Alumni Ventures
NETWORK-POWERED VENTURE CAPITAL

Alumni Ventures
670 N. Commercial St.
Suite 403
Manchester, NH 03101

info@av.vc
603.518.8112

April 25, 2022

Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F St. N.E.
Washington, DC 20549

Re: File No. S7-03-22: Private Fund Advisers, Documentation of Registered Investment Adviser Compliance Reviews

Dear Ladies and Gentlemen,

We appreciate the opportunity to comment on the proposed rulemaking in Private Fund Advisers; Documentation of Registered Investment Adviser Compliance Reviews, SEC Release No. IA-5955 (File No. S7-03-22) (the "Release").

Alumni Ventures Group, LLC is an exempt reporting adviser that advises solely venture capital funds. We have approximately $870 million in assets under management as of our last Form ADV annual update, which reflects significant growth in each of the past several years. In this pandemic era during which public funding has gushed forth to support American small businesses,[1] we are proud to have done the same from the private sector.[2] We help individual investors (currently over 7500 customers) invest in innovative emerging companies (currently over 900 portfolio company investments) - access to which is usually reserved for the most elite institutional and very high net worth investors. In this way, we hope to support our investors' long-term

[1] See, e.g., The White House, Fact Sheet: New Data Show Progress on Biden-Harris Commitment to Equity in Emergency Small Business Relief (Mar. 11, 2022) (statements and releases), available at https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/11/fact-sheet-new-data-show-progress-on-biden-harris-commitment-to-equity-in-emergency-small-business-relief/ (describing, among other things, "the delivery of more than $450 billion in small business relief"); House Small Business Committee Republicans, Resources for Small Businesses Affected by COVID-19, available at https://republicans-smallbusiness.house.gov/covid-19/ (listing, among other things, the U.S. Department of the Treasury's "Assistance for Small Businesses" resource page, which includes discussion of the Emergency Capital Investment Program "for small businesses … that may be disproportionately impacted by the economic effects of the COVID-19 pandemic").
[2] The SEC web site acknowledges private sector challenges, saying: "Whether you are a small business searching for capital to continue operations during this time or you are looking to start a business, we know that finding resources can be challenging." COVID-19 Resources for Small Business, available at https://www.sec.gov/page/covid-19-resources-small-businesses.

wealth creation goals while furthering the health of the American small business economy.

We have found that investors appreciate having access to a diversified portfolio of professionally-vetted venture capital investment opportunities with streamlined investor onboarding processes and what we consider more transparent fee and expense terms than many of those offered elsewhere. We strongly agree with the SEC's goals for transparency, but we also believe it is important to otherwise allow the markets -- that is, the investors who choose one fund over another -- to be the driving force behind innovation. In this way, we at Alumni Ventures can continually find new ways to better serve investors.

As an example of our innovative approach, we charge a management fee and receive a share of profits, but <u>otherwise it is Alumni Ventures, *and not the investors in our funds*, that bears all of what are normally broken out as "fund expenses."</u> (Our funds bear a few costs, like taxes and brokerage, that are directly related to investment transactions, but not what the Release calls "laundry lists of potential fees and expenses.") Our funds do not even bear their own organizational and offering expenses. Instead, Alumni Ventures simply bears those costs itself out of the management fee it receives through one upfront capital call. This approach also avoids the need for countless small capital calls, which would create a large administrative expense burden and where smaller investors could be more likely to miss a payment and default.

We remain committed to transparent disclosure of fees and expenses. The Release expresses concerns about less-than-transparent expense structures, such as "offsets, waivers, and other limits," or various "consulting fees, monitoring fees, servicing fees, transaction fees, director's fees, and others," as well as concerns that "many investors do not have sufficient information regarding these fee streams that flow to the adviser or its related persons and reduce the return on their investment." However, none of these lists of "other" expenses is relevant to our innovative expense structure. There is no fund payment to an outside administrator or tax accountant, no fund payment for our travel or insurance, not even any fund payment for postage costs. In fact, if a chart or listing of additional fund expenses were to be required, our funds would be the rare ones to disclose "$0." We believe this type of transparency is important for the industry as a whole.

Beyond transparency, however, the Release also suggests that the Commission is considering making substantive restrictions on advisers, such as what the Release calls a "[p]rohibition of the '2 and 20' model" or "requir[ing] management fees to be based on invested capital or net asset value rather than on committed capital." Prohibiting a "2 and 20" model would likely adversely affect American small business by placing a barrier in the way of a small adviser that wishes to launch a fund, given that any viable business would likely need over a hundred million dollars in assets under management in order to break even. (For example, a $10,000,000 fund that is subject to a 1% management fee and no carried interest would pay the investment advisory firm just $100,000 a year, which would appear far from profitable.)

Substantive requirements for fee models would also result in far more complicated fee and expense structures for funds like ours - or could simply prevent capital formation. If a fee must be based on invested capital, that would mean that no fee would be received during the period immediately following fund launch, which tends to be right when an adviser most needs wherewithal, and could create a perverse incentive to simply invest quickly rather than invest well. As for requiring a management fee to be based on net asset value, our venture capital funds generally do not need to calculate net asset value, and emerging companies are well known to be hard-to-value, so such a requirement would add expense and uncertainty. Instead, under our current format, just like with a fixed fee adviser that charges a specific dollar amount while sitting across your kitchen table, our fund investors know precisely the aggregate dollar amount of their management fee from day one. If adopted, these complicating mandates would, as the Commission acknowledges in the Release, "limit[ ] an adviser and investor's flexibility in designing fee and expense arrangements tailored to their preferences." This would be at odds with the trend since 2010, under presidential administrations from both sides of the aisle.

Specifically, since the amendment of the Advisers Act in 2010 to add Section 211(h) concerning "prohibiting or restricting certain … compensation schemes for investment advisers," Congress, and the Commission as directed by Congress, have notably loosened restrictions on venture capital funds and their investment advisers in order to promote the financing of American small business, including:

- First, in 2010, as part of the Dodd-Frank Act, then-new Section 203(l) exempted advisers solely to venture capital funds (to be defined by the Commission in rulemaking that was promulgated in 2011) from being required to register as investment advisers, instead just imposing such recordkeeping and reporting requirements as the Commission determined.

- Second, in 2012, the Jumpstart Our Business Startups Act (the "JOBS Act") directed the Commission to amend Rule 506 of Regulation D to permit general solicitation or general advertising in offerings made under Rule 506, provided that all purchasers of the securities are accredited investors. The Commission, in rulemaking effective in 2013, acknowledged the usefulness of this amendment in the venture capital industry, noting: "The development of the venture capital (VC) industry in the United States may also be a relevant example to illustrate the potential for enhanced capital formation that may result from allowing issuers to have access to a wider range of investors."[3] We wholeheartedly agree. The JOBS Act is so called because it was intended to support the financing of jobs for Americans. We are proud to support American innovation. Accredited investors should be able to make their own decisions in whether and how to share that goal.

- Third, in 2018, Congress expanded Section 3(c)(1) of the Investment Company Act to allow any venture capital fund having not more than $10,000,000 in aggregate capital contributions and uncalled committed capital to rely on Section 3(c)(1) with up to 250 (rather than 100) beneficial owners. Imposing substantive requirements on small funds, such as prohibiting carried interest or imposing an audit requirement, would not only be disproportionately expensive, but would be at odds with Congress's support (enacted more recently than the Dodd-Frank Act) for avoiding the regulation of small venture capital funds.

Each of these developments since the Dodd-Frank Act has incrementally removed substantive regulation for venture capital funds or their advisers while maintaining antifraud provisions, thus freeing up venture capital funds to be able to adopt innovative structures and practices while protecting investors through transparency and investor eligibility standards. In fact, we would advocate going further and suggest permitting registered investment advisors to impose a performance fee for accredited investors in private asset classes such as private equity and venture capital (rather than requiring an investor to meet a qualified client standard), as this would further help to democratize the asset class, creating more opportunities for advisors to structure funds and make them available to sophisticated individual investors.

The Release also discusses performance reporting. We generally believe in standardized performance reporting, including before and after expenses, but firms should be free to choose the appropriate metric for their strategy and operations. In this regard, a fund and its investors might find multiple of invested cash (MOIC) more appropriate than internal rate of return (IRR), or vice versa, rather than requiring both, which could be confusing to investors. Requiring a prominent focus on IRR, for example, could incentivize an adviser that employs a long-term strategy to adopt a shorter time horizon for an investment rather than focusing on long-term growth that could increase MOIC, since the longer time period may reduce IRR. We believe that individual investors, and the funds designed for them, are better-served by

---

[3] Eliminating the Prohibition Against General Solicitation and General Advertising in Rule 506 and Rule 144A Offerings, SEC Release No. 33-9415 (Jul. 10, 2013) (adopting release) (available at https://www.sec.gov/rules/final/2013/33-9415.pdf), at 83.

focusing on total investment return measures, such as MOIC, especially when considering allocation strategy among other asset classes, such as public equities, where total return measures can be more comparable and easier to understand.

Finally, if it will be the case that private funds must be audited, we respectfully request that existing funds be grandfathered. Our funds' expense model, under which the investment adviser bears virtually all fund expenses for very small funds, is simply not built with the costs of expensive audits in mind. Such costs would require significant adjustments to our business model going forward, and we have not yet digested all of the complexities that would be involved in trying to change that model for our many small, existing funds.

Thank you again for the opportunity to comment on the proposed rulemaking.

Sincerely, Alumni Ventures

By: Michael Collins
Founder & CEO

Colin Van Ostern

President & COO

Michael G Phillips

Michael G. Phillips
Chief Compliance Officer & Securities GC