

## PARTNERS FOR GROWTH MANAGERS, LLC

February 8, 2012

Jennifer J. Johnson  
Secretary  
Bd. of Governors of the Federal Reserve System  
20<sup>th</sup> Street and Constitution Avenue, NW  
Washington, DC 20551

Elizabeth M. Murphy  
Secretary  
Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

Robert E. Feldman  
Executive Secretary  
Attention: Comments  
Federal Deposit Insurance Corporation  
550 17<sup>th</sup> Street, NW  
Washington, DC 20429

Office of the Comptroller of the Currency  
250 E Street, SW  
Mail Stop 2-3  
Washington, DC 20219

Re: Restrictions on Proprietary Trading and Certain Interests in and  
Relationships with Hedge Funds and Private Equity Funds

Ladies and Gentlemen:

Partners for Growth Managers is pleased to respond to your Agencies' Joint Notice of Proposed Rulemaking, in which you propose rules to implement section 619 of the Dodd-Frank Act. Our comments focus on Question 310. We urge you to implement the Volcker Rule in a way that focuses on the type of high risk trading activities Congress meant to regulate, and does not sweep in other activities – including venture investing – that do not need to be, and should not be, subjected to Volcker's rigid limits.

Partners for Growth Managers was started in 2004 to provide critical capital to early-stage emerging growth technology and life science companies. Our capital is used to support innovation and growth and is available to companies that typically cannot access traditional forms of finance. We manage three partnerships with the backing of Silicon Valley Bank as our key and largest investor.

The principals of Partners for Growth Managers have worked together as a team for over 20 years, providing debt financings to emerging technology and life science companies (which are often backed by venture capital firms). Our strategy has remained consistent since we started the business back in 1985; that is; to provide custom debt financing to emerging growth companies that are underserved by traditional lending sources (primarily commercial banks). We have financed over 119 technology and life sciences companies since 1985 including companies such as Sybase, AOL and Xilinx when they were small start-up companies. Most recently we have financed companies such as Comverge, which provides devices that reduce peak electricity needs for consumers, and Data Sciences International which provides devices to help medical researchers more cost effectively develop products. The companies we have financed over the years range from pre-revenue start-ups to larger companies with up to \$75 million in revenue. Regardless of the size of company, all the companies we have financed have come to us because they were not able to obtain traditional sources of debt financing. They are not able to obtain traditional debt financing (primarily commercial loans) because they are either too small, unprofitable or have a limited history of profitability, or are in a sector that is out of favor (such as semiconductor equipment companies during a historical semiconductor down cycle).

From our inception in 1985 to 2000, we operated as a subsidiary of a small investment bank (Hambrecht & Quist). When Hambrecht & Quist was purchased by Chase Manhattan Bank and then JP Morgan, our small operation (less than \$100 million in loans) was deemed no longer strategic to the larger operations of the bank. We were however fortunate to find Silicon Valley Bank to replace JP Morgan as both our primary investor and strategic partner, which enabled us to continue our efforts with the formation of Partners for Growth in 2004.

Silicon Valley Bank recognized that there was a subsection of companies that needed both custom and incremental capital to what the bank could provide as a commercial lender. It also recognized our unique skill set and experience in pricing and managing these custom financings for emerging growth companies and as such invested \$25 million in our first partnership and became our largest investor (supplemented by \$25 million from high net worth investors). Silicon Valley Bank has continued to fund us, and, while Partners for Growth has never had more than \$70 million of loans outstanding at any time, through recycling (re-lending principal and interest repaid to us) we have been able to provide over \$220 million of financing to 63 companies. All these companies were not able to obtain traditional commercial bank financing to meet all their growth needs and thus needed to come to Partners for Growth. It is also important to note that nearly all of our capital (90% plus) has come not from leverage but from equity investments from our partners; both high net worth individuals and

institutions such as Silicon Valley Bank. It is also noteworthy to mention that since Partners for Growth was founded in 2004, we have had total losses of only \$3.3 million (hardly a threat to the financial system of the USA), and that amounts to only 1.5% of committed loan amounts. Silicon Valley Bank is the largest lender to venture backed companies in the world and without their recognition of our contribution and investment in our funds, we would not have been able to continue our efforts in funding these important venture-backed companies.

One of the most important things that we as a country can do is to promote innovation. The types of companies we finance are critical in creating high paying jobs and many if not most are selling their products to an ever increasing global customer base. Silicon Valley Bank's support has been key to our ability to continue our operations and fund these important venture-backed companies. Yet if you adopt your proposed regulations in their current form, the Volcker Rule will prohibit commercial banks, such as Silicon Valley Bank, from ever again investing in partnerships like ours.

On its face, such an outcome is very difficult to understand. SVB can (and does) routinely make individual loans of a size comparable to its investment to us. Yet if the Volcker Rule is adopted as proposed, SVB and other institutions could not invest in our funds, so that we could in turn lend these funds to a broader portfolio of borrowers. If a bank can lend to a start-up, on what policy ground should it be banned from joining others to jointly lend to that same start-up as part of a diversified lending portfolio?

More broadly, we think such a regulatory outcome would be a mistake. It would certainly reduce the amount of capital available to venture-backed emerging growth companies, eliminating the jobs, and further reducing tax revenues and export income that have come from these companies. Investments in small, unleveraged venture debt companies such as ours has not caused any of the systemic risk that this sort of regulation should properly be focused upon.

This problem can be solved. As Chairman Dodd, the Financial Stability Oversight Council, and others have concluded, you may refine the definition of covered funds, using the flexibility provided in the definition ("or such other funds...") or by concluding that they promote the safety and soundness of the banking entity and the financial stability of the United States.

You have already tentatively decided that some other activities (bank owned life insurance separate accounts, asset-backed securitizations, and corporate organizational vehicles) meet this test. In our view venture investing is at least as compelling – indeed, more compelling – on both fronts. Banks like SVB deepen their understanding of the sectors they serve by

working with clients at every stage of the capital and liquidity cycle. This allows them to safely lend to a group of companies (venture-backed, pre-profitability high growth startups) that need financing to grow, but that most banks will not lend to. As providers of debt financing to these same types of companies, and having worked with SVB through two economic cycles – including the dot.com bust – we have seen firsthand how the breadth and depth of their interactions with the markets they serve has strengthened their ability to provide much-needed credit on a safe, sound basis.

We also believe that venture financing promotes financial stability. SVB's investments in our funds have directly added to the system's capacity to meet the credit needs of borrowers – a core attribute of a stable, functioning financial system. In addition, venture investments promote financial stability by aggregating capital and investing that capital, over the long term, in transformative technologies, creating stronger companies and stronger high growth sectors. They promote broader economic health and vibrancy and sustained net new job creation. Finally, funds like ours invest most actively on a counter-cyclical basis, helping to counter-balance broader economic swings.

We believe that venture funds can easily be defined in a way that distinguishes them from hedge funds and private equity funds, by relying on the SEC's definition of venture capital (set forth in Rule 203(l)-1 of the Advisers Act). However, we urge you to allow banking entities to sponsor and invest in funds like our – funds that would qualify as venture capital funds under Rule 203(l)-1 but for the fact they provide loans or convertible debt (rather than equity investments) to qualified portfolio companies – as well as equity funds. Funds that provide debt are much closer to banks' core mission, and are at least as safe – and almost certainly safer – than equity funds.

We hope you will use the discretion Congress vested in you to reach the right outcome for our financial sector, for our country, and for high growth start-up companies across the United States.

Thank you for considering our views.



Andrew Kahn



Donald Campbell