



# GLADSTONE MANAGEMENT

February 27, 2006

Ms. Nancy M. Morris  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, N.E.  
Washington, D.C. 20549-0609

Re: Investment Company Governance Proposed Rule, File No. S7-03-04

Dear Ms. Morris,

I write to comment on the two memoranda prepared by the Commission's Office of Economic Analysis ("OEA") examining literature and studies on the relationship between mutual fund governance (in the form of an independent chairperson and 75% independent board) and performance.

I have reviewed these papers and believe that their substance provides further support for the views expressed in my prior comment letter on the proposed rules dated August 4, 2006. The information provided in the studies seems only to attempt to explain reasons why there is a "lack of consistent evidence that board composition leads to better fund performance" and why "most studies assessing the impact of chairperson independence on returns do not have sufficient power to reliably conclude that a relation does or does not exist," as quoted from these papers. I would again respectfully submit that the proposed rules add no *proven* performance or governance value that can be translated into economic or other benefit to stockholders, and ask that the Commission seriously consider whether it is prudent to add another regulatory cost burden, which will be disproportionately felt by smaller funds such as the ones that we manage, in the absence of reliable empirical data suggesting that the regulations will accomplish their intended purposes.

I also believe that the Commission should be mindful of regulatory flexibility in its rulemaking process. In my prior letter I suggested that the Commission consider other less costly alternatives that might serve to further the intended purposes of these rules. These suggestions were to require that all independent directors have the opportunity to review and add items to all board meeting agendas, that there be a supermajority requirement for independence on the board, and that the chief compliance officer be required to report quarterly to the independent board members in executive session outside of the presence of management. All of these alternatives would provide a way to strengthen the independence of the board, without taking away the discretion of each fund board to decide on its own whether it would benefit from having an independent chairperson.

Given that the Commission and a number of researchers have not found any clear correlation between an independent chairperson or 75% independent board composition and either superior performance or improved compliance, the Commission should vote down the proposed rules. After all, superior performance and improved compliance is what we are all striving for. There is no reason to layer more costs and encumbrances to operations as the proposed rules would do, if we cannot make a reasonably reliable assumption that these rules will benefit stockholders in the intended manner. The suggestions noted above would similarly improve upon rules already adopted by the Commission, but would be much less costly and less disruptive to operations.

I appreciate the opportunity to comment on these studies, and again ask that the Commission consider these and other comments, and all available alternatives to accomplishing the purposes behind these rules, before imposing further regulation that currently has no proven economic or other benefit to fund investors.

Sincerely,

A handwritten signature in black ink, appearing to read "David Gladstone". The signature is written in a cursive, flowing style with a long horizontal tail stroke.

David Gladstone