhance consistency of funds' prospectus fee disclosure across various registered and regulated funds, and recognize that, for funds whose investments in other funds are limited, the fees and expenses of the underlying funds may more closely resemble other costs of investment that are not currently reflected in the prospectus fee table. Further, we believe that only amending Form N-1A disadvantages registered closed-end funds and BDCs that may consider investing in BDCs, and other funds for that matter. In addition, we believe that only amending Form N-1A diminishes the benefits that investors could realize from fund of fund arrangements by registered investment companies and BDCs. This sentiment is reflected in the proposing release of the Commission's new fund of funds rule 12d1-4, "We believe that this framework will provide investors with the benefits of fund of funds arrangements, and will provide funds with investment flexibility to meet their investment objectives efficiently, in a manner consistent

with the public interest and the protection of investors,"[19] Accordingly, we believe that amending AFFE disclosure requirements for Form N-2 allows the Commission to further achieve the benefits it intended with its adoption of Rule 12d1-4.

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[19] Fund of Funds Arrangements, Investment Company Act Release No. 34045 (October 7, 2020), available at: https://www.sec.gov/rules/final/2020/33-10871.pdf.

We appreciate your consideration of the Coalition's concerns. Should you have any questions regarding this letter, please feel free to contact David Cohen at [redacted] or [redacted].

Sincerely,

David P. Cohen

Executive Director