LIME ROCK PARTNERS

September 28, 2009

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

Re: Comments on Release No. IA-2910; File No. S7-18-09; "Political Contributions by Certain Investment Advisers"

Ms. Murphy:

We are grateful for the opportunity to comment on the Securities and Exchange Commission's proposed new Rule 206(4)-5 on behalf of Lime Rock Management, a global energy-focused private equity firm based in Westport, Connecticut.

While we have no substantive disagreement with most of Rule 206(4)-5, we did want to comment on the subparagraph of the proposed rule that would ban placement agents from serving as intermediaries between private equity firms and public pension plans. Like many others who have commented, we see almost no one who will benefit from this rule change except, well, firms like ours that no longer need the use of placement agents. However, the proposed rule change would harm many: newer, emerging private equity managers; public pension plans; and of course legitimate placement agents, who have played no role in the recent troubling, if isolated, pay-to-play scandals.

Before we briefly discuss three points of perspective that have not yet, we believe, widely entered the public discussion, we wanted to give some background on our firm, our history with placement agents, and our concurrence with the widely discussed way in which the proposed ban would harm public pension plans and private equity managers.

Lime Rock manages about $4 billion in funds through two investment teams: Lime Rock Partners, investors of growth equity in energy companies worldwide; and Lime Rock Resources, acquirers and operators of mature oil and gas properties in the United States. Over half of our investment capital comes from university endowments and charitable foundations. Just under one fifth of our investment capital comes from U.S. public pension funds, including plans serving public employees in California, Ohio, Colorado, Pennsylvania, and elsewhere.

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Lime Rock has not used a placement agent in our last two fundraising efforts, and we do not expect to need to do so in the future. We did, however, use a placement agent in the formation of three of our earlier funds. Given that many of the comments to the Commission have well outlined how legitimate placement agents help emerging private equity managers like we were then, we think that it's sufficient to skip to the punch line: to no small degree, Lime Rock owes its position today to the help of placement agents. At the time we used agents, the firm did not have broad contacts in the institutional investor community. Even if we had, we may not have been able to persuade those investors that our funds were prudent and attractive investment opportunities, given our relatively short investment track record. Thus not only did a placement agent allow us to provide our investment services to public pension plans—services that have delivered those plans and their pensioners very good returns—placement agents also allowed us to provide those same investment services to charities, endowments, and others by reaching a critical mass of investor interest. We hope that our existence has not only benefited (and continues to benefit) our investors, but that it has also benefited the nearly 60 small energy companies we have provided growth capital to, capital used to hire employees, build factories, expand globally, and find new sources of energy.

As mentioned, we believe that the reasons that the ban would harm both emerging private equity firms and public pension plans have been thoughtfully discussed. Placement agents serve, in their way, as underwriters of private equity funds, and banning a placement agent from contacting public pension funds would be akin to banning Morgan Stanley from contacting a public pension fund about investing in, say, the IPO of International Widgets.

For young private equity firms, banning placement agents from contacting public pension funds would likely cut off a major source of potential investment capital. It would almost certainly lead to smaller funds and, in some cases, no funds to manage at all if a firm's total investor base, without public pension plans, does not reach a critical mass to allow for a firm's existence.

For public pension plans, not having placement agents serving as trusted intermediaries and means of introduction to energetic, emerging investment managers—and providing some reputational support for the efforts of those managers—means that the public plans would not have exposure to as many investment opportunities. Would all those opportunities be good ones? Of course not, and the public plans would, in this proposed universe, perhaps be lucky to not have made investments in some new private equity funds. But some of those funds would be able to provide exceptional, above-market returns, returns that would allow the public plans to meet high and increasing pension funding liabilities. There is no reason, in our view, why a public pension fund should not have all the tools at its disposal—and all the options on the table—as would an endowment, foundation, corporate pension plan, family office, or other institutional investor.

The only group that would benefit from a ban on placement agents serving as intermediaries between private equity firms and public pension funds are firms like ours, firms that don't use placement agents anymore because they have reached a certain maturity. If this ban goes into place, potential new competitors to us will have a more difficult time raising funds. Some may not be able to raise funds at all, providing fewer competitors to us in making good investments (and fewer options for entrepreneurs seeking capital). Also, a public pension fund potentially deciding between an investment fund managed by Lime Rock and those managed by other private equity managers may not, in the future, know about some of our newer competitors. That would be nice. It would not, however, be right. We would caution the Commission to be highly skeptical of mature private equity firms making headlines by renouncing the use or casting doubt on the utility of placement agents, either in their own case or in the case of the industry. It's like a current NBA player advising the league to set a maximum height of new players at five foot eight.

As discussed, we believe that the above harms are well known. We wanted, however, to discuss three points that have not received as much attention. All three points rest on the background of our own surprise when recent pay-to-play scandals hit the newspapers. Never in our eleven-year history have we come across anything untoward or even remotely resembling pay-to-play in our dealings with public pension plans or investors in any category. Yes, it is possible that we have been lucky. Statistically, that seems improbable.

The three points follow.

1. Public pension fund managers are exceptionally diligent and honest public servants. Most dispiriting to us in the discussion of the pay-to-play scandals has been the damage to the general reputation of public pension fund investment professionals. In our experience, these professionals are some of the most honest, straightforward, competent, and hard-working investors we deal with. They are also professionals with remarkable good humor about the obvious disparity between their power to provide substantial capital to investment managers (with significant opportunities for those managers to make considerable personal wealth) and the more modest salaries usually earned by them and their peers. We have never gotten a hint of any rancor or self-dealing in any of our interactions with public pension plan managers, who are solely, honorably seeking to generate the best possible returns for the other public servants whose retirement prospects are in their charge. They are inspiring individuals, and their attitudes put a lie to the clichés that public servants are somehow prone to venality. Indeed, we think that there is something condescending about the need to "protect" these public servants from placement agents that could come bearing bribes. The more you know public pension plan managers, the less worried you will be about them doing what is right.

2. Placement agents played a fairly arbitrary role in the current scandal. While we are familiar with the pay-to-play cases only from the newspapers, we should note that, in general, there is no particular need for any person seeking to be a crooked intermediary between a public pension fund and an private equity firm to label himself a placement agent. That was just the sheep's clothing those wolves took. Indeed, a private equity firm and a public pension fund manager looking to engage in pay-to-play behavior can take plenty of other routes to skullduggery. They could have established another false label for the intermediary relationship. They could have arranged for a briefcase of cash to be left under a bench in the park. The pay-to-play offer and its receipt were the crimes; the "placement agent" was just the attempted alibi. If the current headlines had been about cash left in a briefcase, though, we wouldn't now be talking about banning leather.

3. It is easy to tell a real placement agent from a fake placement agent. While many of the other people commenting to the Commission have well highlighted what defines a legitimate placement agent, we would add our perspective that this identification is not a difficult task at all. Legitimate placement agents have fundraising and professional histories, FINRA registrations, employees, web sites, and other obvious means of identification. Also, and importantly, legitimate placement agents seek to be the placement agent for the raising of a private equity firm's entire fund with all categories of investors (although in some cases, placement agents will have a mandate for a single continent with others responsible for introducing a firm to, say, European or Asian investors). A private equity firm engages a placement agent to gain the imprimatur and support of a single, well-respected placement agent, not to introduce the firm to one investor. Having two placement agents in the same geography is like having two husbands: it sort of defeats the whole purpose of the institution. We have no doubt that the Commission will develop sensible regulations to separate the good and legitimate placement agents from the fake. It need not require a total ban against placement agents contacting one category of investor.

We appreciate your consideration of our comments. We have been fortunate to work with highly decent and effective placement agents. They have introduced us to some equally honorable and inspiring public pension fund managers. Every day, the nearly 100 employees of Lime Rock work hard to reward the trust of those public pension fund managers by seeking to generate the highest possible return for their pension plans and the millions of current and future pensioners in those plans. It would be deeply unfortunate if other private equity firms didn't get the opportunity to do the same.

More information on our firm is available at www.lrpartners.com and www.limerockresources.com. Please feel free to contact any of us if you have any further questions at 203.293.2765 or gs@lrpartners.com.

Thank you for your consideration.

Jonathan Farber Managing Director and Co-Founder	John Reynolds Managing Director and Co-Founder	Mark McCall Managing Director and CFO	Gary Sernovitz Director, Investor Relations

cc: The Honorable Mary Kay Schapiro
The Honorable Kathleen L. Casey
The Honorable Elisse B. Walter
The Honorable Luis A. Aguilar
The Honorable Tray A. Paredes
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