Man Investments

December 1, 2003

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Via U.S. Mail (in triplicate)

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

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RE: File No. S7-18-03 (Release Nos. 33-8297; IC-26198)

Dear Mr. Katz,

We appreciate the opportunity to comment on the rules recently proposed by the Securities and Exchange Commission ("Commission") under the Investment Company Act of 1940, as amended (the "1940 Act"), that address the ability of an investment company to acquire shares of another investment company (the "Proposed Rules"). We generally support, but do not comment on, provisions contained in the Proposed Rules intended to create greater flexibility to purchase the securities of other investment companies. We do, however, have significant concerns generally regarding the Commission's proposal to require any fund that invests in another fund to include in its prospectus fee table an additional line item that discloses the costs of investing in underlying funds. In particular, we strongly oppose the requirement in the context of a registered closed-end fund of hedge funds ("FOHF").

Man Investments Inc. ("Man") acts as distributor for Man-Glenwood Lexington, LLC ("MGL"), a registered closed-end fund of hedge funds that invests in Man-Glenwood Lexington Associates Portfolio, LLC ("MGLAP") in a master-feeder arrangement. MGLAP is advised by Glenwood Capital Investments, L.L.C. ("Glenwood"). Man and Glenwood are wholly-owned subsidiaries of Man Group plc, which is listed on the London Stock Exchange and is a constituent of the FTSE 100 Index. Man Group plc is a diversified global financial services firm that engages in a broad spectrum of activities including financial advisory services, asset management activities, sponsoring and managing private investment funds, engaging in broker-dealer transactions, and other financial activities.

Proposed Fee Table Disclosure

We generally oppose the proposed requirement that a FOHF aggregate the expenses of acquired hedge funds and disclose such expenses as an additional expense in the fund's prospectus fee table. We believe that the proposal (a) would not accomplish the Commission's stated objective, (b) that in the context of a FOHF the disclosure proposal is overly simplistic and the line item

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figure would be unworkable and mis-portray FOHF expenses, and (c) that such a line item in the fee table will confuse and potentially mislead FOHF investors. In addition, the proposal would, as a practical matter, prove very costly and not provide a commensurate benefit to investors. Alternatives to the fee table proposal exist that would be more helpful to investors without creating significant additional costs to FOHFs. At a minimum, we believe that significant revisions to this proposal are necessary if the Commission's goal of assisting investors in understanding costs in the FOHF context is to be met.

Types of Hedge Fund Fees. Many hedge funds charge a fee based largely, and in some instances solely, on the performance of the hedge fund, and have a relatively small (or no) fixed fee. Performance fee arrangements based on a share of the income or gains of the hedge fund also vary widely among investors in a hedge fund, and in certain instances may be negotiated through means of lock-ups or side letters with individual investors in the hedge fund. Some hedge funds do not charge any fee, but charge all fees, including performance fees, directly to each investor at different negotiated rates. With regard to a FOHF, due to portfolio changes, the expected arrangements for fees charged by portfolio hedge funds are purely speculative and such fees are impossible to determine or estimate without predicting the hedge fund's performance.

Stated Objectives. The Commission's stated objectives are to assist investors in comparing alternative funds of funds and to compare the cost of a fund of funds to the cost of a more traditional fund. FOHFs are typically designed to provide an alternative investment, that is, an investment that usually produces returns with a low correlation to traditional stock and bond investments, and to funds investing in those asset classes. Because FOHFs are alternative investments representing an entirely different asset class, investors typically do not compare such funds with traditional funds or with other types of funds of funds, but only among other FOHFs.

Under the proposal, any fund that invests in another fund would be required to disclose in the fee table in its prospectus the acquiring fund's pro-rata portion of the cumulative expenses charged by funds in which the acquiring fund invests. As noted in the proposing release, the basis for such amendment is derived from the belief that no direct means exists to determine whether the indirect costs of acquired funds will result in a higher overall cost of investing in a fund of funds when compared with another fund of funds, or a more traditional fund. We believe that the single most important factor in comparing FOHFs are such funds' actual returns over time, which demonstrate the adviser's ability to select a diversity of hedge funds and provide alternative returns. Indirect expenses simply are represented in the FOHFs returns, and those returns provide the basis for comparison among FOHFs. The fees incurred directly by an investor in the FOHF are currently represented in the fee table.

Infeasibility of the Proposed Requirement. The proposal is overly simplistic and does not acknowledge that performance in particular hedge funds is unlikely to remain constant, even in the event that the FOHF's performance does not change dramatically. Because hedge fund performance may change, and therefore fees may vary widely, it is misleading to use past fee payments in the manner proposed, and impossible to predict performance fees in the future, which would entail predicting hedge fund performance itself and making a material representation regarding such performance in the form of a line in the fee table. The proposal also would require a FOHF to represent expenses potentially largely unrelated to current investments that could differ materially from current expenses. The FOHF would further be required to monitor and determine as an ongoing matter the fees actually paid to hedge funds and determine whether any changes in fees paid would have a material impact on the fee table disclosure.[1]

Effect of the Proposed Disclosure. As proposed as part of a FOHF's fee table, without further explanation, the proposal seems to suggest that the amount of expenses of the underlying funds are fixed costs of the FOHF and not subject to change over time either based on (a) changes in hedge fund performance and therefore hedge fund fees, and/or (b) changes in the FOHF portfolio involving a different mix of hedge funds having different fee arrangements. Such a portrayal could cause an investor to believe that he, she or it will be directly responsible for such fees and that such fees represent a fixed cost of investment in the FOHF.

Expenses of Proposal. We respectfully believe that the costs described in the proposal are vastly understated in the context of FOHFs. The costs of calculating the line item in the fee table would entail vast amounts of time by numerous personnel reviewing a large number of hedge funds that provide information in varying formats. In addition, as a practical matter, a FOHF would be required to monitor and recalculate actual performance fees paid on an ongoing basis to guard against a material misstatement in the fee table. We estimate that the cost to a single FOHF of initial calculation each year would amount to between $8,000 and $25,000 depending on the number of personnel involved and the need for auditor review, significantly more than the $415 estimate in the cost/benefit analysis. In addition, ongoing monitoring would impose continuing costs estimated at $15,000 per year, or much more depending on necessary consultation with legal counsel regarding materiality determinations and supplementing of a prospectus. Many FOHFs do not have vast amounts of assets across which to spread such costs. These costs would be added to ongoing operational and monitoring costs, which may already exceed costs of other types of investment companies, with no benefits for investor comparison purposes.

Alternatives. As expressed, we have serious concerns regarding the fee table proposal, which, if the Commission ultimately adopts as proposed, will impose expenses and potential liability on FOHFs without a benefit to investors. We believe that underlying hedge fund costs are not an appropriate determining factor for investment in a FOHF in the sense that there is no one "cookie cutter" style of hedge fund and various factors addressed above make calculation of fees difficult and the presentation confusing. We therefore propose that the Commission require FOHFs to disclose elsewhere in their prospectuses, and not in the fee table, estimated ranges of fees that could be charged by hedge funds, accompanied by prominent text describing the nature of such fees (e.g., that

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1 In addition, a number of technical issues exist in the proposal. For example, it is unclear how a FOHF would treat a high-water mark or claw back provision when determining hedge fund fees to use in the calculation under the fee table line item proposal. In addition, in many instances, a hedge fund retains a holdback of 5% when redeeming an investor such as a FOHF with the balance being subject to audit adjustment before return It is unclear how a FOHF would treat such a holdback under the proposal and whether it represents an investment by the FOHF in the hedge fimd.

fees vary widely based on hedge fund performance) and that such fees serve to reduce the returns of the FOHF. Another alternative to the proposed fee table disclosure is inclusion of a footnote or text following the fee table specifically designed for a FOHF that requires the disclosure discussed in the previous sentence.

Thank you for the opportunity to comment. If you have any questions regarding this letter, please do not hesitate to contact me at (312) 881-6500.

Sincerely,.

John M. Kelly
President and CEO
Man Investments Inc.