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September 28, 2009

Subject: File No. S7-18-09

Ms. Elizabeth M. Murphy
Secretary
Security and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Dear Ms. Murphy,

Our firm, Psilos Group Managers, LLC ("Psilos"), is a venture capital firm that concentrates on making investments in the healthcare sector and supporting companies contributing to the new healthcare economy. We are submitting this letter to comment on the Securities and Exchange Commission's (the "SEC") proposed rule 206(4)-5 under the Investment Advisers Act of 1940 (the "Rule").

Psilos fully agrees with the SEC's goal of eliminating pay-to-play activity so that the selection of Investment Advisers is based solely on merit and not on kickbacks or political favors. To further the SEC's goal of eliminating pay-to-play activity, Psilos proposes the following set of measures. We believe these provisions will accomplish this task without prohibiting registered placement agents from working with public pension funds, as currently set forth in proposed rule 206(4)-5:

1) All placement agents should be required to register as broker-dealers.

2) All placement agents and their affiliates should be banned from making political contributions to any elected official who participates in the selection of Investment Advisers for a public pension fund, or to any individual with influence over such decisions.

3) All Investment Advisers and their affiliates should be banned from making political contributions to any elected official who participates in the selection of Investment Advisers for a public pension fund, or to any individual with influence over such decisions.

4) All Investment Advisers who solicit an investment by a public pension fund should be subject to increased disclosure and reporting requirements, including:

a) disclosing the services provided by any placement agent involved in the process and the compensation arrangement between the Investment Adviser and the placement agent; and

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b) disclosure by the public pension fund of the Investment Adviser and the placement agent, if an investment in the Investment Adviser is ultimately made.

Psilos has engaged registered placement agents to help our firm raise several venture capital funds, both in the past and currently. The placement agents we engaged were all registered as broker dealers and thus reported to, and were subject to the regulations of, the SEC. These placement agents were value-added partners to our fund raising efforts. Specifically, these placement agents introduced us to pre-screened institutional investors, arranged meetings with prospective investors, helped facilitate the flow of due diligence information from Psilos to prospective investors, provided prospective investors with updates during the fundraising process and participated in the closing process. It has been our experience that the registered placement agents we engaged performed a useful and necessary service that would otherwise have been burdensome to Psilos if Psilos were required to use internal resources to accomplish the same tasks. Moreover, it would have been very difficult for Psilos to raise funds that included a balanced base of public pension funds without the services of a placement agent.

Further, Psilos believes that prohibiting registered placement agents from working with public pension funds will negatively impact both small and medium-sized venture capital funds and public pension funds, as both currently have problems identifying each other. From the venture capital fund perspective, it is difficult for small and medium-sized funds to identify potential public pension fund investors who are appropriate for the venture capital fund's investment strategy or industry specialization. Registered placement agents help such funds identify potential public pension fund investors.

From the public pension fund perspective, such funds have difficulty accessing small and medium-sized venture capital funds that meet the public pension fund's investment criteria. This lack of access deprives public pension funds of investing with many of the best venture capital fund managers and thus results in lower returns for the public pension fund's beneficiaries. Again, registered placement agents help public pension funds to close this gap and identify appropriate venture capital funds for investment. This view has been compellingly argued by public pension fund managers commenting on the Rule. Real Desrochers, former Director of Alternative Investments of the California State Teachers' Retirement System, states in his comment letter of August 20 "[i]t is my personal belief that SEC registered and licensed placement agents serve a valuable role to the alternative investors... Even surrounded by very competent resources, certain placement agents provided me with very valuable insights into potential alternative investment opportunities." Denise L. Nappier, Connecticut State Treasurer and principal fiduciary for her state's $ 21 billion retirement fund, echoes Mr. Desrochers' views in her tightly argued comment letter of September 10: "The proposed ban on the use of third-party solicitors unduly interferes with an investment adviser's ability to organize its business to best suit its needs AND deprives institutional investors of the derivative benefits of valuable services." Michael Tavaglini, Executive Director of the Massachusetts Pension Reserves Investment Management Board, agrees in his August 26 comment letter that "an outright prohibition on the use of placement agents, a long-established and legitimate component of a plan sponsor's exercise of its fiduciary obligations, constitutes an extreme suggestion that would serve to harm the financial interests of investors like ourselves."

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Underscoring the concerns of these commenters is the fact that only a handful of states have acted to prohibit or severely restrict the use of placement agents from soliciting government plans, most notably New York. Many more states, including California (home to the nations' largest public pensions plans), Massachusetts, Missouri and Pennsylvania, have considered and specifically rejected placement agent prohibitions.

In closing, we believe our suggestions will help further the SEC's laudable goal of eliminating pay-to-play activity while permitting registered placement agents to continue providing value-added services to both small and medium-sized venture capital funds and public pension funds.

Thank you for considering our concerns and recommendations. Please feel free to contact me if you would like to further discuss this matter.

Very truly yours,

Jeffrey Krauss

Jeffrey M. Krauss
Managing Member