

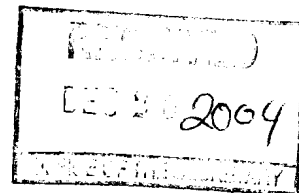
December 13, 2004

Virginia Ventures, LLC

174

Mr. Jonathan Katz, Secretary
U. S. Securities & Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

57-30-04



Dear Mr. Katz:

You and your colleagues at the Commission are turning your sights on the hedge fund industry, and rightly so. Before I realized you were the Commission Secretary responsible for this, I had written Chairman Donaldson applauding his efforts in this area.

I have been involved in hedge funds at a number of levels over 16 years. While many of my vintage are against your action, I truly believe the Commission is taking the proper steps at the proper time.

This influx of institutional monies is emanating from less and less sophisticated plan sponsors (publics and Taft-Hartley's), and is now chasing less and less proficient managers for the most part. The "Perfect Storm" – maybe not that serious yet, but certainly headed in a direction that smells of trouble.

Not to burden your plate with other issues, but it is important to point out the increased usage of leverage at the fund-of-fund level. Because the returns this year will not measure up to those expected by clients, many (some say up to 44%) hedge fund-of-funds have begun levering their vehicles to deliver returns more in line with the expected.

This is a practice that is unsettling to the stomach. Due to benign returns in many sectors, low borrowing costs and expectations, FOF's are gravitating to this mechanism to bolster the return profiles of their funds.

Although many documents of FOF's allow this activity, most have yet to employ this management strategy until recently. The multiplier effect on the underlying hedge funds is quite dramatic. Example. Many hedge funds use a 2:1 leverage ratio as the outer limit on long/short equity. If a FOF further applies 2:1 leverage at the fund level, we now have an effective 4:1 leverage on that manager. A level totally unsettling and not within the typical parameters of that style.

I worry that a continued upward move in short-term rates, future benign volatility in many strategies and the pressure to deliver the "8 to 10" net returns expected, are a formula ripe with uneasy consequences.

I applaud your good work and it is comforting to know you are on watch. Your hand at the helm will better ensure a hedge fund industry that grows properly and serves investors professionally.

Regards,


Leighton Strader