

Vodia Group LLC
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Letters to the Editor
The Wall Street Journal
200 Liberty Street
New York, N.Y. 10281

January 26, 2007

Dear Editor,

We at Vodia Group were pleased to see your article on short selling and corporate governance (How Borrowed Shares Swing Company Votes, 01/26/07). The \$8B industry revenue figure cited in the article is in fact from one of our reports.

As advisors on securities lending portfolios to hedge funds, mutual funds, pension plans and broker-dealers, we agree that borrowed shares should not be used to vote in shareholder contests (“empty voting,” according to the article). However, we disagree with the article’s focus on hedge funds as creators of a plot to defraud investors. Like almost everything that occurs in the financial services world, hedge funds are acting within the bounds of established rules and protocols to further their own economic interests. In this, they have the support of brokers, custodians and a host of other players.

Until the SEC revises its rules, the real trouble in “empty voting” is the control that lenders have over their securities. Currently, most securities are lent outside the view of the beneficial asset holder, whether pension plan, mutual fund, hedge fund or individual. Most asset holders may know if certain stocks have been lent if they ask specifically; otherwise, if they are large enough they may simply receive a check at the end of the month. The existing system leaves little room for proactive decision making around which securities to lend, what profits are available and what might happen in case of a shareholder vote.

Vodia Group assists lenders in maximizing securities lending revenues while keeping a close eye on the management of their assets. These services are customized for each lender but are always based on transparency and communication. While customization means less fungible liquidity in the securities lending market, it also produces greater comfort on the part of the asset holder. Given that securities lending revenues can yield between 10 and 75 basis points of a fund’s return, the Lord, Abbott approach of withdrawing from the market need not be the only remedy available.

Thank you for the opportunity to have our say.

Sincerely,

Josh Galper
Managing Principal

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