

BLACKROCK

March 14, 2014

Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Submitted via email: rule-comments@sec.gov

RE: Feedback on OFR Study on Asset Management and Financial Stability

Dear Ms. Murphy:

We are submitting this letter as an additional supplement to our November 1, 2013 letter. We have had discussions with a number of policy makers who are learning about asset management, and several of them have asked for explanations on the circumstances that cause a manager to cease doing business or a fund to close. Some policy makers are also seeking to understand the issues surrounding the winding up of both asset managers and funds. While it is difficult to generalize responses to these questions given the diverse set of firms in the asset management business, this letter responds to the questions that have been raised by policy makers as part of our continuing dialogue to enhance the understanding of asset management.

Sincerely,

Barbara Novick
Vice Chairman

Q1: What is the likelihood of an asset management firm failure?

Given the agency business model of an asset manager, it is important to start by defining “firm failure” and understanding the implications associated with this term. We assume policy makers are concerned about situations where a firm’s failure would require government intervention for either recovery or resolution, and that this intervention may include financial support. Banks and broker-dealers that have experienced problems requiring intervention fall into two primary categories: i) a liquidity crisis in which they cannot fund their daily operations; or ii) a credit problem exacerbated by a leveraged balance sheet. While we have been asked about the likelihood of the failure of an asset manager, asset managers are extremely unlikely to “fail” as they are not exposed to short-term funding and they do not have leveraged exposure to credit on their balance sheet. The business model of asset management is fundamentally different than that of other financial institutions and thus the winding up of asset managers is also fundamentally different. A more appropriate question to ask is “Under what circumstances would an asset management firm go out of business, and what would be the implications for clients and creditors of the firm?” We address this question as Q2.

Lack of Exposure to Short-term Funding

Many banks and broker-dealers are dependent on short-term funding markets. Those broker-dealers that have failed or been rescued (e.g., Drexel, Salomon, Lehman, Bear Stearns) used short-term debt instruments to fund their inventory and run their operations. Likewise, Wachovia and Washington Mutual experienced distress in part due to an inability to address their short-term funding needs. As investor confidence in the credit of these banks and broker-dealers waned, each of these firms faced a liquidity crunch. *On the other hand*, asset managers, do not use short-term funding to run their business and do not have an asset-liability mismatch on their balance sheet.¹ In addition, asset managers do not leverage their balance sheet.² As a result, asset managers are not exposed to short-term funding markets. In sum, asset managers do not engage in the activities that can lead to a liquidity squeeze, therefore exposure to short-term funding sources is not an issue.

Lack of Balance Sheet Exposure to Credit

A fundamental aspect of banking is the use of the firm’s balance sheet. In the basic model, a bank lends money to borrowers and holds those loans on its balance sheet. These loans may include a range of credit quality and maturities and asset classes. Similarly, broker-dealers use their balance sheet to hold inventories of assets. Poor credit quality was a key factor in the financial crisis for both banks and broker-dealers. The use of balance sheet leverage magnified the underlying problem of poor credit quality assets on their respective balance sheets. *On the other hand*, asset managers act as agents for clients. Managers invest on behalf of clients and do not use their own balance sheets in the ordinary conduct of their business (and as a result do not have large or complicated balance sheets).³ Asset managers are not the counterparty in trades or derivative transactions—the risk of settlement and portfolio performance are borne by the client and its counterparty.⁴ Likewise, the costs of custody, trading fees, and commissions are borne directly by the clients. Furthermore, asset managers do not offer guarantees, and with the exception of cash products, asset managers have not provided financial support to portfolios that they manage.⁵ In

¹ This is also referred to as maturity transformation activities.

² Asset managers may borrow to make acquisitions, for their own working capital, and similar purposes.

³ See, e.g., Rule 206(4)-2 under the Investment Advisers Act of 1940 (the “custody rule”) which prohibits commingling of the adviser assets and its clients’ funds and securities. Accounting rules may require that an asset manager consolidate certain client assets onto its balance sheet. However, these assets continue to be legally held separately for the clients and are not available for either the manager or in the event of its insolvency, creditors of the manager.

⁴ While asset managers do not take on market or credit risk, they can be subject to operational risks. Operational risk is commonly defined as the potential for loss from employee errors, system failures and other events that disrupt business processes or fraud and other criminal activity. Regulators of asset managers routinely examine for the robustness of operational risk management, and institutional clients, including fund boards, require as part of their due diligence a demonstration of the quality of operational risk management. While some operational risk events may be covered by insurance, one reason asset managers maintain capital, even if not required by their relevant regulator, is that institutional clients want assurance that operational risk events can be handled effectively by the manager.

⁵ During the financial crisis, a small number of broker-dealer affiliated managers invested their own monies or pledged assets to benefit a small number of private funds. For example, as noted in our letter dated December 3, 2013, in June 2007, Bear Stearns made a collateralized loan to one fund and in April 2007 a \$25 million investment to the other fund. When these funds

sum, asset managers are not lending from their own balance sheet, nor do they employ significant leverage on their balance sheet, therefore exposure to credit on their balance sheet is not an issue.

Stability of Earnings

Banks and broker-dealers derive revenues primarily from transactions (e.g., underwriting and trading revenues, loan origination fees, etc.) and from the spread between the income earned on the assets held on their balance sheet and their cost of funding these holdings. Banks and broker-dealers also need to mark-to-market and/or reserve against credit losses which creates inherent volatility to earnings and impacts access to capital and liquidity. *On the other hand*, the revenues of asset managers are primarily derived from on-going advisory fees based on a percentage of assets under management.⁶ While there can be fluctuations due to market movements and from clients reallocating assets, the revenues of asset managers are more predictable than those of banks. In addition, asset managers have the ability to adjust expenses (largely variable compensation expense) to respond to the market environment. As noted earlier, asset managers do not extend credit, and therefore are not exposed to potential credit losses. This combination of predictable earnings and no credit loss exposure results in the business of asset management being more stable than that of banks and broker-dealers.

In conclusion, asset managers are extremely unlikely to “fail” in the sense of a bank failure that requires government intervention.

Q2: Under what circumstances would an asset management firm go out of business, and what would be the implications for clients and creditors of the firm?

As a first principle, firms enter and exit the investment advisory business on a regular basis, just as do other service companies. Although asset management is a regulated business, the barriers to entry are relatively low. It is not uncommon for an experienced portfolio manager that has established a successful investment record to leave his or her employer to start a new firm.⁷ Similarly, firms with established records and a client base are sometimes acquired, causing the firm to “exit” due to acquisition. Attachment A highlights the robust environment for mergers & acquisitions in the asset management industry. As with all businesses, many asset management start-ups fail to attract a sufficient client base and eventually go out of business.⁸

We have undertaken an analysis of asset management firms that have experienced significant problems over the past twenty-five years. Attachment B includes a summary of these situations. In most of these cases, a reputational event caused clients to lose confidence in a specific product line or in the firm as a whole. In each of these cases, clients moved their assets without market disruption. Long Term Capital Management (LTCM) and Reserve Funds are the two outliers on the list. In the case of LTCM, its master fund, Long Term Capital Portfolio LP, was highly leveraged and its counterparties injected capital, at the urging of the NY Federal Reserve Bank, to prevent a potentially disorderly unwinding of the fund. Likewise, in the case of Reserve Primary Fund, the Reserve Management Company Inc. (RMCI) was taking elevated risk in the fund it managed. While each of these situations was extremely disruptive to the markets and required government intervention, both situations reflected *problems with the fund* rather than at the manager level. In Q4 below, we discuss further the steps for winding down an asset manager, including the movement of assets managed on behalf of its clients.

While most asset managers that go out of business fade over time, on occasion an idiosyncratic event can trigger a more sudden substantial client exodus, so that the asset management firm will no longer have sufficient AUM to sustain itself and will look for a buyer or begin a wind-down of its business. In nearly all

went bankrupt, the vast majority of the losses were taken by investors in the funds and the funds' lenders and not by Bear Stearns. Available at <<http://www.sec.gov/comments/am-1/am1-31.pdf>>

⁶ Subject to specific rules and client agreement, asset managers may charge performance fees, which require out-performance of a specified benchmark. Fees earned are retained even if in subsequent periods the manager fails to out-perform the benchmark.

⁷ See, e.g., *Wall Street Journal*, February 24, 2014, “Elite Hedge Fund Alums Flood Market with Start-ups”.

⁸ One example is that of Pivotal Investments, which returned all capital to investors in 2012 reporting that it had struggled to raise funds. <https://www.evestment.com/news-events/industry-news/2012/09/28/hedge-fund-closures-in-2012-what's-the-reason>.

of the situations noted in Attachment B, the unwind of the client assets and the manager itself was orderly. Even in the two cases where direct or indirect regulatory intervention occurred in relation to a fund—Long Term Capital Portfolio and Reserve Primary Fund—the asset manager itself was wound down in an orderly fashion.⁹ As noted previously, the assets managed by asset managers belong to the clients and are not part of the asset manager's balance sheet; therefore, these client assets are not subject to any liquidation or potential bankruptcy process of an asset manager and are outside the reach of its creditors.

Contrast this with the failures of banks, broker-dealers and insurance companies. Regulatory oversight at a minimum, and government intervention at the extreme, is necessary because, although they promise the return of their customer's funds/assets, these entities use customer assets in the ordinary conduct of their businesses and as a result these assets are then available to the creditors of these entities.¹⁰ Further, the inherent leverage in the business of banks and broker-dealers, and for insurers the potential maturity mismatch between assets and liabilities complicates the resolution of these entities. The need to protect customers from a complete loss when banks, broker-dealers and insurance companies fail has led in some countries to specialized protection regimes (e.g., deposit insurance up to specified amounts; SIPC for US brokerage customers; state guaranty funds for US insurers). In addition, the need to untangle these customer assets from the claims of other general creditors with lesser priorities has led to the creation of statutory bankruptcy and insolvency regimes designed specifically for banks, brokers and insurers.

Q3: Is a larger asset management firm more or less likely to experience financial distress?

While that asset management firms enter and exit the business routinely, the evidence is that larger diversified firms are more likely to be resilient and survive challenges. One reason is that larger firms tend to have more diverse sources of revenue which strengthens the overall platform. This diversification may be along any of three dimensions: by product or investment strategy, by client type, or by geography. Different products will perform differently. Therefore, if clients decide to exit a particular investment strategy, a large firm with a diverse product lineup and client base will still have revenues from other strategies or other clients.¹¹ In many cases one type of client will be reallocating out of a sector while another group of clients may be increasing their allocation. For example, "retail" flows often can offset "institutional" flows. Even established profitable firms that narrowly focus on only one investment strategy are exposed to the potential for significant redemptions, such as when a founder or a well-known portfolio manager retires or leaves, or when a core strategy falls out of favor.¹² A larger, more diversified firm is more likely to be able to withstand these types of changes, which is one reason the largest firms have been the most stable. By contrast, a small firm or one that focuses on one strategy can be vulnerable if performance suffers in that strategy, if a key person departs or if investor preferences change resulting in outflows that represent a significant percentage of the revenues of that firm.

⁹ LTCM did not enter bankruptcy; it continued operations after the master fund was recapitalized. Both LTCM and its master fund were wound up in 2000. With the exception of the Reserve Primary Fund, the other cash funds for which RCMI was the investment adviser were wound down in an orderly fashion. The orderly wind-down of RCMI continues, pending the final disposition of various litigation matters. See, SEC v RMCI, 09-Civ-4346 (PGG) (USDC SDNY), Amended Judgment (January 13, 2014); Reserve Primary Fund Securities & Derivative Class Action Litigation, 08-cv-08060 (USDC SDNY) Order and Final Judgment (January 13, 2014).

¹⁰ US securities regulations and client money rules in other countries require segregation of client assets from the assets of the broker-dealer, but permit the use of those assets in certain circumstances, such as when the client uses margin accounts or otherwise becomes a borrower from the broker-dealer.

¹¹ Two examples of large asset management firms that experienced substantial fund outflows and managed through the situation are Capital Group and FMR LLC, the parent of investment adviser Fidelity Management and Research Co. In 2011, the American Funds experienced outflows of \$82 billion, nearly 9% of their AUM. In the case of Fidelity, the Magellan Fund reached its peak of \$110 billion in 2000 and then experienced outflows bringing the fund to \$15 billion by year-end 2013. Both Capital Group, which manages the American Funds, and FMR LLC continue to be recognized as leading asset managers today.

¹² For example, an investment strategy based on investing principally in internet companies was successful in 1998 but by 2002 much less so. In that regard, Van Wagoner Emerging Growth Fund whose strategy was focused on "dotcom" companies, went from \$189 million in assets in 1999 to \$1.5 billion in 2002 but had declined to less than \$100 million AUM by the end of 2002.

Q4: In the event an asset manager experienced severe financial distress, what is the process for resolving the firm and its clients' assets?

The asset management industry is significantly less concentrated than other financial service sectors such as banking and broker-dealers.¹³ There are more than 500 asset managers each with over \$5 billion under management.¹⁴ In virtually every product, there are multiple competitors who are willing and able to take over the management of assets from another asset manager. The process for resolving an asset manager includes the reassignment of the management of separate accounts and commingled vehicles as well as actually winding up the manager itself. The large number of asset managers with capabilities to run similar strategies or funds makes substitutability a viable option that results in the protection of client assets.

Clients Own the Assets

Experience shows that when a manager begins to stumble, clients will take independent action to remove trading control from that manager and put their assets under the control of either a replacement manager or an interim manager who is given a "stewardship mandate". Separate account assets are owned directly by the client and the client has a direct contractual relationship with the custodian. Under the investment management agreement, the client retains the right to terminate the manager's discretion without penalty or with little or no notice. As a result, clients can (and do) terminate managers and hire new managers very quickly when they want to reassign the management of their assets. For clients invested in commingled vehicles, they may request redemptions either in cash or in-kind, consistent with the redemption criteria established by the fund.¹⁵ Clients can then reinvest the cash or securities in a similar fund with another asset manager which happens regularly in the ordinary course of the asset management business.

Funds are Closed Regularly

As with asset managers, funds (registered or private) are routinely launched and routinely closed as highlighted in Attachment C.¹⁶ The predominant reasons for fund closures are an inability to attract sufficient assets (for a new fund) or investor withdrawals because of fund performance. Performance-related client withdrawals from funds usually occur over time as investors do not act simultaneously. Once AUM levels are below a certain amount, the manager is likely to recommend to the directors or trustees for the fund that it be closed as the AUM is insufficient to run the strategy and cover fees and expenses. This usually results in a decision to wind-down a fund by liquidating its assets and returning capital to investors in an orderly manner.¹⁷ As a fiduciary, during the fund liquidation process the manager seeks to balance maximizing returns to investors with the need to meet redemption requests as quickly as possible.¹⁸ Looking at Attachment B, we see that there are a number of other alternatives when a manager stumbles including closing out a fund by merging it with another fund with a similar strategy—either within the same

¹³ While there may be many banks and broker-dealers, capital is concentrated in a few. As capital is necessary to support most of the business lines of banks and broker-dealers, larger customers and counterparties of these institutions will only be able to move their relationships to a bank or broker-dealer of similar size. This lack of substitutability does not exist in agency businesses such as asset management.

¹⁴ The P&I/Towers Watson World 500: World's largest money managers, Pensions and Investments (November 11, 2013, 12:01 AM), <http://www.pionline.com/article/20131111/INTERACTIVE/131109935/the-pitowers-watson-world-500-worlds-largest-money-managers>.

¹⁵ Private funds that invest in less liquid assets have redemption notice periods, less frequent redemption dates and other structural factors to allow the asset manager to effectively manage the liquidity of the portfolio. Clients (which in these types of funds are institutional or sophisticated high net worth investors) understand that transitioning such mandates may take longer.

¹⁶ Other than in the case of LTCM and Reserve Primary Fund, there was no significant market impact resulting from these closures or transfers. Investors' interests in the LTCM fund were written down to 10% of the value of the fund, with the new investors receiving 90% value for their capital infusion. When the fund was liquidated, these investors made a small profit. As to Reserve Primary Fund, its shareholders have received to date 99.04 on each dollar invested.

¹⁷ The closure of a fund in the ordinary course is not the same as a disorderly liquidation. Although not very common, registered investment companies, with SEC approval, can suspend redemptions to allow for orderly liquidation. Further, in its 2010 money market mutual fund reforms, the SEC adopted a rule to permit a money market fund's board to suspend redemptions of the fund in connection with the liquidation of the fund to prevent shareholder dilution. See Rule 22e-2 under the Investment Company Act of 1940.

¹⁸ Private funds may have more flexibility in this regard, as their constituent documents often provide that the fund can suspend redemptions if in the best interest of investors.

fund family (same manager) or with another fund company (different manager) through the sale of the business.¹⁹

Asset Managers are Subject to Standard Corporate Liquidation Process

Following the return of separate account assets and the replacement of the manager or return of commingled fund assets as described above, the asset manager itself would be wound down in either a standard corporate liquidation process or if the manager itself were insolvent, through a judicial bankruptcy or insolvency process. As the asset manager is separate from the assets it manages, the focus of any liquidation or insolvency proceeding would be limited to the assets and liabilities of the asset manager itself, without regard to the assets and liabilities of its clients, including any funds.

It is also instructive to note that when a bank or broker-dealer that has encountered its own difficulties has an asset management subsidiary, it has been possible to sell the asset management business intact, with the asset manager retaining a significant percentage of the client assets that it managed. Two recent examples from the financial crisis are the sale of Neuberger Berman out of the Lehman bankruptcy estate in 2008 and the 2009 sale of Barclays Global Investors by Barclays PLC as part of its efforts to raise its capital base.²⁰

Q5: Under what circumstances would funds from one portfolio be used to support another portfolio?

There are no circumstances where this would occur. Asset management portfolios are either individual funds, which are separate legal entities²¹ or separate accounts, which are managed on behalf of the client who owns those assets. The asset manager is under a fiduciary obligation to act in the best interest of the owners of each fund/portfolio. Both the asset manager and the custodian are obligated to segregate client assets under applicable law and regulations. Therefore there are no circumstances where assets of one portfolio would be used to support another portfolio.

¹⁹ For example, in 2008 Putnam Investments terminated its prime money market mutual fund through an in-kind transaction with Federated Investors whereby Putnam fund shareholders became shareholders of a Federated prime money market mutual fund on a dollar-for-dollar basis. Federated Press Release (September 28, 2008); <http://www.federatedinvestors.com/FII/about/pressrelease/detail.do?cid=65207>.

Under SEC rules, if the event is related to concerns about the manager, the registered fund's board may put in place an interim adviser for up to 150 days without shareholder approval. The board would then seek shareholder approval for a permanent replacement adviser or sub-adviser. The Fund Board may approve an advisory contract with the acquirer of the adviser's business or the merger of the funds into the acquirer's funds (subject in either case to fund shareholder consent), which was what happened with Strong Capital funds as a result of market timing allegations in 2004; some Strong Capital funds were merged into the acquirers existing mutual funds and some Strong Capital funds remained intact by with a replacement advisory contract. Wells Fargo Press Release, May 26, 2004, <https://www.wellsfargo.com/press/strong05262004?year=2004>; [Wells Fargo Will Merge Some Strong Capital Funds](http://query.nytimes.com/gst/fullpage.html?res=9F0CE6DA1F30F935A2575AC0A9629C8B63), NY Times, September 16, 2004, <http://query.nytimes.com/gst/fullpage.html?res=9F0CE6DA1F30F935A2575AC0A9629C8B63>.

²⁰ Another example is the sale of Equitec-Siebel Fund Group to SunAmerica in 1991 following the bankruptcy of parent company Equitec Financial Group.

²¹ In some cases, portfolios may be separate series or sub-portfolios of the same legal entity (e.g., series partnerships, corporations or business trusts, umbrella funds) but each series or sub-portfolio is still treated as a separate entity, and the assets of one portfolio will not be available to the creditors of another, either by law or contractually.

Attachment A
Review of Mergers & Acquisitions in Asset Management Industry

Total Number of Asset Management M&A Transactions and Acquired AUM
(deals with reported AUM >\$500 Million)

Year	# of Deals	Transacted AUM (\$ billion)
2013	120	\$1,821
2012	137	\$1,357
2011	112	\$1,276
2010	120	\$691
2009	99	\$4,678
2008	138	\$1,671
2007	123	\$1,371

Source: Freeman & Co., LLC. All transaction statistics reflect deals with reported AUM > \$500 mm.

Top 10 M&A Transactions: 2012 and 2013
AUM in \$ billions

2013				
#	Target	Acquirer	% Acquired	AUM
1	Robeco Groep	ORIX Corp	90%	\$251.0
2	Scottish Windows Investment Partnership	Aberdeen Asset Management	100%	\$220.4
3	Santander Asset Management	Warburg Pincus & General Atlantic	50%	\$198.0
4	Investec Asset Management	Management	15%	\$105.0
5	Dexia Asset Management	New York Life Investment Management	100%	\$100.0
6	Ares Management	Alleghany Corporation	6%	\$66.0
7	St. James Place	Public Equity	15%	\$61.2
8	RidgeWorth Investments	Lightyear Capital	100%	\$50.6
9	AlpInvest Partners	Carlyle Group	40%	\$49.3
10	China Asset Management	CITIC Securities	10%	\$49.0
2012				
1	Janus Capital	Dai-ichi Life	20%	\$152.4
2	TCW Group	The Carlyle Group & TCW Management	100%	\$130.0
3	Bridgewater Associates	Texas Teacher Pension	Minority	\$120.0
4	Dexia Asset Management	GCS Capital	100%	\$105.0
5	Merrill Lynch International Wealth Management	Julius Baer	100%	\$84.0
6	Pareto Investment Management	Insight Investment Management	100%	\$43.4
7	Dwight Asset Management	Goldman Sachs Asset Management	100%	\$42.0
8	Toyota Asset Management	Mitsui Sumitomo Insurance	50%	\$35.0
9	Rockefeller Financial Services	RIT Capital Partners	37%	\$34.0
10	Clifton Group Asset Management	Eaton Vance	100%	\$33.4

Source: Freeman & Co., LLC.

Attachment B
Firm and Fund Closures and Related Events in the Asset Management Industry
over the Past 25 Years

Name	Event	Year	Resolution	AUM year of event, (if known)	AUM after event (if known)
Barlow Clowes	Investment losses Fraud	1988	<ul style="list-style-type: none"> Firm closed, funds liquidated, UK government made ex gratis payment to investors UK Government repaid from trustees GBP120mn of GBP153mn payment-2011 	GBP 188mn	GBP 30mn
Hyperion (Term Trusts 1997,99,03)	Investment losses- MBS	1993	<ul style="list-style-type: none"> Civil litigation Regulatory fines for fund marketers 	USD 1.5bn	USD1.2bn
Piper Jaffrey/ Institutional Government Bond Fund	Investment losses- MBS	1994	<ul style="list-style-type: none"> Fund closed to new investors - assets run off Civil litigation. Parent of manager sells stake to ITT insurance 1997 	Fund: USD 750mn	Initial drop to USD 590mn then run off to zero.
TCW/Term Trusts 2000 & 2003	Investment losses- MBS	1994	<ul style="list-style-type: none"> Civil litigation Regulatory fines for fund marketers Manager firm ownership change 1996 	Two trusts: USD 1.5mn	Initial drop to USD 1.0mn Trusts liquidate at term end
Community Bankers MMF	Investment losses in structured notes	1994	<ul style="list-style-type: none"> Fund liquidated September 1994 	USD 82mn	None
LTCM	Investment losses	1998	<ul style="list-style-type: none"> Creditor investments to avoid loss Firm closed Creditors make small profits when unwind completed 	USD 5bn	USD 60mn Creditors made whole
Advanced Investments Management	Breach of client guidelines (all separate accounts)	2002	<ul style="list-style-type: none"> Firm closes 2002 Civil litigation Regulatory fines 	USD 5.5bn	USD 15mn
Canary Capital Partners	Market timing Late trading	2003	<ul style="list-style-type: none"> Fines Principal receives 10 year bar 	USD 500mn	Not known

Alliance Capital Management	Market timing	2003	<ul style="list-style-type: none"> • Fines and Disgorgement • Management changes • Renamed Alliance Bernstein in 2006 	USD 434bn	USD 456bn (USD790m of mutual fund outflows from August 31 to November 30, 2003, increase in AUM attributed to market appreciation)
Janus Capital Management	Market timing	2003	<ul style="list-style-type: none"> • Fines • Management changes 	USD 149bn	USD 151bn (outflows of \$3.2b from August 31 to September 30, 2003, increase in AUM attributed to market appreciation)
Pilgrim Baxter	Market timing	2003	<ul style="list-style-type: none"> • Principals barred • Old Mutual (owner since 2000) closes some funds; rebrands 	US 7bn	US 5.4b (20% decline from September 30, 2003 to December 31, 2003)
Putnam	Market timing	2003	<ul style="list-style-type: none"> • Management changes • Fines • Sold to Great West Life in 2007 	USD 277bn	USD 263bn \$14bn (5%) decline in first week of November 2003; USD 141bn at 9/30/2013
Strong Capital	Market timing	2003	<ul style="list-style-type: none"> • Principal barred • Asset sale to Wells Fargo in January 2005 	USD 34bn	USD 29bn
Absolute Capital Management	Securities fraud	2007	<ul style="list-style-type: none"> • Founder criminally charged • Multiple enforcement actions • Civil suits 	USD 3bn	USD 885mn
Reserve Primary Fund	Investment losses	2008	<ul style="list-style-type: none"> • Fund in liquidation • Firm in liquidation 	USD 65 bn in fund USD 125bn in total AUM	De minimis
Galleon Group	Insider trading	2009	<ul style="list-style-type: none"> • Firm closed • Founder criminally convicted • Funds liquidated 2009 	USD 7bn	None
Gartmore Group	"Star" manager departures	2010	<ul style="list-style-type: none"> • Sold to Henderson 2011 	GBP 22bn	GBP 16bn

Axa Rosenberg	Concealed model error (fraud alleged)	2011	<ul style="list-style-type: none"> • Founder barred • Management changes 	USD 61bn	USD 42bn
SAC Capital Management	Allegations of insider trading by portfolio managers	2008-2012	<ul style="list-style-type: none"> • Firm to convert to internal management (per media reports) 	USD 15bn	USD 9bn

Attachment C
Fund Launches and Closures

Global Exchange Traded Products: Newly Launched v. Delisted		
Year	Newly Launched	Delisted
2013	556	239
2012	659	217
2011	952	92
2010	991	97

Source: BlackRock, provider websites, fund prospectuses, provider press releases, provider surveys, Bloomberg, the National Stock Exchange. Includes individual share classes, excludes cross listings. As of December 2013.

Hedge Fund Launches and Closures		
Year	Est. Fund Launched	Est. Funds Closed
2012	1,108	873
2011	1,113	775
2010	935	743
2009	784	1,023
2008	659	1,471

Source: "HFR Global Hedge Fund Industry Report – Third Quarter 2013", HFR, www.hedgefundresearch.com