Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549-0609

September 15, 2004

Re: File Number: S7-30-04 Registration Under the Advisers Act of Certain Hedge Fund Advisers

Dear Mr. Katz,

We are writing to you today as representatives of the UnFarallon Coalition -- a group of national and campus-based organizations seeking to make university investments in hedge funds and other alternative asset classes more transparent, and more socially and environmentally responsible. We include students and alumni at Yale, Tufts, University of Pennsylvania, University of Texas, Stanford and Williams and are co-sponsored by the Rainforest Action Network (RAN),[1] the Student Environmental Action Coalition (SEAC),[2] the Responsible Endowments Coalition (REC),[3] Students Transforming and Resisting Corporations (STARC),[4] United Students Against Sweatshops (USAS),5 the Graduate Employees and Students Organization (GESO) at Yale,[6] and UT-Watch.[7]

Through our website, www.unfarallon.info, we have reported on the world's fourth largest hedge fund, Farallon Capital Management, including its corporate structure, fees and some of its investments. Farallon, one of the most secretive hedge funds, caters to colleges and universities. The hedge fund industry's desire for secrecy runs contrary to the values of universities, which foster open debate and the free exchange of ideas. In fact, one hedge fund has expelled universities for disclosing information about the fund.[8] Despite this clash of values, we believe that disclosure is necessary to preserve the ideals of democracy at US institutions of higher education.

Field Code Changed

In Spring 2004, we launched our campaign requesting a meeting with Farallon's Managing Member, Tom Steyer. There were actions on several campuses including teach-ins and street theater. On our national day of action, alumni and students from 70 universities sent letters asking if their schools invested with Farallon. Our coalition has

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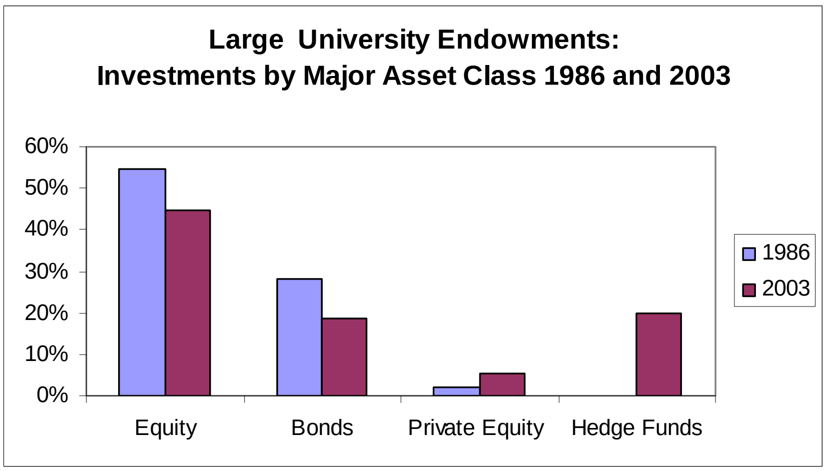
[1] www.ran.org
[2] www.SEAC.org
[3] www.SRIEndowment.org
[4] www.starcalliance.org
[5] www.usasnet.org
[6] www.geso.org
[7] www.utwatch.org
[8] "Sequoia bans University of California from Fund," *San Francisco Business Journal*, August 29, 2003. http://www.bizjournals.com/sanfrancisco/stories/2003/08/25/daily48.html

been profiled in the *San Jose Mercury News*,[9] Fundfire.com,[10] HedgeWorld.com,[11] the Dow Jones Newswire,[12] and others.[13]

We write in STRONG SUPPORT of your proposals to require hedge fund managers to register under the Investment Advisers Act of 1940. We believe that the requirement can and should be strengthened in the ways that we have suggested below.

I. Growth of Hedge Funds Impacts Non-Profit Institutions

Universities have become major investors in the financial markets. Using data from the 2003 National Association of College & University Business Officers Endowment Study, it is possible to determine that the total value of endowments from the 717 participating schools was over $230 billion.[14] University endowments have been increasing their exposure to hedge funds in the past 20 years. In 1986, universities invested primarily in public equity and bonds and had almost no exposure to hedge funds. The graph[15] below shows the change in asset class allocation over the past two decades.



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[9] Matt Marshall, "Students Seek greater disclosure from San Francisco Hedge Fund," *San Jose Mercury News*, March 2, 2004.

[10] Mark Bruno, "Coalitions strike a chord with endowments," Fundfire.com, April 23, 2004. Mark Bruno, "Endowments Face Intense Investment Protests," Fundfire.com, March 24, 2004. Mark Bruno, "Students Pressure Endowments On Hedge Fund," Fundfire.com, March 4, 2004.

[11] Chris Clair, "Students still seeking endowment investment disclosure.," Hedgeworld News, April 16, 2004. Chris Clair, "Farallon to Students: Thanks, but no thanks," Hedgeworld News, March 22, 2004. Chris Clair, "Seeking Investment Disclosure, Coalition Targets Farallon Capital," Hedgeworld News, March 4, 2004.

[12] Yuka Hayashi, "Student Activists Uncover Inner Workings of Hedge Fund," *Dow Jones Newswire*, March 5, 2004.

[13] For more press, see http://www.unfarallon.info/news.asp.

[14] http://www.nacubo.org/x2398.xml

[15] The information for this graph comes from the Harvard Business School study "Yale University Investments Office: July 2000," March 4,2001 and the National Association of College & University Business Officers Endowment Study.

From the almost non-existent exposure to hedge funds in the late '80's, universities with large endowments have expanded significantly the portions of their endowments invested with hedge funds to 19.9% of large university endowments.[16] American universities invest both directly, through limited partnerships, and indirectly, through funds of funds. This is true not only of well-heeled universities, but also of smaller schools. University endowments provide an average of 13% of each school's operating budgets, [17] and can contribute as much as a third of the budget.[18] Consequently, fraud or mismanagement resulting in loss of value can have significant impact on the education that thousands of undergraduate and graduate students at both public and private institutions throughout the country receive. University investment officers need information about investment managers in order to make appropriate choices about how to invest the university's assets and to respond to disclosure requests on their campuses. Furthermore, they need to know that investment mangers have adequate internal controls over the assets entrusted to them. In one high profile example of why disclosure is important, the Art Institute of Chicago lost close to $50 million dollars in an investment with Dallas-based Integral Investment Management LP.[19]

II. Form ADV Part II, Amendments to Rule 204-2 and the Benefits of Reliable Solicitation Material

One of the primary reasons that we support the Commission's proposal to require hedge fund managers to register with the SEC is the disclosure of information that comes with it. The requirement to provide potential investors with a disclosure statement—a "brochure"—that includes the information provided in Part II of Form ADV or Part II itself will create a more level playing field. At present, smaller investors are at a significant disadvantage when it comes to evaluating potential investment managers since it may require a great deal of research to find information about unregistered advisers.[20] The ability for all potential investors and other interested parties to have access to the same promotional material will enable investors to invest with hedge funds without having to do expensive research themselves. Investors will, for example, be assured that their hedge fund advisors are not convicted felons.

Additionally, we wish to strengthen the proposed amendments to rule 204-2. The SEC proposes to change the rule so that new registrants may make claims about their funds' historical performance without having the supporting records if the records were unavailable. We support this proposal, but believe that the SEC should require any new registrant who does not have supporting documentation for their performance claims to inform any potential investors that the historical performance claims are not documented.

III. Audited Financial Statements and the need for accurate and timely information

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[16] 2003 National Association of College & University Business Officers Endowment Study.
[17] Dennis Hammond, "Endowments are not a Luxury." *The Chronicle of Higher Education*, May 28, 2004.
[18] As is the case with Williams College. See "Climb Far: A Report from Williams 2003," p. 17.
[19] Rick Westhead, "Critics slam schools for risky investing," *Toronto Star*, May 4, 2003.
[20] See Sandra Manzke's comments in the SEC Hedge Fund Roundtable Transcript of May 15 at 190.

The Commission proposes amending rule 206(4)-2, to "make it easier for hedge funds advisers to distribute audited financial statements to their investors annually in lieu of quarterly account statements." We believe that annual audited financial statements are a crucial tool in evaluating a fund's performance, and we support the proposal to require all hedge funds to provide audited financial statements to their investors. In addition, hedge fund advisors should be required to provide a schedule of investments that enables investors to make informed decisions about their investments. Investor reports should include a list of all limited partners with a comparison of each partner's returns and a clear explanation of fees and how they affect performance. We have provided an example of a condensed schedule of investments that Farallon Capital Institutional Partners included with their 2000 audited financial statements. This example does not provide an investor with enough information because it includes only allocation by geography and not a list of companies.

We strongly oppose, however, eliminating quarterly statements. It is important for investors, institutional or private, to have access to timely information in order to evaluate and modify investment allocations. Without quarterly statements, an investor will only be able evaluate his or her investments once a year. Unlike mutual funds, where one can look in the newspaper and daily calculate the value of an investment, hedge fund investors rely on quarterly statements to evaluate their investments. We believe that quarterly disclosure must be INCREASED, and we propose that hedge funds be required to release quarterly (unaudited) statements to their investors AND a list of positions held on the last day of the previous quarter. This is necessary because many hedge funds invest in global markets, making it imperative that investors have a sense of how large their exposure is in different markets throughout the world. This will allow investors to estimate the impact of major events, like the Asian market crash, on their portfolios.

We anticipate that there may be some reticence on the part of hedge funds to disclose this information, but investors' need for accurate information outweighs the industry's concerns. In addition, because of the delay between the close of the quarter and the reporting of that quarter's earnings and holdings, it is unlikely that this disclosure will constitute a strategic risk to the fund.

IV. Rule 203(b)(3)-2 and the need to expand the definition of a private fund

We support the "look-through" proposal to count each owner of a "private fund" as a client both in reporting the number of clients in form ADV part I and for the purposes of determining if an investment adviser is exempt under section 203(b)(3). In the proposed definition of "private fund" in 203(b)(3)-2(d)(1)(ii) a company is only a "private fund" if it allows redemption of the investor's assets within two years of purchase. The SEC states that this piece of the definition of a "private fund" exists in order to exclude venture capital fund advisors from needing to register. The trade organization for the venture capital industry, the National Venture Capital Association, reports that the standard length of a venture capital partnership is ten years.[21] In contrast, at present, industry standards for hedge funds vary widely, and without more data, it is impossible to know if two years is an appropriate length of time. In addition, a hedge fund advisor, who wished to avoid registration, might simply set a 25 month minimum for redemptions. We suggest, therefore, that a 5 year maximum for first redemptions be used in the definition of a private fund.

V. Registration and the Hedge Fund "Census"

One of the most important effects of the registration of hedge fund advisors will be the increased census information that will be available. Hedge funds have become major financial players, and the SEC needs to have better data on the industry in order to better regulate it, protect investors from fraud and safeguard the markets. In addition, investors will benefit by being able to easily compare fees, rates of return and other important data when deciding which funds to invest with.

We believe that changes that you have proposed will be a benefit for colleges and universities throughout the United States, who, more and more, invest their endowments in hedge funds. Our endowments will be safer from fraud, and our investment managers will have the information necessary to make investment decisions that advance the missions of our schools.

Sincerely,

Mary Reynolds,
Yale University
Chair, Graduate Students and Employees Organization

Phoebe Rounds
Yale University
Undergraduate Organzing Committee

On behalf of
Kiyomi Burchill, Stanford University, Stanford Coalition for Investment Disclosure
Jason Fults, Student Environmental Action Coalition, National Organizer & Coordinator, Militarism and the Environment Campaign
Andrea E. Johnson, Yale University – School of Forestry and Environmental Studies, Sustainable Investments Student Interest Group
Anna Letitia Mumford, Stanford University, Stanford Coalition for Investment Responsibility
Elizabeth Oo, Tufts University, Environmental Consciousness Outreach
Mark Orlowski, Williams College '04
Adam Rivera, University of Pennsylvania, Student Alliance to Reform Corporations
Naasiha Siddiqui, Yale University, Student Alliance to Reform Corporations
Austin Van Zant, University of Texas at Austin, UT-Watch

[21] http://www.nvca.org/def.html