BLACKROCK

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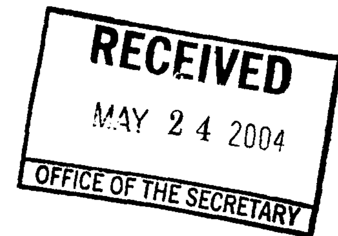
May 21, 2004

Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609



Re: "Proposed Rule: Disclosure Regarding Portfolio Managers of Registered Management Investment Companies," SEC Rel. No. 33-8396, File No. S7-12-04

BlackRock, Inc. ("BlackRock") is pleased to comment on the above-captioned release (the "Proposing Release") issued by the Securities and Exchange Commission (the "SEC" or "Commission"). BlackRock manages assets on behalf of institutional and individual investors worldwide through a variety of equity, fixed income, liquidity and alternative investment products.[1] In addition, BlackRock provides risk management and investment system services to a growing number of institutional investors under the *BlackRock Solutions®* name.

BlackRock would like to share its views regarding joint management of registered investment companies ("mutual funds") and other investment accounts and the question posed by the Commission regarding joint management. BlackRock strongly supports the SEC's approach of requiring disclosure of potential conflicts arising from joint management rather than prohibiting joint management.

At many investment advisory firms, including BlackRock, individual portfolio managers manage multiple accounts for multiple clients. In addition to mutual funds, these other accounts may include separate accounts (assets managed on behalf of institutions such as pension funds, insurance companies and foundations), and unregistered investment companies ("hedge funds"). In addition, a growing number of mutual fund families hire independent subadvisers to manage one or more funds. These subadvisers, again including BlackRock, have other clients, often including hedge funds.

1. Potential Conflicts

BlackRock agrees that joint management by a portfolio manager or team of managers of mutual funds and other accounts may present conflicts of interest.[2] For

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[1] As of March 31, 2004, BlackRock's assets under management total $321 billion across various investment strategies.

[2] Proposing Release at II.B.

example, a portfolio manager might hypothetically have an incentive to allocate well-priced trades to a client paying higher fees and more expensive trades to a client paying lower fees. As another example, a manager might hypothetically have an incentive to benefit one client by "trading ahead" of the trading strategies of another client. These potential conflicts are not unique to the provision of investment advice jointly to a mutual fund and a hedge fund. Rather, they exist whenever a portfolio manager advises two accounts that differ in any way. They exist even when a manager runs two different mutual funds simultaneously.

2. Practices for Managing Conflicts

Firms whose business models include side-by-side management of mutual funds and other accounts have an obligation to recognize the potential conflicts and manage them carefully through appropriate policies and oversight. Firms typically manage these conflicts, whether involving hedge funds or other types of accounts, through investment allocation policies and procedures, internal review processes, and oversight by directors and independent third parties. Registered investment advisers, which include all advisers to mutual funds, are fiduciaries to their clients and are required by law to treat all clients fairly and equitably. To do so, they develop investment allocation systems and other procedures to ensure that no one client -- regardless of type -- is intentionally favored at the expense of another. Allocation policies are designed to address potential conflicts in situations where two or more clients' accounts participate in investment decisions involving the same securities, as happens frequently. Best practices generally include an independent review of the internal controls relating to the management of accounts, including controls on trade allocation. These systems can also be, and typically are, audited by the SEC when they inspect registered investment advisers.

The Commission recently took a significant step to ensure that all firms adhere to these standards. The new rules regarding compliance programs require all mutual funds and investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of the federal securities laws.[3] These compliance programs must be enforced by a designated chief compliance officer. In adopting these rules, the Commission expressed its expectation that an investment adviser's policies and procedures would address allocation of investment opportunities and allocated trades among clients.[4]

3. Benefits of Joint Management

BlackRock believes that allowing an individual portfolio manager to manage mutual funds and other investment accounts, including hedge funds, benefits investors. Through mutual funds, investors have access to top investment talent at potentially lower fees than would otherwise be available. Many highly performing mutual funds are managed by portfolio managers who also manage other accounts, including hedge funds. Portfolio managers can effectively meet their respective clients' objectives while running both a mutual fund and a hedge fund, although the respective investment guidelines, strategies, benchmarks and objectives for these vehicles may be very different. Allowing the joint management of mutual funds and other investment accounts gives mutual fund investors

[3] "Final Rule: Compliance Programs of Investment Companies and Investment Advisers," SEC Rel. No. IA-2204 (December 17, 2003).

[4] Id. at II.A.

access to the widest possible pool of investment talent and the highest quality portfolio managers.

Allowing joint management also enhances investment management firms' ability to retain their best portfolio managers. By managing a wide variety of accounts, investment advisers and individual portfolio managers are able to diversify their client base, as many businesses seek to do. If forced to choose between managing mutual funds and hedge funds, a majority of portfolio managers will likely choose to manage hedge funds, because they provide more of an investment challenge, allow for a broader range of investment techniques and provide the opportunity to earn higher fees based on performance.[5] This would hurt mutual fund investors, who over time would lose access to top investment talent. If managers are restricted from managing both mutual funds and hedge funds, the mutual fund shareholder will lose out on access to this investment talent.

4. Conclusion

While banning an individual portfolio manager from managing both a mutual fund and a hedge fund addresses the potential conflicts, it is not without cost to mutual fund shareholders. It likely would reduce the pool of high quality, talented portfolio managers who are willing to manage mutual funds. Reducing the pool of portfolio managers would restrict competition in the mutual fund industry. Team-managed mutual funds might find the members of the team changing more frequently, as team members leave the mutual fund to manage other accounts that would not invoke the ban. Banning a mutual fund portfolio manager from managing a hedge fund also does not protect mutual fund shareholders from potential conflicts of interest posed by joint management of other types of accounts, including accounts with higher management fees. Rather than banning joint management, BlackRock believes that a better approach is to require robust procedures to address conflicts of interest and an appropriately balanced disclosure to investors in a mutual fund's prospectus and statement of additional information.

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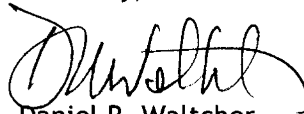
BlackRock appreciates the opportunity to comment on these issues. Please contact me at (212) 409-3425 if you have any questions regarding our comments or would like to discuss these issues further.

Sincerely,



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[5] See, e.g., "Why a top Manager Left His Fund Behind," Morningstar, May 4, 2004; "Hedge funds poach star managers," Financial Times, March 1, 2004.