March 2, 2007

Ms. Nancy M. Morris  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-9303

RE: Accredited Investors in Certain Private Investment Vehicles  
File No. S7-25-06

Dear Ms. Morris:

Evergreen Investments appreciates the opportunity to comment on the Securities and Exchange Commission's (the "Commission") proposal (the "Proposed Rule") set forth in Release No. 33-8766 (the "Release"). The Proposed Rule would revise the existing definition of "accredited investor" as it relates to natural persons that wish to invest in privately offered pools exempt from registration under the Investment Company Act of 1940, as amended (the "Act"), pursuant to section 3(c)(1) ("Section 3(c)(1)" or the Act ("3(c)(1) Funds"). More specifically, the Proposed Rule would require a natural person investor in a 3(c)(1) Fund to have at least $2.5 million in investments, in addition to meeting either the net income test or the net worth test currently contained in the definition.

Summary

For the reasons described below, we disagree with the proposed addition of an investments threshold to the definition of accredited investor. We believe that, in the absence of any empirical evidence or analysis suggesting that the existing accredited investor standards are insufficient to serve their intended purpose with respect to

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1 Evergreen Investments is the brand name under which Wachovia Corporation (NYSE:WB) conducts its investment management business. Evergreen Investments manages more than $273 billion in assets (as of December 31, 2006) and serves more than four million individual and institutional investors through a broad range of investment products including mutual funds, hedge funds and individually-managed accounts.
investments in 3(c)(1) Funds, no change to those standards should be made. Alternatively, we believe that if a change is to be made, the proposed investments test should be withdrawn in favor of increasing the income and net worth thresholds currently contained in the definition. Finally, in the event the definition of accredited investor ultimately is changed, we believe existing investors should be grandfathered to the extent necessary to allow them to make additional investments in their current funds.

Discussion

In general, we see little or no justification for the adoption of the Proposed Rule. The Proposed Rule appears to be premised, at least in part, on the idea that in order to understand the risks associated with an investment in a 3(c)(1) Fund, an investor must already have a sizable portfolio of investments, in addition to having a substantial income and net worth. We are aware of no empirical evidence or analysis that would support this conclusion.

Further, the Proposed Rule would add yet one more test to an already extensive and complex array of tests and thresholds established under the Federal securities and commodities laws to measure financial sophistication of investors for various purposes. While we might agree with the general premise underlying these provisions – that financial or economic status bears some relation to financial sophistication and ability to bear the risk of loss – we see no empirical basis for concluding, as the differences in these provisions would suggest, that subtle and sometimes overly technical differences in investors’ financial characteristics should lead to different conclusions about the appropriateness of a particular type of investment for such investors. Moreover, tracking and ensuring that financial advisors understand the differences among the financial tests applicable to different types of investments is already a challenging undertaking. Adding one more distinct test, limited to one type of investment, would exacerbate these challenges without any proven benefit.

We also believe that the Proposed Rule is inherently inconsistent with Congress’s rationale behind the exemption provided by Section 3(c)(1) of the Act. Congress’s

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2 We note that in December 2001, the Commission had the opportunity to reassess the definition of an accredited investor and determined that the existing standards continued to encompass "those financially sophisticated investors who are considered to have access to information and fend for themselves." The Commission also noted at the time that it was not aware of any "diminution in investor protection" as a result of the existing accredited investor standards. SEC Release No. 33-8041 (December 19, 2001).

3 Current financial sophistication tests include, among others, rule 501 of the Securities Act of 1933 ("Accredited Investor"), section 2(a)(51)(A) of the Act ("Qualified Purchaser"), rule 205-3(d)(1) of the Investment Advisers Act of 1940 ("Qualified Client"), section 1a(12) of the Commodity Exchange Act ("Eligible Contract Participant") and rule 4.7 of the Commodity Exchange Act ("Qualified Eligible Person").
primary justification for exempting 3(c)(1) Funds from the definition of "investment company" and, as a result, from most of the restrictions contained in the Act, was not that investors in such funds would be financially sophisticated and therefore able to fend for themselves. Rather, the exemption reflects Congress's view that no significant public interest exists warranting federal oversight of privately offered funds comprised of 100 or fewer investors.\(^4\) We believe the Proposed Rule essentially imposes limitations on 3(c)(1) Funds that are contrary to Congress's rationale in enacting Section 3(c)(1).

While we see no basis for concluding that the current financial thresholds applicable to natural person investors in 3(c)(1) Funds are inadequate, we believe that if the Commission were to make a change, it should simply raise the existing thresholds rather than impose a new investments test. Such an approach would, in our view, mitigate (although not eliminate) the burdens of keeping track of a new test. Any proposed increase might be based on changes in the Consumer Price Index or in some other measure of the value of money that have occurred since the adoption of the current thresholds.

Finally, regardless of what changes might ultimately be approved, we believe that existing investors in 3(c)(1) Funds should be grandfathered to the extent necessary to allow them to make additional investments in their existing funds. We believe it would be incongruous at best to suggest that investors who were sufficiently sophisticated to understand the risks associated with a particular investment immediately prior to any change, could no longer understand the risks associated with the same investment immediately after such change. Further, failure to grandfather existing investors could adversely impact such investors in various ways, including, but not limited to the following:

(a) in certain instances (e.g., side pocket investments), unfairly limiting an existing investor's investment opportunities vis a vis other investors in the same 3(c)(1) Fund; and

(b) limiting a fund sponsor's ability to raise additional capital for future investments by a 3(c)(1) Fund (which will already be limited by the reduced pool of potential investors as described in the Release), which, in turn, could limit the mitigation of investment risk for investors and diversification of fund investments.

\(^4\)Congress's approach to the regulation of 3(c)(1) Funds should be compared to its approach to the regulation of funds exempt under section 3(c)(7) of the Act. Section 3(c)(7) contains no limit on the number of investors. Congress implicitly recognized a public interest warranting federal oversight of investors in such funds by requiring such investors to meet certain financial thresholds. We believe that by creating a financial test that is exclusive for 3(c)(1) Funds, the Proposed Rule ignores the differences in Congress's approach to regulating each type of fund.
We appreciate the opportunity to provide comments on the Proposed Rule and the Commission's consideration of our comments. Should you have any questions, please contact the undersigned.

Very truly yours,

Michael H. Koonce
Senior Vice President and General Counsel