MEMORANDUM

TO: File on S7-37-10, Exemptions for Advisers to Venture Capital Funds, Private Fund Advisers with Less Than $150 Million in Assets Under Management, and Foreign Private Advisers

FROM: Christian L. Broadbent
Counsel to Commissioner Elisse B. Walter

DATE: March 16, 2011

RE: Meeting with Willowridge Partners et al.

On March 1, 2011, Christian Broadbent of Commissioner Walter's office met with Jerrold Newman of Willowridge Partners, Chuck Stetson of PEI Funds, Deena Seelenfreund of Venture Capital Fund of America, and Mary Joan Hoene of Carter Ledyard & Milburn LLP, to discuss the above-referenced proposal.

The proposed agenda submitted was as follows:

1) The extraordinary difficulty of getting out audited statements by June 30 each year
2) Getting a venture exemption for a fund of funds which is over 50 % invested in venture capital
3) The lack of useful information that we possess as a fund of funds
4) Explanation that we do not use leverage and pose no systematic risk
5) Difficulty and expense in making a firm with four investment professionals comply with Dodd Frank
6) Our inability to custody assets because there are no certificates to custody
7) The loss of investment jobs and the rise of compliance jobs to comply with Dodd Frank and its detrimental affect on the nation's productivity.
8) Postponing the implementation of Dodd Frank for one year until regulations are written, staff can be hired and trained, and clearing up confusion in about Dodd Frank. The July 21 deadline without guidelines is too tight.

Comment letters provided were as follows: http://www.sec.gov/comments/s7-37-10/s73710-21.pdf; http://www.sec.gov/comments/s7-37-10/s73710-13.pdf; http://www.sec.gov/comments/df-title-iv/exemptions/exemptions-31.pdf.

Other materials provided are attached to this Memorandum.

Discussion Outline for Meeting with SEC and Fund Sponsors March 1, 2011

I. Introduction

VCFA Group, Willowridge and PEI Funds sponsor and manage investment funds that invest primarily in venture capital (VC) funds (including funds of funds), private companies and in some cases, leveraged buyout funds, on a secondary basis. We typically purchase investments from existing limited partners in the private market. Limited partner interests are sold due to liquidity needs, financial reversal, reallocating investments and other reasons. Secondary Funds generally do not borrow or incur financial leverage, do not offer investors redemption rights, are offered privately. Following the growth of venture capital and private equity funds, Secondary Funds developed during the 1980's. There are about 50 Secondary Fund Sponsors, aggregating approximately $73 billion in assets.

Venture Investment Associates sponsors and manages Funds of Funds that invest directly in VC and other private funds.

II. Impact of Dodd-Frank

The SEC has recently proposed implementing rules under Dodd-Frank. Most Sponsors of Secondary Funds will have to register as investment advisers under the Investment Advisers Act with the SEC by July 21, 2011. The costs of registering and initial compliance with the Advisers Act are estimated to exceed $100,000 - $450,000 for most Sponsors, which will have to hire a chief compliance officer, or reallocate existing staff to that function and adapt to the rules under the Advisers Act, with attendant disruption to regular business. Ongoing compliance costs will vary but reasonable estimates for small firms range from $50,000 - $100,000. As a practical matter, many Advisers Act requirements don't make sense for Secondary Funds and Funds of Funds.

Our Goal: We believe the staff should delay implementing registration until you have had time to examine which rules under the Advisers Act should reasonably apply to us. For example, the risks of front running clients and insider trading that are addressed by the Code of Ethics rule are low, so requiring our personnel to report their personal securities transactions may not achieve a rational regulatory purpose.

III. Practical Problems in Complying with Custody Rule

Recently amended rule 206(4)-2 under the Investment Advisers Act will result in onerous changes to current custodial practices by Secondary Funds, and significant costs, without attendant benefits to investors. The custody rule amendments, were developed by the SEC staff in response to the Madoff scandal. Effective in 2010, client assets must be held by a qualified custodian subject to an annual surprise audit. Fund managers may rely on an important exception to these requirements so long as the private funds are audited annually, with the critical caveat that audits must be completed within 120 days of fiscal year end, or

180 days if a fund is a fund of funds. Another important exception involves certain private securities, which are not required to be held by a qualified custodian. However for private fund sponsors this exception is restricted to the funds that are audited within the 120/180 day periods. Also, some private securities are "certificated" and don't technically fall within the exception.

Most private funds do not distribute audited financials to their investors (such as Secondary Funds and Funds of Funds) until 120 days from their fiscal year end. This results in a 60-day window, at best, to meet the 180-day requirement for to fund of funds. Some underlying funds utilizing investment advisers do not distribute audited financial statements until well after the 120-day mark. In addition, Funds of Funds often do not provide audited financials until 180 days subsequent to year-end.

Even with best efforts, we are unable to comply with the 180 day deadline. We simply are not in control of the timing. We have contacted all of our underlying investments and have requested that they complete their audits earlier than in the prior year. Some will and some simply cannot because they are Funds of Funds and will also be awaiting underlying audited reports. In these cases, our independent auditors require that we perform alternate procedures or hire a valuation company to put together a valuation just so that we can comply with the deadline. To get audited statements out by 6/30 we would have to provide the auditor with estimates. Taking audited statements and replacing them with projections does not serve the investors. At the end of the day, this valuation is simply an estimate and could be significantly incorrect. This will come at an incredibly high cost to investors, just to comply with an arbitrary time deadline when in fact the financials may in fact be misstated due to the lack of actual information received by that deadline.

See the accompanying presentation for additional details.

Our Goal: To work with the SEC to achieve a solution through rule making, or interpretation of the custody rule by the staff to extend deadlines for Secondary Funds to 245 days from fiscal year end for their financial statements (September 15). This will help the industry enormously, with no harm to investors, as there is virtually no risk that fund assets are at risk. Also, there is no reason why Sponsors should not hold private securities directly.

IV. Venture Capital Exemption

The VC exemption from registration in Dodd-Frank has been narrowly framed; many managers of funds that have heretofore considered themselves as venture in nature will have to register unless the rule proposal is expanded as noted in many of the public comments on the rule proposal. We believe the exemption should apply to Sponsors of Secondary Funds and Funds of Funds investing in VC funds, as long as we stay unleveraged and are over 50% invested in VC funds whose

managers are exempt from registration under the Advisers Act reporting requirement.

Our Goal: Broaden the VC exemption, and include Secondary Funds and Funds of Funds.

V. Preliminary Observations on Form PF

Proposed Rule 204(b)(1) and Form PF outline a broad range of reporting by manager of private funds, so the SEC can provide information to the Financial Stability Oversight Council, and identify issues and firms for inspection and enforcement purposes. Private fund advisors, managing assets of less than $1 billion, must complete Sections 1a and 1b of Form PF, within 90 days of year end. There are more comprehensive requirements for those managing in excess of $1 billion. Item C asks for information by month and by quarter. As a common industry practice, we report only on a quarterly basis because we only receive quarterly information from underlying investments. Also, we cannot provide performance information by March 31

Our Goal: Have until September 15th to file Form PF. Eliminate reporting by month under Item C, because we don't have and can't get the information from the underlying fund investments. Overall, Form PF seems like overkill for Secondary Fund and Funds of Funds, as there is no "systemic risk" in our operations. Please consider taking us out entirely, and applying Form PF only to hedge fund managers.

VI. Conclusion

The SEC has ample authority under Dodd-Frank and the Advisers Act to tailor regulatory requirements to particular industry segments. We realize the Dodd-Frank deadlines have imposed great pressure on the SEC, but submit that it is important to "get it right". Delay in implementing certain of the registration and reporting requirements, appropriate exemptions and interpretations of the rules so they make practical sense should all be options. We will be glad to assist the staff in this process.

Thank you for considering our views, and the specific goals referenced above.

Secondary & Fund of Funds

Presentation for the Securities and Exchange Commission

March 1, 2011

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Secondary Fund Overview

- VCFA Group, Willowridge Partners, Inc, and PEI Funds are three funds which buy limited partnership interests in venture capital and buyout partnerships, and fund of funds on a secondary basis. In the public markets, if one has a stock to sell it is sold through a brokerage firm. However, if one is invested in a limited partnership, there is no place to sell and so one would sell the interest to a secondary buyer. Reasons to sell: Need for cash; liquidity, financial reversal, re-allocating investments, requirement to sell private equity to comply with Volcker rule.
- Practical Issues for Timing of Financials:
  - Venture capital and private equity funds differ from public funds.
  - Valuations are harder to come by. Public funds can look up prices on a traded market.
  - Venture capital and private equity funds rely on underlying audited financials which are received very late.
  - A struggle to comply with a September 15th deadline as is.

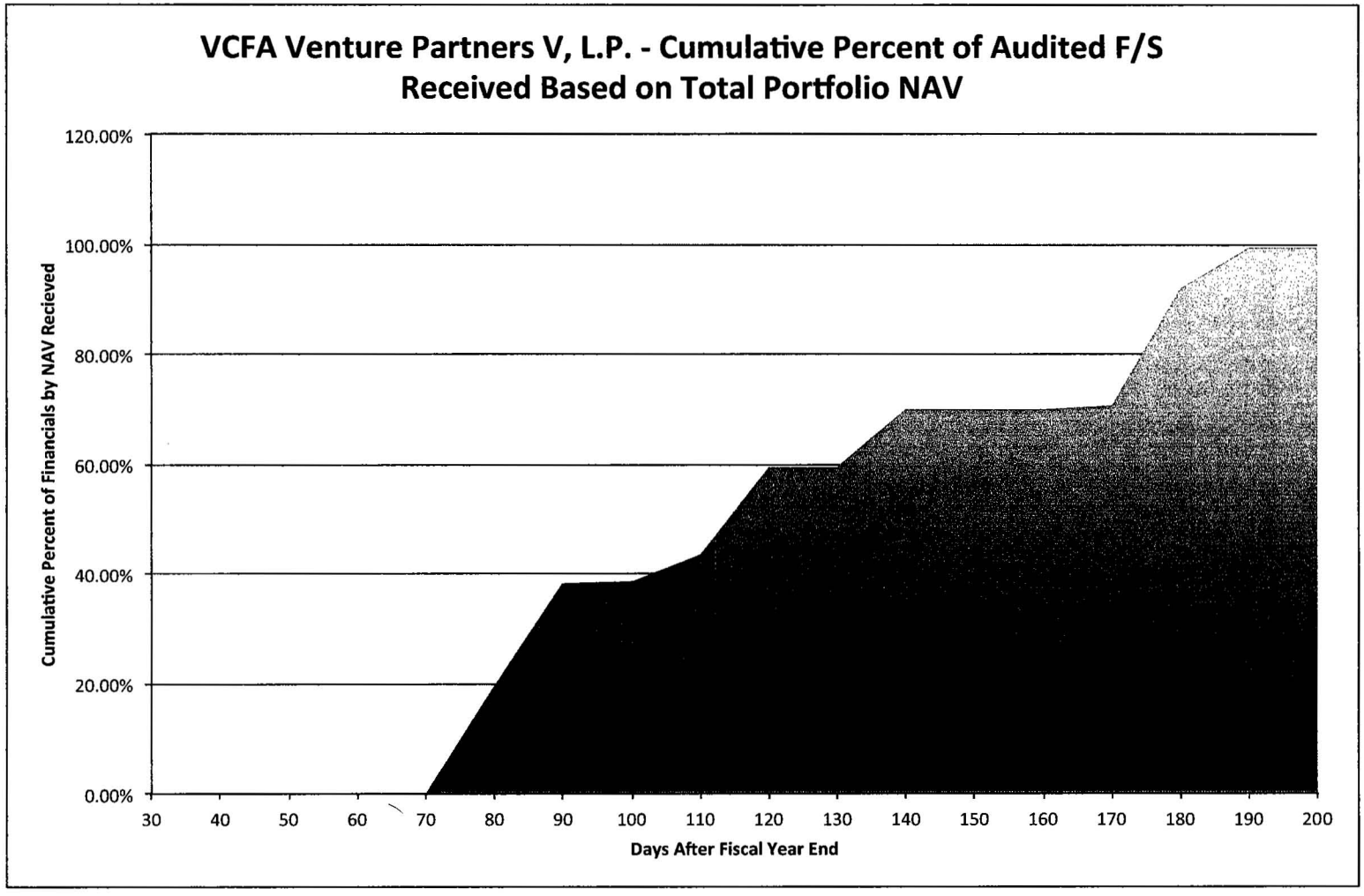
VCFA GROUP

VCFA Most Recent Fund Raised
Timeliness of Financial Statements Received

Size of fund	$250 million
Fund focus	venture capital
Year fund raised	2006
Invested or committed capital (12/31/2010)	$178.3 million
Number of investments (12/31/2010)	29
Days after fiscal year end for receipt of 99% of audited financials from underlying investments (for 2009 audit)	189 days

VCFA GROUP

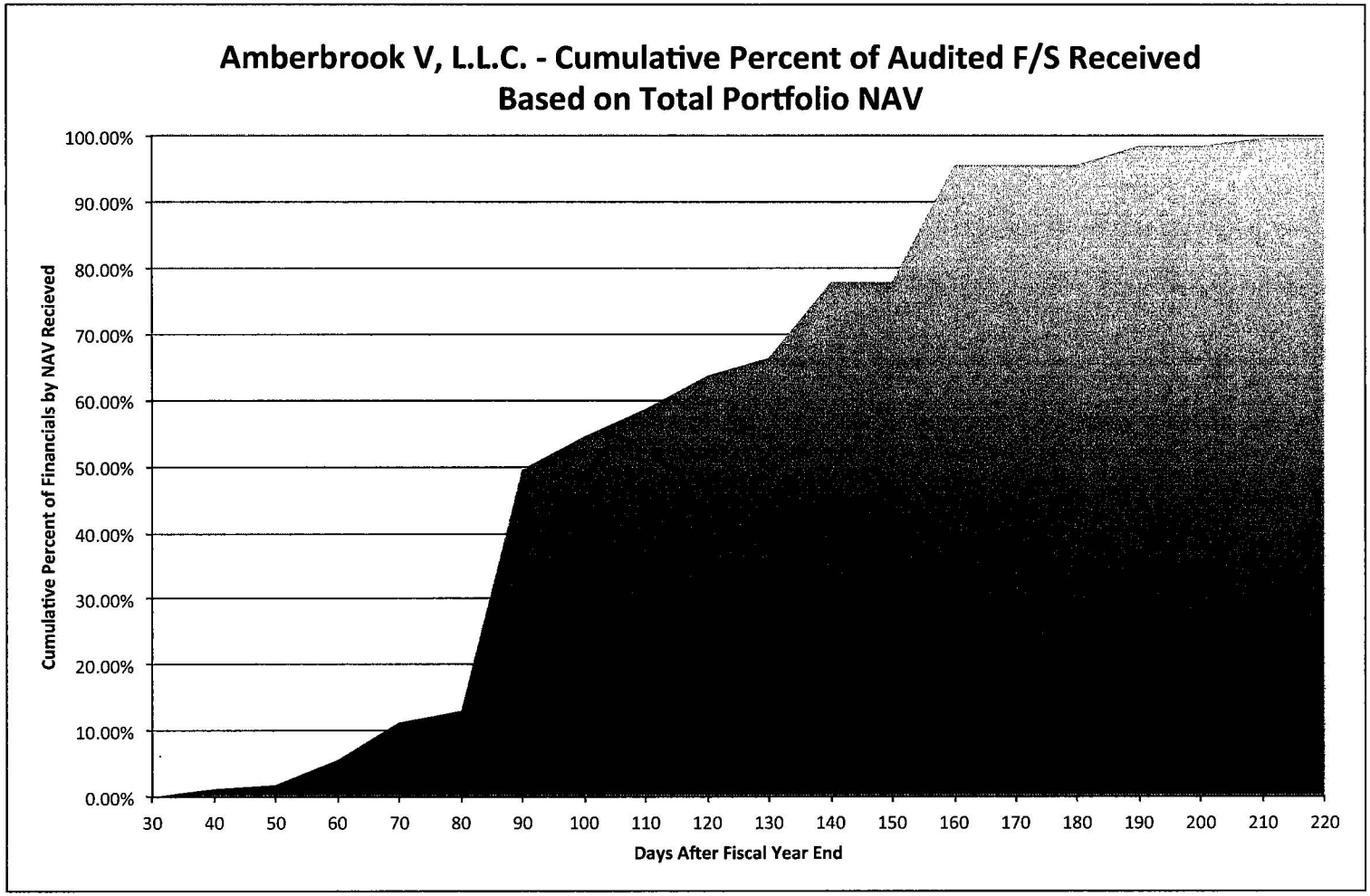
For the 2009 audit, VCFA's most recent fund reached a threshold of 99% of underlying audited financials received (based on value), **189 days after year-end**



Willowridge Most Recent Fund
Timeliness of Financial Statements Received

Size of fund	$301.65 million
Fund focus	venture capital, private equity and fund of funds
Year fund raised	2008
Invested or committed capital (12/31/2010)	$187.0 million
Number of investments (12/31/2010)	170
Days after fiscal year end for receipt of 99% of audited financials from underlying investments (for 2009 audit)	202 days

For the 2009 audit, Willowridge's most recent fund reached a threshold of 99% of underlying audited financials received (based on value), **202 days after year-end**



VCFA GROUP

SEC Custody Rule – reporting deadlines key issues for secondary funds

PEI FUNDS

- Some managers of underlying investments will be required to register with the SEC, some will not - some will be required to report within 120 -180 days of year-end and some will not.
- A secondary fund's time to produce and distribute its own audited financial statement will be dictated in part by the timely receipt of audited financials from its underlying investments.
- Secondary purchases may include purchases of investments in private equity fund of funds. Audited financial statements from fund of funds investments may not arrive until 180 days after year-end or later.

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SEC Custody Rule – Audit process Receipt of underlying audited financial statements

PEI FUNDS

- There is a lengthy process which takes place after the last underlying audited investment report is received.
- Auditors review all underlying audited reports to ensure correct accounting methodologies have been used and opinions are not qualified.
- Auditors ensure all underlying public securities are valued at market value as of fiscal year end without discounts to that value.
- 5% fund of fund disclosure footnote is prepared. Underlying direct and indirect investments are reviewed, any investments representing 5% or more of the fund's NAV are tested extensively and disclosed in the notes to the financials statements and then reviewed by auditors.
- Financial highlights are prepared using the underlying data received from underlying audited reports. The financial highlights are then reviewed by the auditors for accuracy.
- Once financial statements, footnotes and supporting schedules are completed, they are reviewed by the GP and managing directors. All comments received are flowed through the financials and are sent for independent auditor partner review.
- Management rep letter and legal confirmations are mailed out (must be mailed as close to the issuance date as possible).
- Once approved, the printing process can begin and then financial statements can be issued.

VCFA GROUP

SEC Custody Rule – impact on secondary funds and a suggested change

PEI FUNDS

- With the receipt of many audited financials for underlying investments well subsequent to 120 days after year-end (possibly closer to 180 days for some investments), secondary funds will not be able to complete and distribute audited financial statements within 180 days of year-end.
- Actual audited and complete information may need to be replaced with projections in order to comply with the 180-day reporting deadline.
- A more practicable deadline would be the September 15 tax deadline – this would allow adequate time from the receipt of the underlying audited financial statements for a secondary fund's auditors to complete their work. We would propose submitting the financial statements using all the underlying data received as of the deadline filing date along with an extension request for delayed filing on September 15, similar to a tax extension form.