October 5, 2009

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

**RE: File No. S7-18-09 Political Contributions by Certain Investment Advisors**

Dear Ms. Murphy:

Farragut Capital LLC appreciates the opportunity to comment on the above-referenced proposal. Farragut Capital LLC is an independent, boutique investment bank that provides capital-raising and investment advisory services to real estate and alternative investment managers. We are a FINRA regulated broker-dealer with licensed registered representatives, all whom have significant relevant industry experience. We regularly act as a placement agent.

We wholeheartedly support and appreciate the Commission's efforts to address "pay to play" activities in the management of public pension plans with respect to its political contribution and employment prohibition proposals. Such support notwithstanding, we believe the portion of proposed rule 206(4)-5 that would prohibit investment advisors from paying third parties who act as placement agents to solicit government entities for advisory business is not in the interest of either public pension plans or the financial markets. The reasons for our belief in this regard are set forth below.

I. Placement agents provide necessary and valuable services

Placement agents are a common third party entity used by investment advisors for solicitation of advisory business. When acting in this capacity, Farragut undertakes the following functions:

- Advises on the terms and conditions of an investment vehicle, including the capital structure, tax implications, level of equity to be raised and the financial terms, conditions and covenants to be offered to potential investors
- Conducts research of competing vehicles, subject to confidentiality requirements
- Assists in the determination of the vehicle's investment strategy
- Evaluates potential market demand for the vehicle
- Advises and assists in the creation of the Fund's documentation, such as its partnership or limited liability company agreement, private placement memorandum and subscription agreement
- Conducts background checks on the issuers' management
- Verifies the economics of the issuers' (or predecessors') past investment performance
- Analyzes the potential financial performance of the vehicle

This work is then made available to prospective investors as a part of Farragut's marketing of an investment opportunity.

Across the financial services industry, when services of this nature are performed competently and ethically, these functions increase the quality of offerings available in the market and give prospective investors comfort that such offerings are worthy of consideration. Placement agents are strongly motivated to conduct this screening process rigorously: it is necessary to deal in high quality, well-vetted products in order to gain and keep the trust and respect of the investor community.

## II. Placement agents fulfill market driven needs

Raising capital is a specialty skill that is different from investing capital. Large investment advisors can justify hiring personnel that specialize in each function. Smaller advisors often raise capital only every few years, and therefore cannot justify employing in-house capital-raising staff. Placement agents solve this inequity by providing a cost-effective solution to smaller investment managers by working on a success-oriented basis when needed. This is analogous to the use of outside accounting or legal assistance by a company on an as-needed, periodic basis.

III. Placement agents facilitate greater competition amongst investment advisors

We believe that the elimination of placement agents would materially restrict all but the largest investment advisors from soliciting public pension plans. Since many large investment advisors routinely allocate a portion of the capital they raise to smaller fund managers, this would likely have the impact of entrenching a double-fee cost structure for many public pensions. Further, a placement agent ban would make it very costly for new market entrants (including minority- and women-owned firms) to access public pension dollars, which we expect would have a negative impact in terms of allowing promising new investment advisors to grow, thrive and help achieve the investment goals of America's public pensions. Existing incumbents would be permanently advantaged.

IV. Prohibiting Fund managers from paying third parties to solicit government entities for advisory business is flawed logic

Banning intermediaries from solicit government pension plans for advisory business assumes that all intermediaries are unethical. This action follows from a non sequitur, i.e., some third parties are unethical, thus, all third parties must be prohibited. This is flawed logic at its most basic, and is no more accurate or useful than "some regulations are bad, therefore, all regulation must be eliminated".

The primary incubator of "pay to play" practices is a "culture of corruption" present in certain state and municipal governments, including the management of their pension plans. We respectfully suggest that this problem be addressed by means of aggressive prosecution of the public officials who allow the "pay to play" environment to exist.

Going forward, other initiatives that we respectfully submit for consideration include:

- Prohibiting non-FINRA regulated entities from all dealings with public pensions by closing the loophole which allows unregulated "finders" from participating in the fundraising process
- Expanding the proposed political contribution and employment prohibitions to include placement agents, to mirror those proposed for investment advisors

- Enlarging the size of decision-making boards of public pensions, so as to eliminate the sole decision maker and small board situations which exist in a number of states, ideally by requiring the appointment of independent directors who rotate periodically

Again, we are grateful for the opportunity to comment on the subject regulation. Please do not hesitate to contact me at 847.615.9541 or bruce.hayner@farragutcapital.com if you have any questions or comments in return.

Yours Very Truly,

Bruce J. Hayner

Bruce J. Hayner
Chief Operating Officer & Chief Compliance Officer
Farragut Capital LLC