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

Re: File Number S7-18-09 – Political Contributions by Certain Investment Advisers

Dear Ms. Murphy:

The Partners of CSP Securities, LP and its parent, Capstone Partners, LP (collectively "Capstone"), appreciate the opportunity to comment on the Securities and Exchange Commission's ("Commission") proposed rules regarding "pay-to-play". Capstone is an independently owned, Dallas based, registered broker dealer with affiliate offices in Geneva, Switzerland and Shanghai, China. Our core business involves working in partnership with a broad range of private equity general partners to help them successfully raise capital from institutional investors.

Capstone strongly supports the Commission's efforts to expose and eliminate corruption related to the management of public pension funds. However, we do not agree with all of the aspects of the proposal recently set forth by the Commission. Specifically:

- *Political Contributions/Disclosure/Registration - Capstone supports a ban on direct and indirect political contributions by investment advisers and placement agents to public officials in a position to influence the awarding of investment advisory business. Capstone also believes that an appropriate level of disclosure in the investment process and a requirement that placement agents be registered broker dealers will further deter unethical behavior in the investment industry.*

- *Placement Agent Ban - Capstone is strongly opposed to the overall ban on placement agents as it will be directly detrimental to (i) the pension funds the Commission is trying to protect, (ii) the smaller and emerging investment managers that are critical to the ongoing vibrancy of the investment community, and (iii) the placement agents that are legitimate small business owners in the form of registered boutique investment banks providing efficiencies in the marketing process. Capstone also believes the ban will be indirectly detrimental to small but growing businesses that are capitalized by smaller and emerging private equity fund managers.*

<u>Political Contributions/Disclosure/Registration</u>

Capstone, like other legitimate placement agents, assists our clients in articulating and marketing their investment strategies based on the merits of the investment opportunity, not based on influence purchased with campaign contributions or other ethically questionable tactics. Unfortunately, because the placement agency business is largely not understood by the world at large, a few rogue individuals have led to headlines that broadly characterize all placement agents as unprincipled opportunists looking to profit in pay-to-play scandals. Likewise, the actions of a few public pension fund officials, who failed to meet their fiduciary responsibilities by improperly seeking personal gain, have created the perception that public pension fund officials can be bought. The reality is that most placement agents, investment advisers, and public pension fund officials (including those that have been impacted by the recent pay-to-play scandals) are ethical, law abiding, business people making a living by best representing the interests of their constituents. The most effective solution would be to require public pension fund decision makers to uphold their fiduciary duties and eliminate temptations from external contacts with ulterior undisclosed political and/or personal motives. Capstone agrees that a ban on direct or indirect political contributions to those with influence over investment decisions will help deter pay-to-play practices by taking away the temptation of those in power to make the unspoken (or spoken) "ask" for contributions. As a further deterrent, placement agents and advisers (both registered and exempt) should be required to disclose any potential conflicts of interest, compensation, or "inside" relationships that would influence any investment decision.

In addition to banning contributions, all placement agents should be required to be registered and licensed with FINRA and the SEC, and, therefore, should have to follow appropriate regulatory guidelines specifically dealing with pay-to-play issues. If placement agents do not abide by the regulatory guidelines, they should face the same consequences as similarly regulated investment advisers. As was discussed in the 1999 proposal, we do not think that investment advisers should be required to regulate/monitor placement agents with which they work as they are not equipped to do so. We believe there is also a potential indirect consequence in that advisers may decide to forgo the services of a placement agent for fear of facing penalties based on the actions of an organization over which they have no control. This would be particularly harmful in the case of fund-of-funds managers or gatekeepers that have public pension fund clients. If fund-of-funds managers feel they can no longer invest in funds represented by placement agents, smaller and mid-size managers will lose another important source of capital. If placement agents are licensed and follow appropriate regulatory and disclosure guidelines, pension fund officials and investment advisers can easily verify that no conflicts exist and that placement agents are in good standing and fully compliant.

Placement Agent Ban

Many of the letters already submitted to the Commission have done an excellent and thorough job of pointing out key unintended consequences of a ban on legitimate placement agents. We completely agree with the likely negative impacts, including:

- Depriving public pension plans of investment opportunities,
- Depriving investment managers and public pension funds of the resources and services provided by placement agents,
- Depriving small and emerging investment managers access to public pension capital,
- Reducing competition in the investment advisory business with a bias towards larger firms, and
- Depriving emerging companies of financial support by investment advisers.

Instead of repeating these already well articulated arguments, we thought that it would be worthwhile to give several examples of how the banning of placement agents will have a trickle down negative impact on thousands of small businesses and individuals and lead to less than optimal returns for public pension funds.

Preqin, the most often quoted independent source of private equity data, estimates that over 2,100 funds are being raised or have been raised since 2007. Of these funds, over 1,300, or close to 70%, have fund size targets less than $500 million; in all likelihood, this number would be higher as many smaller funds do not report their fund raising activities and information cannot be found in public sources. While some might observe that $500 million is not a small fund, it is a relevant threshold size given that at less than $500 million it is not economically viable to employ an in house team of professionals to focus on fund raising. Of the smaller funds, there is clearly a reliance on placement agents as it has been estimated that over 50% of these "small funds" used placement agents as resources to help them prepare for and execute a successful capital raise. The important takeaway is that placement agents and third party marketers are already an integral part of the private equity industry, let alone the entire asset management industry.

With the exception of finders or lobbyists, which are clearly the outliers in the industry, the vast majority of placement agents are independently owned investment banking boutiques acting as outsourced experts able to guide their clients through (i) the development of a fund raising strategy, (ii) the preparation of materials (including offering memorandums, presentations, due diligence materials and other specific requests), (iii) the communication and coordination of an extensive road show (in which most placement agents participate), and (iv) the facilitation of an efficient closing process. In other words, the majority of placement agents are small businesses located throughout the U.S. that provide a valuable professional service, not one-off finders with little else to offer than an introduction. They are also not divisions of larger global investment banks that have unlimited resources. These are organizations that are paid appropriately for the successful execution of a capital raising process that:

- Results in smaller and emerging investment managers (some of whom are owned by minorities and women) being able to establish and grow their firms,
- Allows these investment managers to invest their capital into other mostly U.S. based small businesses that in turn create or save jobs and foster innovation, and
- Introduces fresh ideas and managers that can drive above average returns and provide critical diversification to public pension fund beneficiaries.

Examples of two of our clients may best illustrate the trickle down impact of successful capital raises executed with the help of a placement agent.

The first example is a firm of professionals that invests in distressed businesses. Over the last seven years our client has raised capital on a deal by deal basis to invest in core manufacturing and service businesses primarily based in the U.S. The firm has grown from its original 2 founders to a staff of 17, and has provided part time employment/advisory work for numerous others. Today, the businesses in which they have invested have over $1 billion of revenue and employ 3,500 people. The businesses that this group has invested in are in core manufacturing and service sectors and in most cases are located in smaller towns that have been most hurt by the current economic situation. In several cases they have bought discontinued operations or orphaned plants of larger corporations that were scheduled to be shut down, resulting in total job loss. Our client has been able to successfully turn the businesses into profitable operations with excellent growth opportunities while saving and creating hundreds of union and non-union jobs. Not to be lost in this story is that to date they have generated over 50% annual returns to their investors, returned nearly 2.0x their investors' capital in cash, and have a total portfolio value that is over 3.5x their invested capital. As economic conditions remain under stress, the opportunity to continue their successful investment strategy, grow their team, and invest in distressed businesses has escalated. The firm decided to raise a committed pool of capital from traditional institutional investors, including public pension funds. Understanding the need for resources, the investment manager hired Capstone to help in all aspects of a sub $500 million fund raise. In summary, by adding efficiency to the capital raising process, Capstone, which in its own right is a small business, is helping our client (i) build its business, (ii) invest in small to mid-size businesses that save and create jobs, and (iii) focus on providing returns to their investors by limiting the distractions of the capital raise.

The second example involves our client that invests in portfolios of distressed residential whole loans (i.e., not loans bundled into securities), with the objective of restructuring the loans and keeping the mortgagees in their homes. In many cases the restructuring of the loans includes forgiveness of principal, which is a strategy the U.S. government has spoken favorably about on many occasions. Given that the sub-prime melt-down was a new phenomenon, there were few, if any, investment managers that had track records in this investment strategy, so this was clearly a first time fund with a need for help in positioning their strategy and approaching the appropriate investors. The fund recently had a final close. The firm and its servicing affiliate employ over 75 people, have thus far been achieving their goal of successfully refinancing their homeowners' loans with well below average re-default rates, all while providing early returns to their investors in excess of their target.

If placement agents were banned (as currently proposed), these two investment managers may have been unable to reach their committed capital targets efficiently.

In conclusion, we endorse the Commission's efforts to stop the pay-to-play issues in the investment management business, but we believe the proposed remedy is too broad and needs to be more narrowly tailored. We support efforts to ban political contributions but disagree with the proposal to ban placement agents. Placement agents are the manufacturer reps of the financial services industry and play a critical role in the efficient sourcing of capital for small businesses. Limited access to scarce capital by small businesses is a topic we read about in the press every day; we should be finding more ways to assist these companies in accessing capital, not banning a useful professional service provider that is helpful in the capital sourcing process. We are happy to discuss our views in more detail.

Respectfully submitted: