

September 1, 2004

Jonathan G. Katz, Esq.
Secretary
Securities & Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: Public Comment No. S7-30-04; Comments of The Rankings Service (TRS) on the SEC's Proposed New Rules Regarding Hedge Funds

Dear Mr. Katz:

On behalf of **THE RANKINGS SERVICE (TRS)** I am pleased to have the opportunity to comment on the above-captioned, proposed new rules regarding hedge fund registration.

This comment can be read in conjunction with, and in the same spirit as, our submission of May 20, 2004 with respect to mutual fund (management investment company) portfolio manager identification and interest alignment disclosure. [Please see: <http://www.sec.gov/rules/proposed/s71204/1shtrs052004.pdf>].

An overarching objective stated in that submission was increased transparency and disclosure so as to create as much as possible an “even playing field” amongst various forms of investment vehicles. I am writing here to suggest modifications of your proposed rules so as to integrate hedge fund disclosure into that broader rubric of the real world of investor choices, investment screening, and fund selection and management. The objectives remain the same: to further the public interest of greater transparency and disclosure so as to afford more informed investment decision-making by investors.

The recommended modifications are as follows:

- 1) **Reciprocal Disclosure by Hedge Funds of identity of hedge fund managers who also manage mutual funds:** New rules adopted by the Commission on August 18 (please see citation below) require disclosure of “other accounts” managed by open-end and closed-end mutual fund portfolio managers by registrant management investment companies. This rule attacks from the mutual fund company standpoint the issue of potential or actual conflicts of interest and corporate opportunities which might attend situations whereby the same individual portfolio managers simultaneously manage mutual funds and hedge funds. Unless I have somehow missed it, coverage of the reverse situation is not included in the proposed rules. I am suggesting here that *reciprocal disclosure is in order: i.e. registrant hedge funds should be required to disclose the identities of their portfolio managers who also manage mutual funds.* This would address the scenario of an existing or would-be investor evaluating a hedge fund and being entitled to know simultaneous accounts managed – versus otherwise having to scan blindly and exhaustively the universe of mutual funds to uncover the same information.
- 2) **Application to Hedge Funds of the Same or Similar Rules adopted August 18 with respect to Registered Management Investment Companies' Portfolio Manager identification and disclosure re: interest alignment:**

[17 CFR Parts 239, 249, 270 and 274 [Release Nos. 33-8396; 34-49398; IC-26383; File No. S7-12-04] RIN 3235-AJ16 Disclosure Regarding Portfolio Managers of Registered Management Investment Companies]

- The Commission by its own account struck a suitable balance of privacy and disclosure when it recently adopted the above rules with respect to open-end and closed-end mutual funds. I suggest here that a similar balance is appropriate with respect to disclosure regarding the portfolio managers of hedge funds. One might even argue that such disclosure is of greater moment and benefit to investors with respect to hedge funds given the hitherto uneven, shadowy, or absence of disclosure regarding the identities, or even existence, much less operations and performance, of hedge funds. To the extent that the Commission has discerned a “retailization” afoot in this sector, as well as broadening exposure to hedge funds of major public pension funds, universities and endowments, this information may well be of interest to the public as well as several large constituencies of stakeholders in major retirement and other investment funds.

Finally, I wish to emphasize a point made in our previous submission – even though it is admittedly perhaps ahead of its time. The existing template advanced by the SEC in these rules, which we salute and support, takes a significant first step in identifying portfolio manager identities and interest alignment. We at The Rankings Service believe that investors and fiduciaries can benefit greatly from drilling down further still to discern individual portfolio managers’ long-term and career investment performance. While “past performance is not predictive of future performance”, individual portfolio manager stock-picking aptitude and/or other performance patterns may reveal skill which may constitute the best shot by which investors can determine the likelihood of a portfolio manager adding value intrinsically and/or versus a benchmark. This also addresses, inter alia, the situation whereby a fund qua fund has a fine long-term track record, and perhaps a dazzling constellation of star ratings – yet the *current portfolio manager* of said fund has a desultory record and is free-riding on the record of previous managers of the same fund -- or the branding/marketing/advertising wizardry of the sponsoring fund company. Accordingly, we believe that, over time, advisors, fiduciaries and investors will want more than mere disclosure of manager identity and their actual or potential conflicts of interest: rather they will want to access services based on research templates (such as TRS) designed expressly to “*...help investors assess the portfolio manager's contribution to the fund's investment success.*”

In our opinion, adoption of the suggestions included herein would help enhance fairness, transparency and disclosure – especially so in conjunction with the many recently adopted SEC rules, and the instant significant step of hedge fund registration. Moreover, such adoption would go some meaningful way closer toward the goal of treating differently structured investment vehicles in a uniform and even-handed manner.

Thank you for the opportunity to submit these comments for your consideration.

Sincerely,

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