October 1, 2009

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Rule-comments@SEC.gov

VIA EMAIL

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

Dear Ms. Murphy:

The National Venture Capital Association (NVCA) is pleased to comment on the above-referenced Release and the proposed restrictions on Investment Advisers regarding public pension fund investors. NVCA represents the vast majority of American venture capital under management.[1] NVCA member firms and the funds they manage provide start-up and development funding for innovative entrepreneurial businesses. Public pension funds are important participants in the venture capital community. In fact, since the enactment of the "Prudent Man Rule" allowed public pension funds to invest in venture capital, they have become one of the largest investors in venture capital along with colleges, endowments and private pension funds.

[1] The National Venture Capital Association (NVCA) represents more than 400 venture capital firms – 90% of the venture industry. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy and support entrepreneurial activity and innovation. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provide reliable industry data, sponsor professional development, and facilitate interaction among its members. For more information about the NVCA, please visit www.nvca.org.

Summary of Comments

NVCA's specific comments will address only the proposed restrictions on the use of placements agents. We generally support the SEC's efforts to ensure the integrity of the process whereby public pension funds make investments. It is essential that pension plan investment decisions be based solely on the best interests of fund beneficiaries. Many of the proposed restrictions on investment advisers appear to be narrowly drawn to address specific conduct that, if left unchecked, could undermine the integrity of the public pension fund placement process.

On the other hand, the proposed restrictions on the use of any third parties, including placements agents are not focused on conduct, but on status. As we read the proposal, an outside placement agent, under contract to an adviser, would be precluded from doing the same thing that an employee of the same adviser could do freely.

NVCA sees this blanket prohibition on the use of outside placement agents in marketing to public pension funds as excessively proscriptive. For the reason stated here, we encourage the Commission to adopt a more targeted approach to addressing whatever abuses have arisen, or might arise, from the role of placement agents in marketing to public pension funds.

Reasons for Commenting

Venture capital funds are formed over a finite "fundraising" period. During this time the fund is marketing to prospective investors and it is closed once the target level of funding commitments is achieved. The most successful venture firm raises a new fund every three or four years. The long-term nature of venture capital investing makes it essential to pare fund management overhead to the minimum required. Venture capital firms staff themselves with people whose skills are essential to the core business – identifying, funding and nurturing new ventures and generating returns for investors. The skills and knowledge required to market a new fund to potential investors are not part of a venture capital firm's ongoing staffing needs.

Placement agents provide a useful marketing service to venture capital. While some venture firms' track records and reputations are such that investors seek them out, the vast majority of venture firms must aggressively market their new funds to the limited universe of qualified venture investors. This is especially true for smaller and newer venture capital firms as they compete for the attention of large institutional investors like public pension funds. Many of these firms are located outside of the established venture markets of Silicon Valley and Boston. These firms simply do not have the long-term relationships that these established, "coastal" firms have. Therefore, it is especially important that these smaller firms are able to hire placements agents for this specialized function during their fundraising efforts.

The use of placement agents promotes competition in the venture business, which benefits all venture investors. Public pension funds may know the venture firms that have delivered superior returns to public pension funds and their beneficiaries. However, many of these same top-tier firms and their pension fund investors benefited from the placement agents who introduced these once-unknown firms to public pensions.

While many venture capital firms need specialized marketing capabilities when they are raising a new fund, few have need of such marketing personnel on an ongoing basis. Indeed, an organic investor marketing capability at a venture firm would benefit neither the firm nor the employee, whose skills would diminish for want of use. Therefore, as with other professional services, a 3rd party provider that continuously engages in the activity for a number of clients is the best source of this capability. Moreover, it is in the interest of the entire venture capital community if firms retain the option of using placement agents for marketing to all potential investors, including public pension funds.

<u>Recommendation</u>

NVCA believes that any corruptibility of the process of placing public pension fund moneys arising from the role of outside placement agents can be addressed without a total prohibition. We urge the Commission to explore suggestions for restrictions or sanctions aimed at the activities or business models of placement agents that threaten the integrity of the pension fund investment process while preserving the value that placement agents add to the process.

Conclusion

We hope that our comments are helpful to the Commission in evaluating its proposed restrictions on use of placement agents. We are available to provide additional information should it be requested.

Very truly yours,

Mark G. Heesen
President