

September 13, 2004

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

RE: *File No. S7-30-04*
Proposed Rule Requiring Registration Under the Advisers Act
of Certain Hedge Fund Advisers (the "Proposed Rule")

Dear Mr. Katz,

The purpose of this letter is to address the effect of the Proposed Rule on advisers to small hedge funds. My partner and I were in the process of forming a domestic hedge fund when the Proposed Rule was released by your agency. In managing our own assets, my partner and I have developed what we believe to be a unique, highly effective approach to managing investments in equity securities. My partner and I are both employed outside of the asset management business. Through casual conversation among friends, family and colleagues, we found there to be substantial interest in an investment vehicle that would allow these individuals to benefit from our growing expertise. After seeking advice of counsel, we elected to pursue the formation of a private investment fund utilizing the registration exemption provided by Section 3(c)(1) of the Investment Company Act. The fund would be structured as a limited partnership and a limited liability company owned and managed by my partner and me would serve as the general partner and sole investment adviser to the fund.

We believe that all of our potential investors are "accredited investors" as defined by Rule 501(a) promulgated under the Securities Act of 1933. Each potential investor would initially invest not less than \$100,000, and then decide on subsequent investments based on the fund's performance. This type of incremental investment is natural given a newly organized fund's lack of prior performance history. In the first year, we expect to have about 15 to 20 investors with a portfolio of less than \$2 million. Many states, including our home state of North Carolina, base their private investment advisor registration exemption on the current federal rule. Thus, the Proposed Rule may cause us to have to register in multiple states unless or until we reach \$25 million asset level required for federal registration.

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Since our fund would exceed 15 investors, the proposed rule would force fund registration at the federal level if our fund exceeds \$25 million in assets and may trigger one or more state registrations if our fund does not exceed the \$25 million threshold. We estimate the annual compliance costs of a state or federal registration to be in the range of \$20,000 to \$25,000. These compliance costs would be prohibitive to a small advisor like ours, as these costs alone constitute a sizeable percentage of the portfolio of the fund we would be managing (in our case more than 1%).

If SEC chose to limit number of investors in a fund, certainly the suggested number of investors i.e., 14, would be too small for small hedge fund like ours to survive. Also, the proposed rule in regard to number of investors is a drastic change to the theoretical maximum under the existing rule of 1400 investors through 14 hedge funds, each with 100 investors.

By no means are we against the investor disclosure objectives you seek to accomplish through requiring hedge fund advisors to register. However, we fail to see how the investor disclosure contained in Part II of Form ADV compares to the level of disclosure any reputable advisor provides in a private placement memorandum prepared to satisfy the anti-fraud provisions that already apply to private placements of hedge fund securities. Moreover, most funds, including ours, limit potential purchasers to individuals and entities that are "accredited investors" who have the level of sophistication necessary to understand and evaluate the unique risks of investing in a hedge fund. Your concerns about "retailization" simply do not square with the fact that these funds generally are limited to accredited investors and, by definition, cannot be offered through any form of general solicitation.

We sincerely believe that the conditions we described in this letter are not specific to our venture, but apply equally to any small, start-up hedge fund advisor. Such funds offer a valuable investment alternative to sophisticated investors who desire a customized approach to managing a small portion of their investment portfolio. Hence, we respectfully urge the SEC and its staff to maintain the current regulatory environment, where the advisor to a small, start-up hedge fund can survive and grow with affordable compliance costs.

Sincerely Yours,

Venkat Swarna