CAPITAL
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October 30, 2018

VIA ELECTRONIC SUBMISSION

Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: Fund Retail Investor Experience and Disclosure (File number S7-12-18)

Mr. Fields:

We are writing on behalf of The Capital Group Companies, one of the oldest asset managers in the United States. Through our investment management subsidiaries, we actively manage assets in various collective investment vehicles and institutional client separate accounts globally. The vast majority of these assets consist of the American Funds family of mutual funds, which are U.S. regulated investment companies distributed through financial intermediaries and held by individuals and institutions across different types of accounts.

We strongly support efforts by the U.S. Securities and Exchange Commission to modernize and improve the disclosures provided to fund investors. We agree with the comments submitted by The Investment Company Institute and would like to provide additional feedback on a few of the key issues raised by the Commission in its request for comment. In particular we believe that the Commission should (1) recognize the growing preference for digital communications, (2) require more prominent disclosure of the total costs of investing in funds and (3) develop a holistic approach to disclosure, rather than applying a piecemeal approach.

1. The Commission should adopt electronic delivery for shareholder reports and prospectuses

We commend the Commission for finalizing Rule 30e-3, which allows funds to provide notice [in Rule 30e-3] to investors that fund shareholder reports are available electronically. The Rule will result in significant cost savings for mutual fund investors. However, adopting a "notice and access" electronic delivery standard for both shareholder reports and prospectuses would increase investor savings and better align with investor preferences for information. Under this approach, funds would be required to disclose a website address where investors can obtain a current prospectus and shareholder report at the time of investment and reminded of the location of the documents periodically, through their quarterly account statements.

As we noted in our comments on Rule 30e-3, access to and use of the Internet has continued to increase significantly. A recent survey by The Investment Company Institute found that 95% of U.S. households owning mutual funds had Internet access, with widespread use among various age groups, education levels and income levels.[1] As the Commission noted in the release regarding retail investor experience and disclosure, "[a]dvances in technology have made available new, innovative, and effective ways to improve the delivery, design, and content of fund disclosures."[2]

a. Investors prefer digital information

We have found that a growing percentage of our fund shareholders and their advisers utilize our website to obtain information about our funds, our organization and other investment insights. Web usage has increased approximately 21% year over year. In fact, earlier this year we reached an all-time high of 6.5 million visits to the American Funds investor website. Our website, along with the websites of other fund groups, serve the diverse needs of fund shareholders with extensive educational materials. Our website offers detailed information to investors who want it, while others may prefer to access only the essential information they need. Fund shareholders recognize that current information regarding their fund

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[1] Holden, Schrass, and Bogdan, "Ownership of Mutual Funds, Shareholder Sentiment, and Use of the Internet, 2017," ICI Research Perspective 23, no. 7 (October 2017), p. 19.
[2] Investment Company Act Release 33113 (June 5, 2018), p.6.

investments is readily available on our website. Allowing funds to deliver prospectuses and shareholder reports online recognizes the preference for digital information and would open up new opportunities for the use of embedded links and visual displays, allowing shareholders more detailed information in useful layered disclosure.

b. **Environmental impacts**

Production of paper prospectuses and shareholder reports has a significant negative impact on the environment. For the American Funds, over the 12-month period from July 2016 to June 2017, we mailed approximately 32.2 million summary prospectuses, 30.4 million semi-annual shareholder reports and 32.2 million annual shareholder reports. Approximately 5,122 tons of paper were required to print the documents. This resulted in the destruction of about 122,000 trees. In addition, transporting this amount of paper required approximately 395 tractor trailer truckloads, resulting in an increase in carbon emissions.

c. **Cost savings**

Eliminating the paper delivery requirement for prospectuses as well as shareholder reports would result in a substantial direct savings to fund shareholders, as well as an environmental benefit from reduction in paper usage. For the period noted above, the cost for mailing production, postage, freight and printing and design expense for our prospectuses, semi-annual and annual shareholder reports was approximately $35 million. Eliminating the costs associated with delivering prospectuses as well as shareholder reports will benefit fund shareholders without detracting from their ability to review the documents either electronically or by requesting a paper copy.

d. **Other jurisdictions**

As a global mutual fund company we note that our funds are sold in Europe, as well as in Canada and Australia. The European Union permits funds to notify investors that shareholder reports can be obtained on a website, with the reports available by mail on request. In addition, prospectuses may be delivered electronically. Canadian law permits a fund manager to provide electronic shareholder reports, but allows shareholders to request paper copies of the shareholder reports by mail. Likewise under Australian law, our funds make shareholder reports available on our website, as long as we explain to investors how to access the website and provide the option to request a paper copy of the report. This delivery system works well in all of these jurisdictions, which recognize investor preference for electronic delivery of key documents.

2. The Commission should adopt a holistic approach to disclosure

In seeking to enhance disclosure by mutual funds and improve the investor experience in a manner that helps them make better investment decisions the Commission should adopt a holistic approach to disclosure. We agree that a modern disclosure system should provide investors with streamlined and user friendly information that is material to an investment decision, with the ability to access additional, more in-depth information on demand. After an investor has made an investment decision, they should likewise be able to monitor their investment through streamlined and user-friendly summary shareholder reports that describe the fund's investment results, factors that influenced such results and summary portfolio holdings. More detailed information can be accessed in full shareholder reports available online. In crafting these disclosure documents the fact that investors receive confirmation statements and quarterly account statements regarding account activity and other account information should be taken into account. Moreover, information required to be on fund websites should also be taken into consideration.

3. Content of summary prospectuses

The Commission's adoption of the summary prospectus in 2008 was a significant improvement in the disclosure provided to fund investors. The summary format allows funds to convey the most important information needed to make an informed investment decision in a clear and concise manner. It also recognizes the usefulness of online layered disclosure by mandating that funds link to their statutory prospectus and statement of additional information to provide more detailed information on the fund. While the current version of the summary prospectus is effective, we believe additional improvements would be helpful to investors.

As a general matter, we do not believe the Commission should be overly prescriptive in mandating the length and content of the summary prospectus. Funds should have the ability to tailor their disclosures, within the constraints of Form N-1A. However, we believe it is important for the Commission staff and funds to avoid "disclosure creep" to ensure the most meaningful information is provided to investors. Investors who want more detailed information can utilize the statutory prospectus and statement of additional information, as well as information on fund websites.

a. Fee disclosure

Fees are an important consideration for investors as they seek to achieve their investment objectives. Therefore, information about fund fees should be presented in a manner that is easy to understand for investors. We believe the summary prospectus could be improved by including more prominent disclosure of the total cost of investing in the fund. The current fee information required by Form N-1A is effective, but we believe that investors are most interested in understanding the total cost of investing, including sales charges, total fund expenses and external account fees (e.g. small account fees or custody fees). Accordingly, funds should be required to prominently disclose comprehensive fee information in the summary prospectus. This information could be presented in a similar manner as so-called "Schumer Box" disclosures required by credit card issuers under the federal Truth in Lending Act. Presenting fee information in a more standardized and prominent manner would help investors better understand the total cost of investing and facilitate fee comparisons among mutual funds. Similarly, disclosures in other materials, including sales literature and account statements, should more effectively present the total cost of investing.

Moreover, fee disclosures could be enhanced by providing more prominent disclosure that fees for distribution and sub-transfer agency services are paid to intermediaries for the services they provide to fund shareholders. While current disclosures describe these fees, we do not believe investors understand that the fees, which are included in a fund's expense ratio, are for services they would otherwise pay for directly. The need to enhance investor understanding of fees is highlighted in the recently released research report prepared by the Rand Corporation and the SEC's Office of the Investor Advocate which noted a high degree of uncertainty among investors of the types and level of fees paid.[3]

b. Risk disclosure

In its Release the Commission notes that certain jurisdictions have required fund disclosures to include risk ratings, to help investors better understand and evaluate investment risks. We do not believe that risk ratings would be effective, since investors view risks differently. For example, an investor approaching retirement may focus on the risk of a shortfall in income, and may desire to invest more conservatively. Alternatively, an investor saving for retirement could be focused on insufficient growth in the early years of their investment plan. Investors are better served through more streamlined risk disclosures that succinctly summarize the most prominent risks associated with an investment.

c. Fund benchmarks

Form N-1A requires mutual funds to compare their investment results to an "appropriate broad-based securities market index."[4] The Commission should permit funds to have more flexibility in choosing the appropriate benchmark for the fund. In our experience, the SEC staff has been hesitant to allow funds to use blended benchmarks as their primary benchmark under Form N-1A. For certain types of funds that invest in multiple asset classes, a blend of indexes representing the typical asset allocation of the fund should be permitted. For example, comparing a balanced fund to the S&P 500 index does not provide an appropriate comparison of the fund's results to the index because the fund invests in both fixed income and equity securities. A balanced fund should not be required to compare its results to an equity index when its investment objective and strategy is different than that of a fund that tracks an equity index. However, funds must continue to demonstrate an objective basis for

[3] The Retail Market for Investment Advice, SEC Office of the Investor Advocate (October 12, 2018), p. 63-64.
[4] Form N-1A, Item 4.

the index selected, to ensure it provides investors an appropriate comparison to the fund's investment strategy.

4. Individualized fee disclosures

We do not believe that individualized fee disclosures should be required. Implementing individualized fee disclosures would be costly and could confuse investors. The expense example required in the summary prospectus and shareholder reports already provides investors with information on the cost of their investments. However, changes to the expense example should be considered to reflect an investor's total cost of investing. We also note that a similar approach to fee disclosure has been adopted by the Department of Labor for retirement plan participants.

5. Trading cost disclosure

We do not believe that mutual funds should be required to separately disclose trading costs. Trading costs are appropriately reflected in the gain or loss of the security, and therefore the results of the fund. Disclosing these costs separately would be misleading to investors who could easily believe that trading costs are additional costs charged to the fund (e.g. management fees, distribution fees, other expenses). Further, disclosing trading costs is complex, particularly for fixed income securities where the trading costs are based on the bid/ask spread. Portfolio turnover, which is already required to be disclosed in summary prospectuses, provides a good measure of trading costs.

6. Summary prospectus for variable insurance products

The Commission recently announced that one of its priorities is the development of a summary prospectus for variable insurance products.[5] We support this initiative and believe it would greatly improve investor disclosure regarding these more complex investment products. Like the summary prospectus for mutual funds, the variable insurance summary

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[5] Testimony on "Oversight of the SEC's Division of Investment Management", Dalia Blass
Director, Division of Investment Management, Before the United States House of Representatives Committee on Financial Services, Subcommittee on Capital Markets, Securities, and Investment, September 26, 2018, p. 5.

prospectus should focus on the fees, risks and investment strategies employed by the product and its underlying investment options.

7. Summary shareholder reports

We believe the Commission should develop a summary shareholder report in order to provide investors more meaningful information on the operation of their fund investment. The summary prospectus has significantly improved the information provided to investors, through a more streamlined document that facilitates more effective comparisons. We believe a summary shareholder report will have similar benefits.

The summary report developed by The Investment Company Institute provides a good template for the types of information that should be provided to investors.[6] The summary should focus on matters most essential for a shareholder to effectively monitor their investment, including, among other things, a summary of the factors that influenced fund investment results, summary holdings, and information on investment results and expenses. The following sections should not be included in the summary document, but made available in the full shareholder report:

- Financial statements, schedules and footnotes (including auditor consent);
- Information on the fund's officers and directors; and
- Statement regarding the basis for approval of the fund's investment advisory contract.

As noted above, we believe that summary shareholder reports should be delivered electronically through a notice and access model. A shortened, standardized, electronic format would better facilitate comparisons among funds and improve disclosures in a cost-effective manner.

[6] The Investment Company Institute, Comments on Fund Retail Investor Experience and Disclosure (October 24, 2018), Appendix A.

8. Conclusion

The disclosures provided to investors are a critical component of the federal securities laws. While the approach to disclosure has evolved since the Securities Act was developed in 1933, not enough has been done to recognize the growth of digital communications and the manner in which investors consume information today. In enhancing disclosure requirements, it is essential to recognize the growing preference for digital communications, while preserving the option for paper communications. In addition, the Commission should take a comprehensive approach in studying disclosure. Rather than considering changes to each disclosure document separately, we urge the Commission to take a more holistic approach, reviewing all disclosure documents together in the aggregate for purposes of determining whether disclosure is relevant, useful and streamlined. Changes should be considered in conjunction with the information that shareholders receive through various regulatory communications, such as account statements, and that is readily available on fund websites. Finally, we urge the Commission to enhance fee disclosures so that investors are able to understand the total costs of investing in funds.

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If you have any questions, please feel free to contact Paul F. Roye at [redacted] or Timothy W. McHale at ([redacted].

Sincerely,

Paul F. Roye

Senior Vice President

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The Hon. Robert J. Jackson Jr.

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