CONVERGENCE

OPTIMAL PERFORMANCE

SECURITIES AND EXCHANGE COMMISSION
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PRIVATE FUND ADVISERS; DOCUMENTATION OF REGISTERED INVESTMENT ADVISER COMPLIANCE REVIEWS
AGENCY: Securities and Exchange Commission.
ACTION: Proposed rule.

PUBLIC COMMENT SUBMITTER – CONVERGENCE INC.

SUBMISSION DATE: APRIL 23, 2022

ABOUT CONVERGENCE

Convergence Inc. is a Connecticut-based research and data science company founded in 2013 by risk management, compliance and operations executives who supported many of the industry's leading asset managers and services providers. We source, normalize, structure and enrich information we collect from multiple SEC regulatory filings, public domain sources, social media and other commercial sources and study it to identify trends and develop insights that are used by our clients to grow their business, identify and manage risk and improve efficiency and effectiveness.

We score the quality of regulatory filings for accuracy, consistency and frequency, each of which tells a story about the filing adviser. These stories are analyzed to determine their impact on the investment advisers, investors and service providers.

PLEASE CONTACT THE FOLLOWING REPRESENTATIVES OF THE SUBMITTER FOR ADDITIONAL INFORMATION OR CLARIFIACTION.

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Section II A - Proposed Rules – Quarterly Statements

Item 1. Fee and Expense Disclosures

We request comment on all aspects of the proposed content of the portfolio investment table, including the following items:

1. Should we require advisers to disclose all compensation and fund expenses as proposed? Do commenters agree with the scope of the proposal? Why or why not?
    a. ***Convergence Comment – Yes, Convergence believes that advisers disclose all compensation and fund expenses for the following reasons: full disclosure improves transparency into various expense types and levels across different fund types and better transparency creates opportunities to create efficiency***

2. Would the proposed content result in fund-level fee and expense disclosure that is meaningful to investors?
    a. ***Convergence Comment - Yes, fund-level fee and expense disclosure are meaningful to investors. Full disclosure and transparency into the various types and character of expenses provides investors with better insights into the true cost of doing business and as a result would improve their understanding of the total returns needed to meet their expected net fund returns. Some investors who invest in multiple private funds can use the transparency to benchmark fees and expenses across managers. This might create opportunities for the investor to influence expenses they have in common across multiple funds.***

3. The proposed rule would require an adviser to include the compensation paid to a related person sub-adviser in its quarterly statement.
    a. For private funds that have sub-advisers that are not related persons, should we require a single quarterly statement showing all adviser compensation (at both the adviser and sub-adviser levels)?
        i. ***Convergence Comment - Yes, Advisers know what they pay sub-advisers and should disclose the cost and footnote that they are preparing the sub-advisory fee disclosures***

    b. In cases where a non-related person sub-adviser does not prepare a quarterly account statement in reliance on the adviser's preparation and distribution of the quarterly statement to the fund's investors, how would advisers reflect the compensation paid to the sub-adviser and its related persons?
        i. ***Convergence Comment - Yes, Advisers know what they pay sub-advisers and should disclose the cost and footnote that they are preparing the sub-advisory fee disclosures.***

    c. Do commenters agree that such compensation would be captured as a fund expense?
        i. ***Convergence Comment - Yes, sub-adviser compensation should be disclosed as a fund expense. This will allow investors the ability to understand the full extent of the management fees they pay.***

d. Should we require a separate table covering these fees and expenses, as well as a separate table showing portfolio investment compensation paid to the sub-adviser or its related person?

i. ***Convergence Comment - Yes, the SEC should require separate tables for portfolio investment compensation, fund fees and expenses, portfolio company fees and expenses.***

e. How would advisers operationalize this requirement in these circumstances?

i. ***Convergence Comment - Advisers can outsource these chart-of-account requirements to third-party service providers, particularly Fund Administrators, and other fintech firms that provide outsource accounting and middle-office services.***

4. Should we adopt the proposed definitions of "related persons" and "control" as proposed?
   a. ***Convergence Comment - Yes, we recommend adopting as proposed***

5. Are they too broad?
   a. ***Convergence Comment – No***

6. Are the proposed definitions broad enough?
   a. ***Convergence Comment - Yes***

7. Should we add former personnel of the adviser or its related persons to the proposed definition?
   a. ***Convergence Comment - Yes, former personnel and related persons of the adviser should be included on the proposed definition***

8. If so, for how long after a departure from the adviser or its related persons should such personnel fall into the definition?
   a. ***Convergence Comment - The duration should remain for as long as the adviser or related person is receiving compensation.***

9. Should the definition of related person include family members of adviser personnel or persons who share the same household with adviser personnel?
   a. ***Convergence Comment - Yes***

10. Should the definition capture any person directly or indirectly controlled by the adviser's officers, partners, or directors (including any consulting firms controlled by such persons)?
    a. ***Convergence Comment - Yes***

11. Should it capture operational partners, senior advisors, or other similar consultants of the adviser, the private fund, or its portfolio investments? Should we add any entity more than five percent of the ownership of which is held, directly or indirectly, by the adviser or its personnel?
    a. ***Convergence Comment - Yes***

12. Should the definition include any person that receives, directly or indirectly, management fees or performance-based compensation from, or in respect of, the fund; or any person that has an interest in the investment adviser or general partner (or similar control person) of the fund?
    a. ***Convergence Comment - Yes***

13. If we adopt a different definition of "related person" than what is being proposed, should we use a different defined term (such as "related party") to avoid confusion given that the term "related person" is defined in Form ADV?
    a. ***Convergence Comment - No. You should harmonize the term "related person" across in the ADV and the proposed rules. There are many similar types of inconsistencies in across various SEC filings. We believe that the term related party should cover the various disclosures the SEC is proposing.***

14. For purposes of the definition of "control," are the control presumptions appropriate in this context? Should we eliminate or modify any of the presumptions? For example, should we eliminate aspects of the definition that may capture passive investors who do not have the power to direct the management or policies of the relevant entity? Why or why not? Should we add any additional control presumptions? For example, should an entity be presumed to be controlled by an adviser to the extent the adviser has authority over the entity's budget or whether to hire personnel or terminate their employment?
    a. ***Convergence Comment - The definition of the term "control" should be strengthened by considering the addition of a hard rule around any economic influence that advisers may exercise over certain service providers. Economic influence over a service provide can exist when the adviser's business, including its related parties taken together is greater than 10% of the service providers revenue or ebitda. The practical implications of this can be minimized by requiring advisers to seek from their service providers annual disclosure on the amount of revenue received from the adviser and its related persons and the percentage of the Service Providers revenue and ebitda the adviser's business represents.***

15. The proposed rule includes a non-exhaustive list of certain types of adviser compensation and fund expenses. Would this information assist advisers in complying with the rule? Should we add any additional types? If so, which ones and why?
    a. ***Convergence Comment - No, such a list will not assist advisers comply with the rule. The adviser should disclose the types of compensation and fund expenses they incur. The SEC should work with organizations like ILPA, AIM and the MFA to develop more detailed templates that capture the type of expenses relevant to the members of each organization.***

16. Do private fund advisers or their related persons receive other economic benefits that the rule should require advisers to disclose in the quarterly statement? For example, should we require hedge fund advisers to disclose the dollar amount of any soft dollar or similar benefits provided by broker-dealers that execute trades for the funds, or any benefits provided by hedge fund prime brokers?

a. ***Convergence Comment - Yes, advisers receive other types of hard and soft-dollar economic benefits that should we included and discussed including i) reduced managed company expenses for similar services.***

17. Do commenters agree with the scope of the proposed definition of "performance-based compensation"? Should we specify the types of compensation that should be included in the definition? For example, should the definition specify that the term includes carried interest, incentive fees, incentive allocations, performance fees, or profit allocations?
    a. ***Convergence Comment - Yes, we agree with the proposed definition yet would advise against providing line-item recommendations. The definition of performance-based fees should be broadened to include any type of fee received that is related to the delivery of fund and/or portfolio company performance.***

18. Should we only require the table to disclose adviser compensation and fund expenses after the application of any offsets, rebates, or waivers, rather than before and after, as proposed? If so, why?
    a. ***Convergence Comment - No, you should require the disclosure of gross and net expenses to provide for a full audit trail over multiple time periods.***

19. Should we define offsets, rebates, and waivers? If so, what definitions should we use and why? Are there any types of offsets, rebates, and waivers that we should not require advisers to reflect in the fund table? If so, which ones and why? To the extent that offsets, rebates, or waivers are available to certain, but not all, investors, are there any operational concerns with reflecting and describing those offsets, rebates, or waivers in the fund-wide numbers presented in the quarterly statement? Are there alternatives we should use?
    a. ***Convergence Comment – Yes, the SEC should define in broad-terms what constitutes offsets, rebates, and waivers.***
    b. ***Convergence Comment - All offsets, rebates, and waivers should be reflected in the fund table.***
    c. ***Convergence Comment - Yes, there would be operational burdens associated with producing investor statements across investors with different offsets. However, we believe the relief from this operational burden is available through Fund Administrators and should be required.***

20. Should we require advisers to disclose the amount of any offsets or rebates carried forward during the reporting period to subsequent periods to reduce future adviser compensation as proposed? Would this information be helpful for investors? Do advisers already provide this information in the fund's financial statements or otherwise?
    a. ***Convergence Comment – Yes, advisers should disclose the amount of any offsets or rebates carried forward during the reporting period to subsequent periods to reduce future adviser compensation as proposed.***
    b. ***Convergence Comment – The benefit and usefulness to investors will be a function of the materiality of any offset roll-forward.***
    c. ***Convergence Comment – We have not seen advisers already provide this information in the fund's financial statements or otherwise.***

21. Should we require advisers to provide any additional disclosures regarding fees and expenses in the quarterly statement? In particular, should we require any disclosures from

an investment adviser's Form ADV Part 2A narrative brochure (if applicable) to be included in the quarterly statement, such as more details about an investment adviser's fees?

a. ***Convergence Comment – The SEC should require consistency between the adviser's Form ADV Part 2A narrative brochure and the quarterly statement. This may eliminate the inconsistencies often seen between ADV Part 1A and Part 2A and the quarterly statements. For example, there are several sections in ADV Part 1A where questions answered by the advisers are inconsistently described in Part 2A. For example, in ADV Part 1A Item 7B2-Private Fund Reporting, Advisers disclose Service Providers for their funds but do not clearly refer to these types of fees in Section 2A.***

22. Should we tailor the disclosure requirements based on fund type? For example, should the requirements or format for hedge funds differ from the requirements and format for private equity funds? Are there unique fees or expenses for types of funds that advisers should be required to disclose or otherwise list as a separate line item? If so, how should we define these types of funds for these purposes? For example, should we use the definitions of such terms used on Form ADV?

a. ***Convergence Comment – No, the SEC should not tailor the disclosure requirements based on fund type.***

b. ***Convergence Comment – Yes and no. While different fund types incur fees and expenses that are unique to the type of fund, in general, the categories of fees are generally consistent across all fund types. For example:***

   i. ***Investment Related***
      i. ***Pre investment deal origination, sourcing and implementation***
      ii. ***Post investment monitoring, management and monetization***
      iii. ***Trading and Hedging***
      iv. ***Investment and Industry Research and Technology***

   ii. ***Non-Investment Related***
      i. ***Fund Administration***
      ii. ***Fund Audit***
      iii. ***Prime Brokerage***
      iv. ***Custody***
      v. ***Marketing***
      vi. ***Fund Compliance***
      vii. ***Fund Governance***
      viii. ***Investment Risk Monitoring***
      ix. ***Technology***

23. Do any of the proposed requirements impose unnecessary costs or compliance challenges? Please provide specific data. Are there any modifications to the proposal that we could make that would lower those costs or mitigate those challenges? Please provide examples.

a. ***Convergence Comment – The proposed requirement should not impose unnecessary costs or compliance challenges. We would argue that the market for fund accounting and operational technology should facilitate an efficient and low-cost solution for advisers. Of course, those advisers that choose to do***

their own books and records will incur greater costs because they simply cannot scale their costs.

b. ***Convergence Comment – The SEC should consider requiring all private funds use third-part fund administrators. The industry is mature enough to support such a mandate and we believe that fund administration costs across the industry would benefit from the greater level of scale that this requirement would create.***

24. The proposed quarterly statement prescribes minimum fee and expense information that must be included. What are the benefits and drawbacks of prescribing the minimum disclosure to be included in the quarterly statement and otherwise permitting advisers to include additional information? Do commenters agree that we should allow advisers to include additional information? Would the inclusion of additional information affect whether investors review the quarterly statement?
    a. ***Convergence Comment – The benefit of minimum fee and expense information that must be included is consistency across the industry***
    b. ***Convergence Comment – Yes, we encourage allowing advisers to include additional information in a separate section of the quarterly statement. Similar to the way that the adviser can use Schedule D in Form ADV Part 1A to comment on anything they answered within the form.***
    c. ***Convergence Comment – No, we would argue that additional information, like footnotes to a financial statement, provide color and context to numeric disclosures.***

25. Certain advisers use management fee waivers where the amount of management fees paid by the fund to the adviser is reduced in exchange for an increased interest in fund profits. Because fund agreements often document such waivers with complex and highly technical tax provisions, should we provide guidance to assist advisers in complying with the proposed requirement to describe the manner in which they are calculated or specify a methodology for such calculations?
    a. ***Convergence Comment – Yes, the advisers would benefit from additional guidance on the subject.***

26. Should we permit advisers to exclude expenses from the quarterly statement if they are below a certain threshold? Alternatively, should we permit advisers to group expenses into broad categories and disclose them under single line item – such as "Miscellaneous Expenses" or "Other Expenses" – if the aggregate amount is de minimis relative to the fund's size? Why or why not?
    a. ***Convergence Comment – No, there should not be a de minimis rule.***
    b. ***Convergence Comment – No, do not permit advisers to group expenses into broad categories and disclose them under single line item – such as "Miscellaneous Expenses" or "Other Expenses" – if the aggregate amount is de minimis relative to the fund's size?***
    c. ***Convergence Comment – Bad actors will figure out how to take advantage of minimums and generic expense categories like Other and Miscellaneous defeat the very purpose of expense disclosures.***

27. The proposed rule would require the initial quarterly statement for newly formed funds to include start-up and organizational fees of the fund if they were paid during the reporting period. Instead, should the proposed rule exclude those fees and expenses?
    a. ***Convergence Comment – No, the proposed rule should include these fees and expenses.***

28. Should the table provide fee and expense information for any other periods? For example, should we require advisers to disclose all adviser compensation and fund expenses since inception (in addition to adviser compensation and fund expenses allocated or paid during the applicable reporting period)? If so, should we require since-inception information only for certain types of funds, such as closed-end private funds, and not for other types of funds, such as open-end private funds?
    a. ***Convergence Comment – No, the proposed rule should include fees and expenses for a limited period of time. We suggest 3-years. The activities of the funds change often enough that deeper time-series may raise questions that are less relevant to the way that the fund operates in today's environment.***

29. We recognize that certain private fund advisers may already provide quarterly account or similar statements to investors, such as advisers that rely on an exemption from certain disclosure and recordkeeping requirements provided by U.S. Commodity Futures Trading Commission Regulation 4.7. How often are private fund advisers separately required to provide such quarterly statements, and how often do they do so even when not required? Would there be any overlap between the proposed quarterly statement and the existing quarterly account or similar statements currently prepared by advisers?
    a. ***Convergence Comment – Each adviser's business differs and we cannot comment on this question.***

Portfolio Investment Compensation Disclosures

We request comment on all aspects of the proposed content of the portfolio investment table, including the following items:

1. Would the proposed rule provide portfolio investment compensation disclosure that is meaningful to investors? Should the rule require advisers to disclose additional or different information in the portfolio-investment table? Would more information about the fees and expenses charged to portfolio investments be helpful for investors?
    a. ***Convergence Comment – Yes, the proposed rule will provide portfolio investment compensation disclosure that is meaningful to investors***
    b. ***Convergence Comment – No, the proposed rule on disclosure is sufficient***
    c. ***Convergence Comment – Yes, more information about the fees and expenses charged to portfolio investments be helpful for investors***

2. Should we include any additional definitions of terms or phrases for the portfolio-investment table? Should we omit any definitions we have proposed for the portfolio-investment table?
    a. ***Convergence Comment – No, the proposed definitions are sufficient***

3. Is the proposed definition of "portfolio investment" clear?

a. ***Convergence Comment – Yes, the proposed definitions are clear***

4. Should we modify or revise the proposed definition? For example, should we define "portfolio investment" as any person whose securities are beneficially owned by the private fund or any person in which the private fund owns an equity or debt interest?
   a. ***Convergence Comment – No, the proposed definitions are sufficient***

5. Alternatively, should we define "portfolio investment" as any underlying company, business, platform, issuer, or other person in which the private fund has made, directly or indirectly, an investment?
   a. ***Convergence Comment - No, the proposed definitions are sufficient***

6. Should we permit advisers to determine, in good faith, which entity or entities constitute the portfolio investment for purposes of the quarterly statement rule? For example, a fund of funds may indirectly invest in hundreds of issuers or entities. Depending on the underlying structure, control relationship, and reporting, the fund of funds' adviser may have limited knowledge regarding such underlying entities or issuers.
   a. ***Convergence Comment – No, the adviser should be required to collect such information from investee funds and advisers. If adopted the rule would require these entities to provide the quarterly information to its investors which the Fund of Fund should receive as a matter of course.***

7. Should we exclude such entities or issuers from the definition of portfolio investment for such advisers? Is there a different standard or test we should use? Should we require such adviser to conduct a reasonable amount of diligence consistent with past practice and/or industry standards? Why or why not?
   a. ***Convergence Comment - No, these entities should not be excluded. The adviser's due diligence process should be required entity identification and ownership analysis.***

8. As discussed above, to the extent a private fund enters into a negotiated instrument, such as a derivative, with a counterparty, we would not consider the private fund to have made an investment in the counterparty. Do commenters agree with this approach? Why or why not? Should we adopt a different approach for derivatives or other similar instruments generally? For purposes of determining whether the fund has made an investment in an issuer or entity, should we only include equity investments? Should we exclude derivatives? Why or why not? How should exchange-traded (i.e., not negotiated) derivatives, including swaps and options, be treated for purposes of the rule?
   a. ***Convergence Comment – No, to avoid creating derivative loopholes we believe that a private fund investment should not be excluded unless a facts and circumstances test suggest otherwise. For example, we believe that the derivative exception in 13F reporting (Total Return Swaps) is a good example of a loophole contrary to the intent of 13F disclosures. See SEC v. Abraaj Investment Management Limited and Arif Naqvi, No 19-CV-3244, May 2019.***

9. The proposed definition of portfolio investment would not distinguish among different types of private funds. Is our approach in this respect appropriate or should we treat certain funds differently depending on their strategy or fund type? If so, how should we

reflect that treatment? For example, should we modify the definition with respect to a real estate fund to reflect that such a fund generally invests in real estate assets, rather than operating companies? Because a secondaries fund may indirectly invest in a significant number of underlying operating companies or other assets, should we limit the "indirect" component of the definition for such funds (or any other funds that may have indirect exposure to a significant number of companies or assets)?

a. ***Convergence Comment – Yes, the proposed rule should not differ across fund types.***
b. ***Convergence Comment – Investments in Secondaries, like a Fund of Funds investment, requires sufficient due diligence to fully understand the fund and its adviser.***

10. Why or why not? Would additional definitions be appropriate or useful? Should the proposed rule define the term "entity" and/or "issuer"? If so, how? Should the proposed rule treat hedge funds, liquidity funds, and other open-end private funds differently than private equity funds and other closed-end private funds?
    a. ***Convergence Comment – Yes, the proposed rule should define the terms entity and issuer.***
    b. ***Convergence Comment – No, the proposed rule should not distinguish between hedge funds, liquidity funds, and other open-end private funds differently than private equity funds and other closed-end private funds.***

11. Should we adopt the approach with respect to portfolio-investment compensation as proposed? Do commenters agree with the scope of the proposal? Why or why not?
    a. ***Convergence Comment – Yes, we agree with the scope of the proposal because portfolio-investment compensation creates conflicts between the adviser and its underlying investments and across multiple funds that make multiple portfolio company investments, Additional transparency into these web of holding and conflicts will help investors understand compensation linkages between these entities.***

12. The proposed rule includes non-exhaustive lists of certain types of fees. Would this information assist advisers in complying with the rule? Should we add any additional types? If so, which ones and why?
    a. ***Convergence Comment - No, such a list will not assist advisers in complying with the rule. The adviser should disclose the types of compensation and fund expenses they incur. The SEC should work with organizations like ILPA, AIM and the MFA to develop more detailed templates that capture the type of expenses relevant to the members of each organization.***

13. Should we require advisers to list each type of portfolio-investment compensation as a separate line item as proposed? Would this level of detail be helpful for investors with respect to portfolio-investment reporting? Given that many funds require a management fee offset of all portfolio-investment compensation, is this level of detail necessary or useful to investors? Should we instead require advisers to provide aggregate information for each covered portfolio investment?

a. ***Convergence Comment – Yes, line-item detail will provide greater transparency to investors who can use the information to understand the impact of portfolio-investment compensation at the fund and portfolio company level.***

14. Should the rule permit advisers to use project or deal names or other codes, and if so, what additional disclosures are necessary for an investor to understand the nature of the conflicts?
    a. ***Convergence Comment - No, advisers and investors are already covered under confidentiality agreements that should protect the adviser's portfolio company investments.***

15. We considered only requiring advisers to disclose the amount of portfolio investment compensation after the application of any offsets, rebates, or waivers, rather than before and after. We believe the proposed approach would be more helpful for investors because investors would have greater insight into the compensation advisers initially charge and the amount they ultimately retain at the expense of the private fund and its investors. Do commenters agree? Why or why not?
    a. ***Convergence Comment - Advisers should be required to disclose gross and net of offsets, rebates, waivers etc. This improves transparency and creates an audit trail over at least 3-years that would be helpful to investors and the SEC who can identify inconsistencies and changes between the disclosures from period-to-period.***

16. Would information about a firm's services to portfolio investments be helpful for investors? Are there any elements of the proposed requirements that firms should or should not include? If so, which ones and why?
    a. ***Convergence Comment – Yes, advisers should disclose the types and costs of services they provide to portfolio investments. Advisers should be required to disclose gross and net of offsets, rebates, waivers etc.***
    b. ***Convergence Comments – There are no elements of the proposed requirements that should be excluded.***

17. We considered requiring advisers to disclose the total portfolio-investment compensation for the reporting period as an aggregate number, rather than providing the amount of compensation allocated or paid by each covered portfolio investment as proposed. However, we believe that investment-by-investment information would provide investors with greater transparency into advisers' fee and expense practices and thus be more helpful for investors. Do commenters agree? Should we require advisers to report a consolidated "top-line" number that covers all covered portfolio investments?
    a. ***Convergence Comments – We believe that investment-by-investment disclosure provides the intended transparency into fee, expense and compensation per investment. This level of disclosure can reveal important insights into adviser decisions on staff and compensation.***

18. Should we define the term "ownership interest"? If so, how should we define it? For purposes of the rule, should a private fund be deemed to hold an "ownership interest" in a covered portfolio investment only to the extent the fund has made an equity investment in

the covered portfolio investment? Why or why not? What types of funds may not hold an "ownership interest" in a covered portfolio investment?

a. ***Convergence Comments – Yes, the term ownership interest should be expanded to include any economic right, interest or benefit that the fund has in a company. This disclosure will identify any economic, right, benefit and interest in companies that arise from situations where advisers create these benefits outside of making direct money investments.***

19. The proposed rule would require advisers to list the fund's ownership percentage of each covered portfolio investment. Because the definition of "portfolio investment" could capture more than one entity, will advisers be able to calculate the fund's ownership percentage? Are there any changes to the proposed rule text that could mitigate this challenge? If a portfolio investment captures multiple entities, should we require advisers to list the fund's overall ownership of such entities? If so, what criteria should advisers use to determine a fund's overall ownership?

    a. ***Convergence Comments – Yes, advisers should be able to calculate the fund's ownership percentage across multiple entities. We believe that the advisers have this information and can reduce the burden by enlisting the help of Fund Administrators and/or fintech companies that provide these services. The SEC should nudge the industry forward by adopting the rule as proposed.***

    b. ***Convergence Comments – The criteria for determining overall fund ownership should be based on the principle of economic right, interest or benefit that the fund has in any company.***

20. Should we require advisers to disclose how they allocate or apportion portfolio-investment compensation among multiple private funds invested in the same covered portfolio investment? If so, how should the portfolio investment table reflect this information?

    a. ***Convergence Comments – No, we do not believe that this level of disclosure is helpful to the intent of the proposed rules. The advisers' supervisory practices and/or compliance manuals should already contain disclosures on expense and compensation allocation rules and investors can request them if they want to understand allocation methods.***

21. Certain advisers have discretion or substantial influence over whether to cause a fund's portfolio investment to compensate the adviser or its related persons. Should the requirement to disclose portfolio-investment compensation apply only to advisers that have such discretion or authority? Should such requirement apply if the adviser is entitled to appoint one or more directors to the portfolio investment's board of directors or similar governing body (if applicable)? Is there another standard we should require?

    a. ***Convergence Comments – No, advisers should disclose portfolio-investment compensation regardless of whether they have such discretion or authority. The proposed disclosure can be enhanced to include whether the adviser or board influences the compensation decision. In many cases, this issue is moot because private fund boards are often not independent. Please note that private funds are not mandated to have boards to oversee their private funds and when they do we often see members of the GP and adviser controlling them.***

22. We recognize that certain private funds, such as quantitative and algorithmic funds and other similar funds, may have thousands of holdings and/or transactions during a quarter and that those funds typically do not receive portfolio investment compensation. While the proposed rule would not require an adviser to include any portfolio investment that did not pay or allocate portfolio-investment compensation to the adviser or its related persons during the reporting period in its quarterly statement, these advisers would need to consider how to identify such portfolio investment's payments and allocations for purposes of complying with this disclosure requirement. Should the rule provide any full or partial exceptions for such funds? Should we require investment-level disclosure for quantitative, algorithmic, and other similar funds only where they own above a specified threshold percentage of the portfolio investment? For example, should such funds only be required to provide investment-level disclosure where they own 25% or more ownership of any class of voting shares? Alternatively, should we use a lower ownership threshold, such as 20%, 10%, or 5%? Should we adopt a similar approach for all private funds, rather than just quantitative, algorithmic, and other similar funds? If so, what threshold should we apply? For instance, should it be 5%? Or 10%? A higher percentage?
    a. ***Convergence Comment – Yes, the rule should provide full or partial exceptions for such funds.***
    b. ***Convergence Comment – No, the SEC should not require investment-level disclosure for hedge funds and quantitative, algorithmic, and other similar funds based on the intent of these funds and any specific investment made therein. As a general rule, hedge funds and quantitative, algorithmic, and other similar funds do not make portfolio investments for the same reasons as many so-called closed-funds and the proposal would create great burden on the adviser. The SEC should consider intent, expected duration of the investment, and the existence of investment-level compensation. However, the original intent of any portfolio investment decision can change, and the SEC should ensure that the principle of the rule is clear and applied even on an exception basis.***

23. Should we exclude certain types of private funds from these disclosures? If so, which funds and how should we define them? For example, should we exclude private funds that only hold (or primarily hold) publicly traded securities, such as hedge funds?
    a. ***Convergence Comment – No, the proposed rule should apply to hedge funds <u>unless</u> they opt for an exception based on the intent of their funds and the portfolio investments they make.***

24. Should we require layered disclosure for the portfolio-investment table (i.e., short summaries of certain information with references and links to other disclosures where interested investors can find more information)? Would this approach encourage investors to ask questions and seek more information about the adviser's practices? Are there modifications or alternatives we should impose to improve the utility of the information for private fund investors, such as requiring the quarterly statement to present information in a tabular format?
    a. ***Convergence Comment – Yes, a layered approach with links to additional information is helpful to investors.***

b. ***Convergence Comment – Investor behavior and their attention to detail varies so it will encourage some but a blanket statement on how the proposed rule will be used by all investors cannot be judged.***
c. ***Convergence Comment – Yes, a tabular format is a clean and helpful presentation.***

25. Are there particular funds that may require longer quarterly statements than other funds? Please provide data regarding the number of funds that have covered portfolio investments and, with respect to those funds, the number of covered portfolio investments per private fund. Should the Commission take into account the fact that certain funds will have more covered portfolio investments than other funds? For example, should we require funds that have more than a specific number of covered portfolio investments, such as 50 or more covered portfolio investments, to provide only portfolio-investment level reporting for a subset of their covered portfolio investments, such as a specific number of their largest holdings during the reporting period (e.g., their largest ten, fifteen, or twenty holdings)?
    a. ***Convergence Comment – The number of portfolio investments per fund varies across the industry based on the type of fund and its investment strategy. We would be in favor for a subset of the portfolios investment as long as it covered at least 60% of the actual holdings.***
    b. ***Convergence Comment – No, the SEC should not attempt to create different reporting thresholds for funds that have more than a specified number of investments. Technology and solutions exist that they should use to limit the likely time and cost burden for advisers with large numbers of portfolio investments.***

26. The proposed rule would require advisers to list zero percent as the ownership percentage if the fund has completely sold or completely written off its ownership interest in the covered portfolio investment during the reporting period. Instead, should we require or permit advisers to exclude any such portfolio investments from the table? Why or why not?
    a. ***Convergence Comment – The SEC should allow advisers to exclude portfolio investment ownership percentages <u>only</u> when the adviser's economic right, interest and/or benefit has fully terminated or expired. The sale of an investment does not mean the elimination of the adviser's economic right, interest or benefit in the investment. A write-off is an accounting principle and does not terminate potential economic benefits that can arise post write-off and/or sale.***

27. The proposed rule would require the adviser to disclose the amount of portfolio investment compensation attributable to the private fund's interest in the covered portfolio investment that is paid or allocated to the adviser and its related persons. Should we require disclosure of portfolio compensation paid to other persons (such as co-investors, joint venture partners, and other third parties) to the extent such compensation reduces the value of the private fund's interest in the portfolio investment?
    a. ***Convergence Comment – Yes, the SEC should require the disclosure of portfolio compensation paid to other persons (such as co-investors, joint***

venture partners, and other third parties) to the extent such compensation reduces the value of the private fund's interest in the portfolio investment.

Item 2. Proposed Rules on Performance Disclosures

We request comment on the following aspects of the proposed performance disclosure requirement:

1. Should the proposed rule require advisers to include performance information in investor quarterly statements? Why or why not?
    a. ***Convergence Comment – Yes, we support the proposed rule. Investors need to see the performance calculations consistently applied over at least a 3-year time period.***

2. Should the proposed rule require advisers to determine whether a private fund is a liquid or illiquid fund and provide performance metrics based on that determination? Alternatively, should the rule eliminate the definitions and give advisers discretion to provide the proposed performance metrics that they believe most accurately portray the fund's returns?
    a. ***Convergence Comment – Yes, we believe that a fund should be categorized as liquid, illiquid or "mixed use," meaning a fund that has elements of both liquid and illiquid portfolio investments. Investors need to see the performance calculations consistently applied from period to period.***
    b. ***Convergence Comment – No the rule should not eliminate the definitions and suggested "mixed-use" definition and Yes, the adviser should be allowed the discretion to select from the proposed definitions the performance metrics it believes most accurately portray fund returns.***

3. Should we define "illiquid fund" and "liquid fund" as proposed or are there alternative definitions we should use? Are there other terms we should use for these purposes? For example, should we refer to the types of funds that would provide annual net total returns under the rule as "annual return funds" and those that would provide internal rates of return and a multiple of invested cash under the rule as "IRR/MOIC funds"?
    a. ***Convergence Comment – Yes, we believe that a fund should be categorized as liquid, illiquid or "mixed use," meaning a fund that has elements of both liquid and illiquid portfolio investments. Investors need to see the performance calculations consistently applied from period to period.***
    b. ***Convergence Comment – No the rule should not attempt to label funds as Annual Return Funds or IRR/MOIC funds. These labels simply define different methods of conveying return information to investors and should not attempt to define funds, which already suffer from multiple labels in different regulatory filings.***

4. Are the six factors used in the definition of "illiquid fund" sufficient to capture most funds for which an annual net total return is not an appropriate measure of performance? Are there any factors we should add? For example, should we add a factor regarding whether the fund produces irregular cash flows or whether the fund takes into account unrealized gains when calculating performance-based compensation? Should we add as a

factor whether the private fund pays carried interest? Are there factors we should eliminate?

a. ***Convergence Comment – Yes, the six factors used in the definition of "illiquid fund" are sufficient to capture most funds for which an annual net total return is not the most appropriate measure of performance.***
b. ***Convergence Comment – No, you should not require a factor for funds that produces irregular cash flows.***
c. ***Convergence Comment – Yes, you should create a factor to describe funds that takes into account unrealized gains when calculating performance-based compensation.***
d. ***Convergence Comment – Yes, you should create a factor to describe funds that generate a carried interest for the general partner and/or adviser.***

5. Should we define additional terms or phrases used within the definition of "illiquid fund," such as "has as a predominant operating strategy the return of the proceeds from disposition of investments to investors"? Would this characteristic carve out certain funds, such as real estate funds and credit funds, for which we generally believe internal rates of return and a multiple of invested capital are the appropriate performance measures? If so, why? Should we eliminate or modify this characteristic in the definition of "illiquid fund"?
   a. ***Convergence Comment – Yes, such additional phrases and definitions would continuously clarify illiquid funds. The Commission should consider additional clarifications if the funds have components of liquid and illiquid portfolio investments.***

6. Should the proposed rule define a "liquid fund" based on certain characteristics? If so, what characteristics? For example, should we define it as a private fund that requires investors to contribute all, or substantially all, of their capital at the time of investment, and invests no more than a de minimis amount of assets in illiquid investments? If so, how should we define "illiquid investments"? Are there other characteristics relating to redemptions, cash flows, or tax treatment that we should use to define the types of funds that should provide annual net total return metrics?
   a. ***Convergence Comments – No, there is no practical benefit to tagging the fund as liquid based on the timing of when the adviser calls for capital.***
   b. ***Convergence Comments – Yes, the liquid fund definition should include a de minimis level of illiquid portfolio investments.***
   c. ***Convergence Comments – We do not believe that net total return metrics should be the basis for labelling a fund as "liquid."***

Calculations and Cross References to Organizational and Offering Documents

We request comment on the following aspects of the proposed rule:

1. Should we allow flexibility in the words advisers use, as proposed, or should we require advisers to include prescribed wording in disclosing calculation methodology? If the latter, what prescribed wording would be helpful for investors? Does the narrative style work or are there other presentation formats that we should require?

a. ***Convergence Comments – Yes, the Commission should allow flexibility in the words advisers use, as proposed. The narrative style works and is the most practical.***

2. Should we provide additional guidance or specify additional requirements regarding what type of disclosure generally should or must be included to describe the manner in which expenses, payments, allocations, rebates, waivers, and offsets are calculated? For example, should we provide sample disclosures describing various calculations? Should the rule require advisers to restate disclosures from offering memoranda (if applicable) regarding the manner in which expenses, payments, allocations, rebates, waivers, and offsets are calculated in the quarterly statement? Do commenters believe that advisers would prefer to restate offering memoranda disclosures rather than drafting new disclosures to avoid conflicting interpretations of potentially complex fund terms? Should the rule only require advisers to provide a cross reference to the language in the fund's governing documents regarding this information (e.g., identifying the relevant document and page or section numbers)?
   a. ***Convergence Comments – Yes, the Commission should provide additional guidance or specify additional requirements regarding what type of disclosure generally should or must be included to describe the manner in which expenses, payments, allocations, rebates, waivers, and offsets are calculated.***
   b. ***Convergence Comments – Yes, the rule should require advisers to restate disclosures from offering memoranda (if applicable) regarding the manner in which expenses, payments, allocations, rebates, waivers, and offsets are calculated in the quarterly statement.***
   c. ***Convergence Comments – Yes, we believe that advisers would prefer to restate offering memoranda disclosures rather than drafting new disclosures to avoid conflicting interpretations of potentially complex fund terms.***
   d. ***Convergence Comment – No, the rule should not allow the adviser to provide a cross reference to the language in the fund's governing documents regarding this information (e.g., identifying the relevant document and page or section numbers)?***

3. Would providing cross references, as proposed, to the relevant sections of the private fund's organizational and offering documents be helpful for investors? Would it permit investors to "cross check" or evaluate the adviser's calculations? Are there other alternatives that would achieve our objectives?
   a. ***Convergence Comments – In the absence of the proposed rule to require advisers to restate disclosures from offering memoranda (if applicable) regarding the manner in which expenses, payments, allocations, rebates, waivers, and offsets are calculated in the quarterly statement, advisers should be required to provide cross-referencing to investors.***
   b. ***Convergence Comments – Yes, it will permit investors to "cross check" or evaluate the adviser's calculations.***
   c. ***Convergence Comments – No, we do not believe there are other alternatives to achieve the Commissions objectives.***

Item 3. Proposed Rules on Preparation and Distribution of Quarterly Statements

We request comment on the quarterly statement preparation and distribution requirement of the proposed rule:

1. Should we require advisers to prepare and distribute statements to clients at least quarterly, or should we prescribe a different frequency? For example, should we require monthly, semi-annual, or annual statements? Should we mandate the same delivery frequency for all proposed statements under the rule? How would each of these approaches affect comparability and effectiveness of the information in those statements? Would a quarterly reporting obligation require advisers to value the fund's investments more frequently than advisers currently do?
    a. ***Convergence Comments – Yes, require advisers to prepare and distribute statements to clients at least quarterly and mandate the same delivery frequency for all proposed statements under the rule. Advisers of hedge funds value almost daily and advisers to most private equity, real estate, venture capital and other closed-end funds know the value of their illiquid investments at least quarterly by updating the inputs to their valuation models quarterly.***

2. We understand that advisers may use a fund administrator or another person to distribute the quarterly statement. Is the proposed definition of "distribute" broad enough to capture a fund administrator or another person acting under the direction and control of the adviser sending the quarterly statement on the adviser's behalf? If not, should we broaden the definition? Instead of changing the definition of "distribute," should we require the adviser to distribute the quarterly statement, unless it has reason to believe that another person has distributed a required statement (and has a copy of each such statement distributed by such other person)?
    a. **Convergence Comments – Yes,** ***the proposed definition of "distribute" is broad enough to capture a fund administrator or another person acting under the direction and control of the adviser sending the quarterly statement on the adviser's behalf.***

3. The proposed rule would require advisers to distribute the quarterly statement within 45 days of a calendar quarter end. Is this period too long or too short for an adviser to prepare the quarterly statement while also ensuring timely delivery to investors? Should we instead adopt a flexible delivery standard, such as a requirement that the adviser distribute the quarterly statement "promptly"? Why or why not? If we were to adopt a prompt delivery standard, should we define "promptly"? If so, how? If we should not define "promptly," should we instead interpret that term to mean as soon as reasonably practicable?
    a. ***Convergence Comments – Yes, The Commission should require advisers to distribute the quarterly statement within 45 days of a calendar quarter end to ensure that investors receive statements as consistently as possible. The more leeway you give on this the more inconsistency will exist. In addition, if the adviser cannot get the quarterly statements out within 45 days, there may be an internal problem that the investor may want to understand.***

4. We understand that preparing quarterly statements may require coordination with, and reliance on, third parties. This may be the case, for example, when a private fund itself invests in other private funds or portfolio companies. Should the rule allow different

distribution timelines for different types of private funds (e.g., fund of funds, master feeder funds)? If so, why (e.g., do certain types of funds value assets more frequently than other types)? Should the proposed rule allow different distribution deadlines for underlying funds, depending on whether or not the underlying funds have the same adviser or an adviser that is a related person of the adviser distributing the quarterly statements?

a. ***Convergence Comments – No, the rule should not allow different distribution timelines for different types of private funds (e.g., fund of funds, master feeder funds). No, the proposed rule should not allow different distribution deadlines for underlying funds, depending on whether or not the underlying funds have the same adviser or an adviser that is a related person of the adviser distributing the quarterly statements. The Commission is not doing itself or investors any favors by allowing for this type of variety. Industry service providers and available technology facilitates far more orderly information aggregation than in the past.***

5. Should the proposed rule bifurcate the timing of when certain information in the quarterly statement is required? For example, should the proposed rule require fee and expense information starting at the fund's inception and then require performance information beginning later? If so, when should we require an adviser to start showing performance?

   a. ***Convergence Comments – No, the proposed rule should require fee and expense information starting at the fund's inception and require performance information to commence at the same time. There is no good reason to bifurcate. It only introduces options subjective disclosure.***

6. Should the proposed rule treat liquid and illiquid funds differently with regard to fee and expense versus performance reporting? For example, should the proposed rule require liquid funds to start distributing quarterly statements with performance reporting sooner than illiquid funds? If so, why and how much sooner?

   a. ***Convergence Comments – No, the proposed rule should treat liquid and illiquid funds the same with regard to fee and expense versus performance reporting.***

7. As proposed, the rule would use "operating results" as the trigger for quarterly statement distribution. Should we instead rely on another trigger to indicate when an adviser must start distributing quarterly statements to investors? For example, should the proposed rule instead require an adviser to start distributing quarterly statements when the private fund has financial statements that report operating results? If so, why? Should we define "operating results" or clarify what it means?

   a. ***Convergence Comments – No, the "operating results " trigger should be used to require an adviser to start distributing quarterly statements when the private fund has financial statements that report operating results? The Commission should define "operating results" to clarify what it means?***

8. Should the proposed rule require an adviser to prepare and distribute an initial quarterly statement sooner than after the first two full calendar quarters of operating results? For example, should we require an adviser to prepare and distribute a quarterly statement after the first calendar quarter of the fund's operations? Why or why not? If we required an adviser

to prepare and distribute a quarterly statement earlier in the fund's life, would this information be useful to investors?

a. ***Convergence Comments – Yes, the proposed rule should require an adviser to prepare and distribute an initial quarterly statement as soon as operating results are available to report. Investors should be informed of operating results as soon as they become available. The rule will create consistency across the industry.***

9. The proposed rule would require advisers to prepare and distribute a quarterly statement after the private fund has two full calendar quarters of operating results and continuously each calendar quarter thereafter. An adviser would be required to provide information for any stub periods that precede its first two full calendar quarters of operating results (*i.e.*, from the date of the fund's inception to the beginning of the first calendar quarter during which the fund begins to produce operating results). Should the proposed rule explicitly address how advisers should handle stub periods? If so, how?

   a. ***Convergence Comments – Yes, the proposed rule should explicitly address how advisers should handle stub periods. We believe that stub-periods should be treated no differently than full quarters with proper disclosure on the duration of the stub-period.***

10. The proposed rule would require fee and expense reporting based on a fund's calendar quarter and performance reporting based on a liquid fund's calendar year. Should we instead use "fiscal quarter" and "fiscal year"? Why or why not?

   a. ***Convergence Comments – Yes the Commission should use "fiscal quarter" and "fiscal year" to improve consistency.***

11. Are there certain types of advisers or funds that should be exempt from distributing the quarterly statement to investors? If so, which ones and why? Are there certain types of advisers or funds that should be required to distribute quarterly statements to investors? If so, which ones and why?

   a. ***Convergence Comments – Yes, the Commission should create an exemption for advisers to liquidating funds with less than 10% of the fund portfolio valuation high-water mark. For non-liquidating funds advisers should be required to distribute the quarterly statement to investors.***

12. Instead of requiring advisers to distribute the quarterly statement to investors, should we require advisers to only distribute or make the quarterly statement available to investors upon request? Despite the limitations of private fund governance mechanisms, as discussed above, should we require advisers to distribute the quarterly statement to independent members of the fund's LPAC, board, or other similar governance body?

   a. ***Convergence Comments – No, the Commission should not adopt the on-request approach and should require advisers to distribute or make the quarterly statement available to investors, unless the investors, or their designees request that the statements not be sent to them.***

13. Rule 206(4)-2 under the Advisers Act (the "custody rule") allows a client to designate an independent representative to receive on its behalf account statements and notices that are required by that rule. Under the custody rule, an "independent representative" is defined

as someone who does not control, is not controlled by, and is not under common control with the adviser, among other requirements. Should we adopt a similar provision in the quarterly statement rule? Are there specific types of investors that need, or at present commonly designate, independent representatives to receive quarterly statements on their behalf?

a. ***Convergence Comments – Yes, the Commission should allow a client to designate an independent representative to receive on its behalf account statements and notices that are required by that rule.***

14. Should we revise the definition of "distribute" expressly to include distribution by granting investors access to a virtual data room containing the quarterly statement? Why or why not?

    a. ***Convergence Comments – Yes, the Commission should revise the definition of "distribute" expressly to include distribution by granting investors access to a virtual data room containing the quarterly statement. If adopted, the Commission should require that the client's independent representative receive electronic notification that the quarterly statements are available for their review. The technology for this exists and the cost would not be prohibitive for start-up and nascent advisers and funds.***

15. We considered requiring the proposed quarterly statement disclosures to be submitted using a structured, machine-readable data language. Such format may facilitate comparisons of quarterly statement disclosures across advisers and periods. Should we require advisers to provide quarterly statements in a machine-readable data language, such as Inline eXtensible Business Reporting Language ("Inline XBRL")? Why or why not?

    a. ***Convergence Comments – Yes, the Commission should require advisers to provide quarterly statements in a machine-readable data language, such as Inline eXtensible Business Reporting Language ("Inline XBRL")? The reason is that iXBRL, or Inline XBRL, is an open standard that enables a single document to provide both human-readable and structured, machine-readable data. iXBRL is used by millions of companies around the world to prepare financial statements in a format that provides the structured data that regulators and analysts require, while allowing preparers to retain full control over the layout and presentation of their report.***

16. Would such a requirement make the quarterly statements, and the information included therein, easier for investors to analyze? For example, would it be useful for investors to download quarterly statement information directly into spreadsheets, particularly for institutional investors that may have a significant number of private fund investments? Would a machine-readable data language impose undue additional costs and burdens on advisers? Please provide support for your response, including, where available, cost data.

    a. ***Convergence Comments - such a requirement will make the quarterly statements, and the information included therein, easier for investors and their consultants to collect, analyze and maintain.***

17. If we adopt rules requiring a machine-readable data language, is the Inline XBRL standard the one that we should use? Are any other standards becoming more widely used

or otherwise superior to Inline XBRL? What would the advantages of any such other standards be over Inline XBRL?

a. ***Convergence Comments – Yes, while there are a wide variety of formats including PDF, HTML, XML, JSON and RDBM, that can be used to prepare, transmit, collect and analyze data, IXBRL is optimized for performance reporting with i) full support for strong, integrated definitions, and where needed, multiple languages, ii) extensive vocabularies supporting most of the major reporting frameworks including US GAAP, IFRS, Japanese GAAP, Chinese GAAP, regulatory rules including Basel III and Solvency II as well as frameworks such as GRI, iii) embedded support for sophisticated error checking and data validation, including a wide range of accounting and financial concepts (from currency, stocks and flows through to accounting logic), iv) embedded support for complex multi-dimensional reporting for a wide range of reporting (from risk reporting to financial instrument disclosures) and v) extensive software support, including open source support.: the Commission should adopt the Inline XBRL standard.***

Item 4. Proposed Rules on Consolidated Reporting for Certain Fund Structures

We request comment on the proposed consolidated reporting provision of the proposed rule:

1. Do commenters agree that the proposed rule should require advisers to consolidate reporting to cover related funds to the extent doing so would provide more meaningful information to investors and would not be misleading? Alternatively, should we prohibit advisers from consolidating information for multiple funds? Why or why not? Should the rule permit, rather than require, consolidated reporting?

   a. ***Convergence Comments – Yes, the proposed rule should require advisers to consolidate reporting to cover related funds to the extent doing so would provide more meaningful information to investors and would not be misleading.***

2. Should we require advisers to provide a consolidated quarterly statement for funds that are part of the same strategy, such as parallel funds, feeder funds, and master funds? Alternatively, should these types of funds have separate reporting? For example, should feeder fund investors receive a quarterly statement covering the feeder fund and a separate quarterly statement covering the main fund or master fund? How should the rule address the fact that certain funds may have different expenses (e.g., an offshore fund may have director expenses while an onshore fund may not)? Should we require advisers to provide investors with a summary of any fund-specific expenses and the corresponding dollar amount(s)? Should such a requirement be triggered only if the fund-specific expense exceeds a certain threshold, such as a percentage of the fund size (e.g., .01%, .05%, or .10% of the fund's size) or a specific dollar amount (e.g., $15,000, $30,000, or $50,000)?

   a. ***Convergence Comments – Yes, the Commission should require advisers to provide a consolidated quarterly statement for funds that are part of the same strategy, such as parallel funds, feeder funds, and master funds. No, they should not have separate reporting. Yes, investors in feeder funds should receive a quarterly statement covering the feeder fund and a separate quarterly***

statement covering the main fund or master fund. The rule does not need to address the fact that the expenses are different. Each related fund should provide investors with a summary of any fund-specific expenses and the corresponding dollar amount(s). No, such a requirement should trigger regardless of the fund-specific expense amount or percentage of fund assets.

3. As noted above, the proposal would require advisers to provide feeder fund investors with a consolidated quarterly statement covering the applicable feeder fund and the feeder fund's proportionate interest in the master fund, to the extent doing so would provide more meaningful information to investors and would not be misleading. Do commenters agree with this approach? Alternatively, should we require advisers to provide consolidated reporting covering all feeder funds (and not just the applicable feeder fund) and the master fund? Why or why not?
    a. ***Convergence Comments – Yes, the Commission should require advisers to provide feeder fund investors with a consolidated quarterly statement covering the applicable feeder fund and the feeder fund's proportionate interest in the master fund. Yes, to the extent that there are multiple feeder funds the adviser should provide consolidated reporting. This will provide full transparency into the entity structure which would be meaningful to investors.***

4. We also recognize that certain private funds have multiple classes (or other groupings such as series or tranches) of interests or shares. The proposed rule would require the quarterly statement to present fund-wide information. Would advisers face challenges in calculating fee, expense, and performance information if there are differences in fees, allocations, and/or expenses between or among classes, series, or tranches? Should we require disclosure of class-specific fees and expenses, or of the differences among classes? Why or why not? Should we instead permit or require quarterly statements for multi-class private funds to present the proposed fee and expense and performance information on a class-by-class basis, particularly if each class (or series or tranche) is considered a distinct private fund or separate legal entity (with segregated assets and liabilities) under applicable law? Would such an approach provide more meaningful information for investors in each of those classes, given the potential for different fee, allocation, and expense structures? Should we require quarterly statements for multi-class (or multi-series or multi-tranche) private funds to present class-by-class (or series-by-series or tranche-by-tranche) information to the extent each class (or series or tranche) holds different investments?
    a. ***Convergence Comments – Yes, this type of reporting will be challenging for private fund advisers yet the precedent has been set in how registered funds report share classes and related fees. We believe that private fund investors would benefit by seeing the expense and fee differences between various share classes. We do believe that disclosing differences in fees and expenses would be more effective than reporting the actual amounts because the amount of expense at the share class level may be immaterial and of less value to investors.***

5. Should advisers only be required to distribute a class's quarterly statement to interest holders of such class, or should all fund investors be entitled to receive such statement regardless of whether they are interest holders of the relevant class if the rule permits or requires class-specific quarterly statements for multi-class private funds?

a. ***Convergence Comments – Yes, the Commission should require that all fund investors be entitled to receive such statement regardless of whether they are interest holders of the relevant class if the rule permits or requires class-specific quarterly statements for multi-class private funds.***

6. Certain advisers provide combined financial statements covering multiple funds. Should we require or permit advisers to provide consolidated quarterly statements for funds that have combined financial statements? Why or why not?
   a. ***Convergence Comments – No, the Commission should not permit advisers to provide consolidated quarterly statements for funds that have combined financial statements because the components of each fund and/or entity may reveal important information to the investor. For example, funds that consolidate the reporting of investments held in special purpose vehicles (SPVs) provide less transparency into the risk and cost that exist in the various SPVs.***

Item 5. Proposed Rules on Format and Content Requirements

We request comment on this aspect of the proposed rule:

1. Should the proposed quarterly statement rule include a provision on formatting and content? Why or why not?
   a. ***Convergence Comments – Yes, the Commission should include a provision on formatting and content to increase the consistency of quarterly statements across the industry. This will help standardize the format and readability of quarterly statements for investors who may be invested in multiple funds across multiple advisers. The Commission should also step-up its efforts to enforce these content and formatting provisions. For example, the Commission provides significant guidance on content and formatting in its Form ADV "Guide to Clear Brochure Writing" yet many variations exist across the industry which make suggests some enforcement cause advisers to take the issue more seriously.***

2. Do commenters agree with the flexibility of the proposed format and content requirements, or should we prescribe wording? For example, should we require a cover page with prescribed wording? If so, what prescribed wording should we require?
   a. ***Convergence Comments – No, we believe less flexibility will improve consistency and value to investors. We believe that a cover page would be helpful yet we are not ion a position to comment on the wording to use. The wording, definitions and prescription of formatting and content should be performed by an industry working group that can advise the Commission on this type of effort.***

3. To meet the rule's formatting requirements, any information that an adviser chooses to include in a quarterly statement, but that is not required by the rule, would be required to be presented in a manner that is no more prominent than the required information. Should the rule, instead, require that advisers more prominently present information that is required by the proposed quarterly statement rule (as opposed to supplemental information that is merely permitted)? If an adviser chooses to include supplemental

information, should we require that adviser to disclose what information in the quarterly statement is required versus that which is voluntary?

a. ***Convergence Comments – Yes, we believe that the Commission should require that advisers more prominently present information that is required by the proposed quarterly statement rule (as opposed to supplemental information that is merely permitted). Yes, the Commission should require advisers to disclose what information in the quarterly statement is required versus that which is voluntary and an explanation as to why they deviate from the Commissions recommended information.***

Item 6. Proposed Rules on Recordkeeping for Quarterly Statements

We request comment on the proposed recordkeeping rule amendments:

1. Should we require advisers to maintain the proposed records or would these requirements be overly burdensome for advisers? Are there alternative or additional recordkeeping requirements we should impose?
   a. ***Convergence Comments – Yes, the Commission should require advisers to maintain the proposed records and these requirements would not be overly burdensome for advisers.***

2. Should we require advisers to retain a record of each addressee, the date(s) the statement was sent, address(es), and delivery method(s) for each quarterly statement, as proposed? Should we instead eliminate this requirement because of the potential burdens?
   a. ***Convergence Comments – Yes, the Commission should require advisers to retain a record of each addressee, the date(s) the statement was sent, address(es), and delivery method(s) for each quarterly statement, as proposed. No, this requirement should not be burdensome for advisers.***

3. Should we provide more specific requirements regarding the records an adviser must maintain to substantiate its determination that a private fund is a liquid fund or an illiquid fund? Alternatively, should we leave the proposed rule as is and allow advisers flexibility in how they document this determination?
   a. ***Convergence Comments – No, the requirements are clear and greater flexibility on how to document will create different standards around compliance***

END OF SECTION II-A

Section II-B. - Proposed Rules on Mandatory Private Fund Adviser Audits

We request comment on all aspects of the proposed audit rule and related proposed amendments to the books and records rule, including the following items:

1. Would the proposed audit rule provide appropriate protection for investors? If not, please describe what, if any, modifications would improve investor protection.
   a. ***Convergence Comments –Yes, the proposed audit rule would provide appropriate protection for investors.***

2. The proposed audit rule bears many similarities to provisions of the custody rule; however, one notable difference is that there would be no option to, instead, undergo a surprise examination and rely on a qualified custodian to deliver quarterly statements. What would be the impact on advisers to private funds that are not relying on the custody rule's audit provision? Are private funds undergoing similar audits of their financial statements for other reasons, or would this represent a new requirement for them? There also are no exceptions from the proposed rule, as there are in the custody rule, such as the exception from the surprise examination requirement for advisers whose sole basis for being subject to the rule is because they have authority to deduct their advisory fees. What would be the impact on advisers to private funds that are relying on this and other exceptions? Do many private fund advisers rely on the exception for fee-deduction?
   a. ***Convergence Comments – The impact on advisers to private funds that are not relying on the custody rule's audit provision would be low because the adviser is already supporting the annual audit. The impact on those advisers who qualify and elect the exemption, the impact would be higher. We assume that most of these qualifying advisers will need to adjust the work to support the annual audit. We believe the number of private fund private fund advisors is not material.***

3. Do commenters agree that the similarities of the audit requirements for the custody rule and for the proposed rule would ease the compliance burdens of advisers that would be required to comply with both? Should the rule provide that compliance with one rule would satisfy the requirements of the other, given the similarities of the two rules? Why or why not?
   a. ***Convergence Comments – Yes we agree that the similarities of the audit requirements for the custody rule and for the proposed rule would ease the compliance burdens of advisers that would be required to comply with both.***
   b. ***Yes, we agree that the rule provide that compliance with one rule would satisfy the requirements of the other, given the similarities of the two rules.***

4. The application of the proposed rule to registered advisers to private funds seeks to balance our policy goal with the anticipated costs of the proposed measures. Do commenters agree with this approach? If not, what would be a more effective way of achieving our goals?
   a. ***Convergence Comments – The anticipated cost of the proposed measures should include an assessment of the financial losses incurred by investors that might be ameliorated in part by the expected risk reduction benefits expected of***

the policy goal . If the cost burden of the adviser is offset in whole or part by the required should be considered. We would the agree fully with the Commission's balanced policy goal.

5. Should the rule apply to all advisers to private funds, rather than to just advisers to private funds that are registered or are required to be registered? Should it apply to exempt reporting advisers? Why or why not?
   a. ***Convergence Comments – Yes, It should apply to all private funds, including exempt advisers because if each is advising a private fund they should be required to meet the same standard regardless of size, and other factors.***

6. Similarly, should it apply in the context of all pooled investment vehicle clients (e.g., funds that rely on section 3(c)(5) of the Investment Company Act), rather than just in the context of those that meet the Advisers Act definition of private fund? Should it apply more broadly to any advisory account with financial statements that can be audited? Why or why not?
   a. ***Convergence Comments – Yes, it should apply more broadly in the context of all pooled investment vehicle clients. Yes, it should apply more broadly to any advisory account with financial statements that can be audited.***
   b. ***Investors often invest capital across different funds and accounts and within and across multiple advisers. Standardizing the reporting of the annual audit as proposed will give investors greater consistency especially when the sit in multiple fund and account structures.***

7. Should the rule provide any full or partial exceptions, such as when an adviser plays no role in valuing the fund's assets, receives little or no compensation for its services, or receives no compensation based on the value of the fund's assets? Should the rule provide exceptions for private funds below a certain asset threshold (e.g., less than $5 million)? A higher or lower amount? Should the rule provide exemptions for private funds that have only related person investors, or that have a limited number of investors, such as 5 or fewer investors? If yes, please identify which advisers or funds we should except, from which aspects of the proposed audit rule, and why.
   a. ***Convergence Comments – We do not believe there should be any exceptions based on an adviser who plays no role in valuing the fund's assets, receives little or no compensation for its services because the investor is buying performance returns from the adviser not audited financial statements, nor should they be excepted for their size and number of investors. The cost of an annual audit continues to decline and the expected increase audit work will continue to reduce costs. There needs to be some consideration as to when the cost of the annual audit outweighs its benefit. Given the relatively low cost of this type of audit granting relief creates immaterial risk. Consider providing relief to advisers who receive consent from their investors to terminate the annual audit and providing the calculation of the Cost/Benefit analysis.***

8. Should the rule apply to a sub-adviser to a private fund? In situations where a fund has multiple advisers, is it clear that a single audit of the fund's financial statements may satisfy the proposed audit rule for all of the advisers subject to the rule?

a. ***Convergence Comments – Yes, funds that use multiple sub-advisers should be able to satisfy the proposed audit rule for all of the advisers subject to the rule.***

9. Should the alternative of "taking all reasonable steps" to cause a private fund client to be audited apply in any situation, rather than just in situations where the adviser is not in a control relationship with its fund client? Why or why not? Is it sufficiently clear how an investment adviser can establish that it has "taken all reasonable steps" to cause a private fund client to obtain an audit?
   a. ***Convergence Comments –We believe an exception is reasonable if the adviser is not in a control relationship with its fund client and we would suggest providing guidance defining what constitutes a "control relationship."***
   b. ***No, it is not sufficiently clear how an investment adviser can establish that it has "taken all reasonable steps" to cause a private fund client to obtain an audit***

10. Should the rule require accountants performing the independent public audits to be registered with the PCAOB, as proposed? Should the rule limit the pool of accountants to those who are subject to inspection by the PCAOB, as proposed? If the rule does not include these requirements, should the rule impose any alternative or additional requirements on such accountants? If so, describe these additional requirements and explain why they are necessary or appropriate.
    a. ***Convergence Comments – Yes, the rule should require accountants performing the independent public audits to be registered and supervised with the PCAOB, as proposed.***

11. Do commenters agree that the availability of accountants to perform services for purposes of the proposed audit rule is sufficient and that even advisers in foreign jurisdictions (or with private fund clients in foreign jurisdictions) would not have significant difficulty in finding a local accountant that is eligible to perform an audit under the proposed rule? Do advisers have reasonable access to independent public accountants that are registered with, and subject to inspection by, the PCAOB in the foreign jurisdictions in which they operate? If not, how should the rule address this issue?
    a. ***Convergence Comments – Yes, we agree that there is an ample supply of accountants in the US and non-US locations to perform such services and advisers should have little difficulty in finding a local accountant. Advisers will have more difficulty finding auditors that are PCAOB registered and subject to inspection. This requirement would have the positive benefit of encouraging more US PCAOB registered and supervised accounting firms to extend their business models to non-US locations. This would increase the supply of eligible accounting firms.***

12. Should the rule require advisers to obtain audits performed under rule 1-02(d) of Regulation S-X, as proposed? If not, what other auditing standards should the rule allow? Are there certain non-U.S. auditing standards that the proposed rule should explicitly include?
    a. ***Convergence Comments – Yes, the rule should require advisers to obtain audits performed under rule 1-02(d) of Regulation S-X, as proposed.***

13. Should the rule require private funds to prepare audited financial statements in accordance with generally accepted accounting principles, as proposed? Should the rule include any additional requirements regarding the preparation of financial statements? If so, what requirements, and why?
    a. ***Convergence Comments – The rule should require private funds to prepare audited financial statements in accordance with generally accepted accounting principles, as proposed, unless the fund is domiciled outside the US where the audit should be conducted using local rules.***

14. As proposed, should financial statements prepared in accordance with accounting standards other than U.S. GAAP for foreign private funds meet the requirements of the rule provided they contain information substantially similar to statements prepared in accordance with U.S. GAAP, material differences with U.S. GAAP are reconciled, and the reconciliation is distributed to investors along with the financial statements? If so, should we specify what "substantially similar" means?
    a. ***Convergence Comments – Yes, the rule should require private funds to prepare audited financial statements in accordance with local rules. We believe that material difference between US GAAP and local standards be explained but not be reconciled numerically. This would relieve the advisers of the burden of numeric reconciliation.***

15. Would there be unique challenges to complying with the rule for auditors and advisers to private funds in foreign jurisdictions? For example, might certain advisers or auditors face challenges in complying with the proposed rule's Commission notification requirement, including because of applicable privacy and other local laws? If so, what would alleviate these challenges and still achieve the policy goals of the proposed audit rule?
    a. ***Convergence Comments – No, we do not believe there would be unique challenges to complying with the rule for auditors and advisers to private funds in foreign jurisdictions. With respect to the proposed rule's Commission notification requirement, we believe that exceptions exist for activities which further compliance with local laws and regulations. For example, Article 2, Section 2(d) under the General Data Protection Regulation ("GDPR") that governs the collection and use of the personal information of individuals from the European Economic Area ("EEA") states that the regulation does not apply to the processing of personal data "by competent authorities for the purposes of the prevention, investigation, detection or prosecution of criminal offences or the execution of criminal penalties." We also believe that the work that the Commission and its global regulatory partners do to protect investors would improve significantly if all regulators received such notifications.***

16. Do commenters agree that the proposed rule's requirement to distribute the audited financial statements promptly would provide appropriate flexibility regarding the timing of the distribution of audited financial statements? Should there nevertheless be an outer limit on the number of days an investment adviser has from its fiscal year end for the distribution of audited financial statements? If so, what should that limit be? Would it be more appropriate for distribution to be required within 120 days of the end of the fund's fiscal year, as under the custody rule? Alternatively, would a longer or shorter period be

appropriate in most circumstances? Should the timeline for distributing audited financial statements align with the timeline for distributing quarterly statements under the proposed quarterly statement rule? Why or why not? We understand that funds of funds or certain funds in master-feeder structures (including those advised by related persons) have difficulty satisfying the 120-day requirement and that our staff has indicated they would not recommend enforcement if certain of these funds satisfy the distribution requirement within 180 or 260 days of the fund's fiscal year end, depending on a variety of circumstances. If the rule contained a specific distribution deadline, would these types of funds need a separate deadline or other special treatment?

a. ***Convergence Comments – Yes, the proposed rule's requirement to distribute the audited financial statements promptly would provide appropriate flexibility regarding the timing of the distribution of audited financial statements. Yes, there should be an outer limit on time to distribute of 120 days of the end of the fund's fiscal year, as under the custody rule. No, there should not be a shorter or longer time period. The industry works well within the parameters of 90-120 days and this should be maintained. No, we do not believe that fund of funds should have a different distribution deadline. In these cases, the advisers of funds with fund of fund investors should begin the audit work earlier to meet the proposed distribution standards.***

17. Instead of requiring prompt distribution of the audited financial statement to investors, should we require the statement to be distributed or made available to investors upon request?

    a. ***Convergence Comments – No, the distribution of audited financial statements to investors or their designated representatives should be required.***

18. Should the rule provide additional flexibility, such as for situations in which the adviser can demonstrate that it reasonably believed that it would be able to comply with the rule but failed due to certain unforeseeable circumstances?

    a. ***Convergence Comments – Yes, the rule should provide advisers with relief from the rules for situations in which the adviser can demonstrate that it reasonably believed that it would be able to comply with the rule but failed due to certain unforeseeable circumstances. The advisers should notify the Commission of such circumstances promptly.***

19. Should the rule require annual audits, as proposed? Should the rule require an audit upon a private fund's liquidation, as proposed? Should we modify either or both of these requirements? If so, how should we modify these requirements, and why?

    a. ***Convergence Comment – Yes, the rule should require annual audits, as proposed and should require an audit upon the fund's liquidation. No, the Commission should not modify either or both of these requirements.***

20. Advisers would be required to comply with the proposed audit rule beginning with their first fiscal year after the compliance date and any liquidation that occurs after the compliance date. Advisers would also be required to obtain an audit annually. We understand that newly formed and liquidating funds may face unique challenges. For instance, the value provided by an audit of a very short period of time, such as a period of less than three-months (a "stub period"), may be diminished because there is a lack of

comparability in the information provided. In addition, we understand that the cost of obtaining an audit covering a few months can be similar to the cost of an audit covering an entire fiscal year. We further understand that when newly formed entities have few financial transactions and/or investments, obtaining an audit, relative to the investor protections ultimately offered by obtaining the audit, may be burdensome. Should the rule allow newly formed or liquidating entities to obtain an audit less frequently than annually to avoid stub period audits? Should the rule permit advisers to satisfy the audit requirement by relying on an audit on an interval other than annually when a fund is liquidating? For example, should we allow advisers to rely on an audit of a fund every two years during the liquidation process?

a. ***Convergence Comments – Yes, a newly formed fund should not be required to obtain an audit less frequently than annually. Yes, the rule permit advisers to satisfy the audit requirement by relying on an audit on an interval other than annually when a fund is liquidating and we agree that every two years is reasonable.***

21. If the rule were to permit audits less frequently than on an annual basis, should it also include additional restrictions or requirements? If so, what restrictions or requirements, and why? For instance, should it require investment advisers to create and distribute alternative financial reporting for the fund to investors (e.g., cash-flow audit or asset verification)? Alternatively, or in addition to alternative financial reporting, should the rule require advisers to obtain a third-party examination? If so, what should the examination consist of, and why? For example, would allowing advisers to obtain an audit less frequently than annually during a liquidation raise investor protection concerns that additional requirements could address given the potential for a liquidation to last for an extended period? If so, what additional requirements, and why? For example, should advisers be required to provide notice to investors of their intent to liquidate an entity in these circumstances? Should advisers be required to obtain investor consent prior to satisfying the audit requirement by relying on audits on a less than annual basis? Should we set an outer limit for the period such an audit could cover (e.g., 15 months)?

    a. ***Convergence Comment – Yes, if the rule were to permit audits less frequently than on an annual basis, it should also require material event disclosures if the event occurs within 120 days of the end of the stub period. Yes, investors should be required to provide notice to investors of their intent to liquidate an entity in these circumstances and obtain investor consent prior to satisfying the audit requirement by relying on audits on a less than annual basis. Yes, set an outer limit of 18, versus the proposed 15 months, for the period such an audit could cover.***

22. Should the rule define "liquidation" for purposes of the liquidation audit requirement? If so, how? For example, should we base such a definition on a certain percentage of assets under management of the entity from or over previous fiscal period(s) or a stated threshold based on an absolute dollar amount of the entity's assets under management? Should we base the definition on a calculation of the ratio of the management fees assessed on assets under management of the entity or some other basis, for example, to detect whether an adviser is charging management fees on a very small amount of assets?

a. ***Convergence Comments – Yes, the rule should define "liquidation" for purposes of the liquidation audit requirement. The definition should be based on the intent and activities of the adviser to the private fund. For example, when a closed-end fund begins selling down its fund assets, it is technically in a state of liquidation and would not need liquidation audits until it believes that 1) it will no longer make portfolio investments, 2) the remaining tangible and/or intangible assets of the fund are illiquid and their future monetization is highly contingent and 3) that it does not expect to actively manage the fund. If these conditions exist then the adviser should report to their fund investors that the fund is in final liquidation and the reason for their decision. Fund liquidations may occur for a variety of reasons, including poor performance, a decline in assets under management, lack of investor interest, and more.***

23. Are there risks posed to investors when an entity is liquidating that the proposed rule does not address? If so, please describe those risks. How should we modify the rule to address such risks?
    a. ***Convergence Comments – Yes, a fund in liquidation will typically have hard and contingent assets that investors need to know. For example, investors who are eligible to reclaim taxes withheld on the disposition of certain foreign fund investments would want to know when a fund is being liquidated so they may be able to work with the adviser, and or, other professionals on the tax reclaim before the fund is liquidated and closed.***

24. Are there some types of investments that pose a greater risk of misappropriation or loss to investors during a liquidation that the rule should specifically address to provide greater investor protection? If so, please describe the investment type; the particular risk the investment type poses to investors during liquidation; and how to modify the proposed rule to address such investor risk.
    a. ***Convergence Comments – All investments in a fund can be misappropriated. The question is how likely is it that the investment is misappropriated which should be evaluated based on the liquidity of the asset.***

25. We are not proposing the filing of a copy of the audit report or a copy of the audited financial statements with the Commission; should the rule contain such a requirement? Why or why not?
    a. ***Convergence Comment - Yes, the rule should require it and the information made available to the public. The Commission will improve its ability to study filings and identify adviser specific issues and general industry trends.***

26. Would the requirement for an accountant to comply with the notification requirement change the approach that an accountant would take with respect to audits that normally are performed for purposes of satisfying the custody rule? If so, how?
    a. ***Convergence Comment – No, it should not.***

27. Should we, as proposed, require advisers to enter into, or cause a private fund to enter into, a written agreement with the independent public accountant completing the audit to notify the Commission in connection with a modified opinion or termination?

a. ***Convergence Comment – Yes, advisers should enter into, or cause a private fund to enter into, a written agreement with the independent public accountant completing the audit to notify the Commission in connection with a modified opinion or termination.***

28. Do commenters agree that the professional engagement period of an audit performed under the rule should begin and end as indicated in Regulation S-X rule 2-01(f)(5), as proposed? If not, why not?
    a. ***Convergence Comment – Yes, we agree that the professional engagement period of an audit performed under the rule should begin and end as indicated in Regulation S-X rule 2-01(f)(5), as proposed***

29. As noted above, the proposed Commission notification provision bears some similarities to, and is drawn from our experience with, a similar custody rule requirement in the surprise examination context with which we believe advisers may likely already have some familiarity. Rule 17a-5 requires a broker or dealer's self-report to the Commission within one business day and to provide a copy to the accountant. The accountant must report to the Commission about any aspects of the broker or dealer's report with which the accountant does not agree. If the broker or dealer fails to self-report, the accountant must report to the Commission to describe any material weaknesses or any instances of non-compliance that triggered the notification requirement. Should the audit rule contain similar requirements? Why or why not? Are private fund advisers and the accountants that perform private fund financial statement audits more familiar with Rule 17a-5's notification requirement than the custody rule's notification requirement.
    a. ***Convergence Comment – Yes, the audit rule should contain similar notification requirements because this information will create the type of reporting consistency that investors can use to link notifications to single, or groups of affiliated filing advisers that the investor may be exposed to. It will help inform the Commission's view on the risk profile of the adviser's business and across the industry.***
30. Do commenters agree that the related proposed amendments to the books and records rule would facilitate compliance with the proposed audit rule? What additional or alternative amendments should the rule include, if any?
    a. ***Convergence Comment – Yes, we agree that the related proposed amendments to the books and records rule would facilitate compliance with the proposed audit rule. We believe the proposal rules need no further amendments.***

END OF SECTION II-B

Section II-C - Proposed Rules on Adviser-Led Secondaries

We request comment on this aspect of the proposed Recordkeeping for Adviser-Led Secondaries"

1. Should we require advisers to maintain the proposed records or would these requirements be overly burdensome for advisers? Are there alternative or additional recordkeeping requirements we should impose?
    a. ***Convergence Comment – Yes, advisers should be required to maintain the proposed records and No, these requirements would not be overly burdensome for advisers.***
2. Should we require advisers to retain a record of each addressee, the date(s) the statement was sent, address(es), and delivery method(s) as proposed? Why or why not?
    a. ***Convergence Comment – Yes, advisers should be required to retain a record of each addressee, the date(s) the statement was sent, address(es), and delivery method(s) as proposed. There is cost-effective automaton available in the markets that facilitates these types of activities.***

END OF SECTION II-C

Section II-D. - Proposed Rules on Prohibited Activities

We request comment on this aspect of the prohibited activities rule, including the following items:

1. Are there any scenarios in which we should permit an adviser to charge a fund's portfolio investment for unperformed services? If so, please explain.
    a. ***Convergence Comment – No, there are no scenarios where advisers should be paid for services that have not been fully rendered.***

2. Should we prohibit an adviser from being paid in advance for services it reasonably expects to provide in the future? Why or why not?
    a. ***Convergence Comment – Yes, you should prohibit full payment in advance for services to be performed in the future. Full payment for such service can serve as a form of financing and should be characterized as such. In these cases, any pre-payment for services would become a legal obligation of the adviser and a claim for the investor. Partial payment in advance would be an acceptable compromise and should not be prohibited. Partial payments in advance for services should not exceed the initial amounts that are normal and customary for the services to be rendered.***
    b. ***Portfolio monitoring fees are a great example of how this proposed rule. Advisers should not be able to bill in advance for these services and should not be allowed to accelerate the future payments that these payments would have generated had they not been sold.***

3. As noted above, if an adviser is paid in advance, and reasonably expects to perform services, but ultimately does not provide the contracted for services, the proposed rule would require the adviser to refund the prepaid amount attributable to the unperformed services. Do commenters agree with this approach? Why or why not?
    a. ***Convergence Comment – Yes, we agree with the refund approach and would add that interest should be paid to the investor for the adviser's use of funds. As stated earlier, pre-payments for services should represent legal obligations between the tow parties and if the adviser fails to perform the services the investor has a firmer legal claim than if its is silent on performance.***

4. The proposed rule specifically references "monitoring, servicing, consulting, or other fees." Do commenters agree with this list? Should we eliminate any? Are there additional or alternative types of remuneration that the rule should reference?
    a. ***Convergence Comment – Yes, we agree with the list and would not eliminate any terms. Consider adding other fees that relate to investment banking type activities that are performed internally. For example, internal expenses incurred by the adviser to arrange the sale of portfolio investments should be considered covered by the management fees paid on the assets. While we understand the argument that these fees would be incurred and paid by the investor anyway, we believe it is a form of double dipping that should be prohibited.***

5. Do commenters agree that if an adviser shifts 100% of the economic benefit of any portfolio investment fee to the private fund investors, whether through an offset, rebate, or otherwise, the adviser will not violate the proposed rule? Why or why not? We recognize that certain tax-sensitive investors often waive the right to receive their share of any rebates of portfolio investment fees. How should the rule take into account such waivers, if it all? For example, to the extent one investor does not accept its share, should the rule require the adviser to distribute such amount to the other investors in the fund? Why or why not?
    a. ***Convergence Comment – Yes, we agree that if the advisers shifted 100% of the economic benefit to the investors it would not violate the proposed rule. The reason we would cite is that the internal costs for providing these services may be lower than third-party costs.***
    b. ***Convergence Comments – The amount of portfolio investment fee rebates and waivers freed-up by investors not wanting them should be reallocated to investors that wish to receive them. The reason we would cite is simply that the adviser should not be permitted to "double dip" on management fees and these types of expenses. Since there is no offset for the investor not wishing to participate in the waiver, without this rule the adviser will receive 100% of the investment fees relating to non-participating investors.***

6. Should the rule instead permit an adviser to engage in this activity if the adviser satisfies certain disclosure, governance, and/or other conditions (e.g., disclosure to investors in all relevant funds/vehicles, approval by the LPAC (or other similar body) or directors)?
    a. ***Convergence Comment – No, exceptions to this rule would be contrary to the goal of creating greater consistency in disclosures and reporting.***

7. The proposed rule would prohibit compensation schemes where an adviser charges for services that it does not reasonably expect to provide. Is "reasonably expect" the appropriate standard? Should we provide examples or guidance to assist advisers in complying with this standard? Does this standard have the potential to reduce the effectiveness of the rule? Are there other standards we should adopt?
    a. ***Convergence Comment – No, the "reasonably expect" standard is not the correct standard. The correct standard should be based on the terms and conditions that exist in a bona fide contract between the adviser and investors that describes the services to be rendered and the timing of payments.***
    b. ***Convergence Comment - Yes, if the proposed rule is adopted the SEC should provide examples.***

Certain Fees and Expenses

We request comment on this aspect of the prohibited activities rule, including the following items:

1. Are there circumstances in which it would be appropriate in the public interest or for the protection of investors for a private fund to bear (i) regulatory or compliance expenses of the adviser or its related persons or (ii) expenses related to an examination or investigation of the adviser or its related persons? If so, please explain. Should we permit private funds to bear these fees and expenses if fully disclosed and consented to by the

private fund investors and/or an LPAC (despite the limitations of private fund governance mechanisms, as discussed above)? Should we place any conditions on charging these fees and expenses, such as caps, management fee offsets, or detailed reporting requirements in the proposed quarterly statement?

a. ***Convergence Comments – Yes, it is in the public's best interest to allow advisers to charge regulatory and compliance expenses to the private fund investors. Allowing these expenses to go to the fund eliminates reasons why and adviser might not spend the requisite amount on compliance. It could improve the quality of compliance if the adviser were to charge the investor for these expenses. We think about the selection of compliance service providers to the fund similar to the "best execution" rules applied to trading commission.***
    i. ***The Investment Advisers Act of 1940 establishes a federal fiduciary standard for investment advisers. As a fiduciary, when an adviser has the ability to select broker-dealers who will execute on behalf of the fund the adviser has an obligation to seek what is referred to as "best execution" for these client transactions, taking into consideration the circumstances of the particular transaction. An adviser must execute securities transactions for clients in such a manner that the client's total costs or proceeds in each transaction are the most favorable under the circumstances. In directing brokerage, an adviser should consider the full range and quality of a broker-dealer's services including, among other things, the value of research provided as well as execution capability, commission rate, financial responsibility, and responsiveness to the adviser type.***
    ii. ***When advisers charge compliance expenses to the fund, investors should expect a similar fiduciary standard applied for the selection and management of all service providers, including those that provide regulatory and compliance services.***
    iii. ***We believe that prohibiting advisers from charging regulatory and compliance expenses to the fund will create a series of unintended consequences, including:***
        1. ***Capital formation will likely go to larger advisers who can afford to allocate management fees revenues to cover these expenses.***
        2. ***Smaller advisers do not generate enough management fees revenue to afford this expense and this will spend less on investment activities, which is what the management fee is intended to cover. This unintended consequence will disrupt capital formation within smaller funds.***
        3. ***Regulatory and compliance quality is likely to suffer across the industry. Compliance budgets are among the smallest of all budgets allocated within the adviser's business. Large and small Advisers simply do not want to spend their money (management fees) on these activities. Rather than granting advisers permission to charge these expenses to the fund, we believe the industry and investors would be better served if these expenses were paid by the investor.***
    iv. ***We believe that these expenses should not be prohibited if negotiated between the investor and the adviser.***

v. ***Convergence Comments – We do not believe the SEC should impose caps, floors or other conditions that are typically negotiated by the investor and adviser.***

2. The proposed rule would likely increase operating costs for advisers that have historically charged private funds for the types of fees and expenses covered by the proposed rules. Do commenters believe that advisers would increase management fees to offset such increase in operating costs?
   a. ***Convergence Comment – While the regulatory costs incurred by advisers to private funds will increase we anticipate three possible outcome as follows; 1) advisers increase management fees, 2) advisers reduce incentive fees and increase management fees and 3) advisers do nothing. Each adviser's business model will dictate how they will behave. We suspect that roughly 1/3rd of private fund adviser would attempt to increase management fees.***

3. Are there any additional types of fees or expenses that we should prohibit an adviser from charging to a private fund? Alternatively, are there fees and expenses that the rule should not prohibit?
   a. ***Convergence Comment – Yes, we recommend prohibiting adviser overhead, political contributions, lobbying and making payments to persons anyone working with advisers and their affiliates.***

4. Should we provide exceptions to the proposed rules for certain types of private funds and/or certain types of advisers? For example, should we permit a first-time fund adviser to charge regulatory and compliance expenses to the fund? If so, why?
   a. ***Convergence Comment – No, if the proposed prohibition were passed we do not believe that first time or nascent business exception is warranted. It creates a subsidy that would require definitions on what is a first-time adviser, what constitutes small, etc. We believe that all advisers should be permitted, and in our view, required to, charge regulatory and compliance expenses to the fund.***

5. Do commenters agree that many advisers do not currently charge private funds for the types of fees and expenses covered by the proposed rules and, as a result, the proposed rules would not cause a dramatic change in industry practice? Why or why not? To the extent commenters disagree, please provide supporting data.
   a. ***Convergence Comment – No, we do not agree. Convergence studies fund expense disclosures in Form ADV Part 2A and roughly 30% of today's advisers disclose compliance expenses in the Fees and Compensation section of the brochure, a trend that has been rising steadily over the past 5-years.***

6. Will advisers have difficulty in determining whether fees and expenses relate to the adviser's activities versus the fund's activities? Should we provide guidance to assist advisers in making such a determination? If so, what guidance should we provide? Should the rule list certain types of fees and expenses that relate to the adviser's activities versus the fund's activities?
   a. ***Convergence Comment – Yes, advisers do struggle with this determination and there are no bright lines distinguishing regulatory and compliance expenses***

that should be paid by the adviser versus fund. These decisions are often based on a review of the facts and circumstances test that can vary.

   b. ***Convergence Comment – Yes, additional guidance on fund versus adviser guidance would be helpful if the prohibition were not implemented. We believe the industry would be better served if these expenses were always paid for by the fund's investors.***

7. As discussed above, we recognize that certain private fund advisers utilize a pass-through expense model. Should the rule provide any full or partial exceptions for advisers utilizing such models, particularly where the adviser does not charge any management, advisory, or similar fees to the private fund?
   a. ***Convergence Comment – Yes, advisers who have a pass-through models should be exempt from the prohibition should it adopted.***

Reducing Adviser Clawbacks for Taxes

We request comment on this aspect of the proposed rule, including the following items:

1. Would this aspect of the proposed prohibited activities rule have our intended effect of ensuring that investors receive their full share of profits generated by the fund? Is there an alternative approach that would better produce this intended effect? For example, should we require advisers to return the entire amount of any adviser clawback, rather than only prohibiting advisers from reducing the clawback amount by actual, potential, or hypothetical taxes? Would this approach ensure that investors receive their full share of fund profits?
   a. ***Convergence Comment – Yes, prohibiting the reduction of clawbacks for taxes would have the intended effect of ensuring that investors receive the full share of profits from the fund.***

2. Would the proposed clawback provision result in more whole-fund waterfalls (commonly referred to as European waterfalls in the private funds industry), which generally delay payments of performance-based compensation until investors receive a return of all capital contributions?
   a. ***Convergence Comment – Yes, the provision would likely result in more whole-fund waterfalls.***

1. What other effects would this aspect of the proposed rule have on the industry, including with respect to adviser's ability to attract, retain, and develop investment professionals?
   b. ***Convergence Comment – Yes, the proposed rule would make it more difficult for advisers to attract, retain and develop investment professionals. However, we believe the industry is resilient and financing solutions that use earned and unpaid incentive compensation as collateral do exist in the market today. This may favor more established advisers over less established ones.***

2. Instead of the proposed clawback provision, should we prohibit deal-by-deal waterfall arrangements (commonly referred to as American waterfalls)?
   a. ***Convergence Comment – No, we do not agree with prohibiting deal-by-deal waterfalls.***

3. We recognize that clawback mechanisms are more common for closed-end funds and less common for open-end funds. Should the rule separately address performance-based compensation for open-end private funds? If so, how should we address those funds?
    a. ***Convergence Comment – Yes, the Commission should address performance-based fees on so-called "mark-to-market" funds.***
    b. ***Convergence Comment – Advisers should be required to disclose to investors seeking to redeem its interest in the fund the amount of performance compensation linked to portfolio investments that have declined in value since the date they paid the adviser. We believe that these disclosures should be made together.***

4. Is the proposed definition of "adviser clawback" clear? Are there ways in which the proposed definition is over- or under-inclusive? For example, should the definition include "all-partner" givebacks or clawbacks (*i.e.*, should advisers be prohibited from reducing the portion of an all-partner giveback attributable to their performance-based compensation by taxes paid or deemed paid)?
    a. ***Convergence Comment – Yes, the definition of the adviser clawback is clear.***

5. Is the proposed definition of "performance-based compensation" clear? Is it too narrow or too broad?
    a. ***Convergence Comment – Yes, the definition of performance-based compensation is clear.***

6. What issues may advisers face in complying with this aspect of the proposed prohibited activities rule? In particular, what issues may result with respect to amending tax returns from prior years?
    a. ***Convergence Comment – Advisers who track these types of payments in excel or in another non-automated manner already face record keeping challenges with respect to this subject so we do not think it creates new burdens.***
7. We recognize that this aspect of the proposed rule might result in delayed payments of performance-based compensation. For example, during the early stages of the fund, the adviser may be less inclined to distribute performance-based compensation to investment professionals that source or manage successful investments. How would this aspect of the proposed prohibited activities rule affect the intended incentive effects of performance-based compensation?
    a. ***Convergence Comment – This aspect of the proposed rule would be challenging for smaller advisers that are unable to secure financing to bridge the gap between whole fund and deal-by-deal performance compensation payments. However, it might actually help advisers retain investment professionals that would need to remain with the adviser until performance-based fees are paid.***

8. We recognize that many fund agreements clawback performance-based compensation on a post-tax basis. We considered, but are not proposing, a rule that would generally allow this practice to continue but would prohibit advisers from using a hypothetical marginal tax rate to determine the tax reduction amount. We considered requiring advisers to use the actual marginal tax rates applicable to the adviser or its owners, rather than a hypothetical marginal tax rate. Our view is that this approach could be too burdensome for advisers. Do commenters agree? If we were to adopt this approach, how should we factor tax benefits

realized by the adviser or its owners into the tax reduction amount? What operational challenges would advisers face under this alternative approach? For example, would the amount of time it may take to determine the actual tax amount, which may not be determined until a significant amount of time has passed not justify the benefits? Do commenters believe that the use of a hypothetical marginal tax rate is a reasonable and cost-effective method for determining the tax reduction amount, or do commenters believe that the hypothetical marginal tax rate is too high? Why or why not? Please provide data.

a. ***Convergence Comment – We agree that using actual tax rates is too burdensome for advisers.***
b. ***Convergence Comment – We agree that using actual tax rates would be too burdensome for advisers because 1) the amount of time it may take to determine the actual tax amount, which may not be determined until a significant amount of time has passed, does not justify the benefits.***
c. ***Convergence Comment – Yes, we believe the use of a hypothetical tax rate is appropriate and recommend that the adviser disclose differences to impacted investors when the actual tax rate is materially below the hypothetical tax rate used to reduce the clawback.***

Item 4. Proposal Limiting or Eliminating Liability for Adviser Misconduct

We have observed these types of contractual provisions among private fund advisers and their related persons; do advisers to clients other than private funds typically include these types of contractual provisions?

1. Are there other types of contractual provisions we should prohibit as contrary to the public interest and the protection of investors?
   b. ***Convergence Comment – Yes, the proposed prohibition should stand as the public good is not served by permitting advisers to limit or eliminate liability for fiduciary breaches and misconduct.***

2. Should this aspect of the final prohibited activities rule prohibit limiting liability for "gross negligence," or would prohibiting limitations of liability for ordinary negligence, as proposed, be more appropriate? Why?
   c. ***Convergence Comment - Yes, advisers should not be able to limit liability for gross negligence.***

3. Should the proposed rule prohibit contractual provisions that limit or purport to waive fiduciary duties and other liabilities in situations where state law permits such waivers?
   d. ***Convergence Comment - Yes, advisers should not be able to limit or purport to waive fiduciary duties and other liabilities in situations, even where state law permits such waivers.***

4. Do commenters believe that the proposed rule would increase operating expenses for advisers? For example, would the proposed prohibition on receiving indemnification and/or exculpation for negligence cause an adviser's insurance premium to increase?

a. ***Convergence Comment – Yes, we believe that these prohibitions will increase operating expenses, yet the proposed rule must be considered as part of the adviser's cost of doing business.***
b. ***We do not believe this number is material enough for the Commission to take into consideration.***
c. ***Part of the challenge facing the private fund industry is low/no cost-related barriers to entry. Advisers can enter and/or operate in the private fund business <u>without the proper resourcing</u> are less likely to uphold and meet their fiduciary and regulatory obligations. For example, this issue manifests quite clearly in the insurance premiums paid for D&O and E&O coverage. The proposed rules and additional transparency suggest will help insurance underwriter differentiate applicants. We suspect that some of the regulatory cost increases resulting from the proposed rule would in part offset by lower additional premiums.***

Item 5. Proposal to Limit Certain Non-Pro Rata Fee and Expense Allocations

We request comment on this aspect of the proposed prohibited activities rule, including the following items:

1. Should we prohibit non-pro rata fee and expense allocations as proposed? If not, under what circumstances would non-pro rata allocations be appropriate? For example, we recognize that advisers often have policies and procedures in place that permit the adviser to allocate fees and expenses in a fair and equitable manner (or similar standard), rather than on a pro rata basis; would this better achieve our policy goals? Why or why not? What specific protections are included in such policies and procedures? Should such protections be included in the rule? Why or why not? Should there be an exception to the prohibition where an adviser determines that it is in a private fund's best interest to bear more expenses than another managed vehicle and the private fund's investors agree?
    a. ***Convergence Comment – No, the Commission should not prohibit non-pro rata fee and expense allocations. Non-pro rata fee and expense can occur for multiple reasons including, but not limited to; 1) the type and strategy of fund, 2) the types of expenses that the fund is permitted to incur, 3) specific investor requirements and 4) GP and related party ownership levels in different funds and entities.***
    b. ***Convergence Comment – Yes, there should be an exception to the rule if adopted that would permit the adviser to allocate fees and expenses on a non-pro rata basis as long as they disclose the reason for it.***

2. Should the proposed rule apply to unconsummated – or potential – portfolio investments, as proposed? Do commenters agree that non-pro rata allocations of fees and expenses?
    a. ***Convergence Comment – If adopted, yes.***

3. Should the rule apply to all advisers as proposed? Alternatively, should the rule apply only to SEC-registered advisers? If so, why?
    a. ***Convergence Comment – The rule should apply to SEC and non-SEC registered advisers. A standard like this needs to be consistently applied to all investment advisers to avoid creating advantages and disadvantages among advisers. Portfolio investments are often shared by multiple advisers, and the uneven application of the rule will create confusion and inconsistencies.***

4. Should the rule only prohibit these activities with respect to an adviser's private fund clients and the investors in those private funds? Should the rule apply more broadly or more narrowly? For example, should the rule apply to such activities with respect to all clients of an adviser? Should the rule apply to such activities with respect to persons to which the adviser offers co-investment opportunities even if the adviser does not classify them as its clients?
    a. ***Convergence Comment – No, the rule should not only prohibit these activities with respect to an adviser's private fund clients and the investors in those private funds and should apply more broadly with respect to all clients of an adviser. Yes, the rule should apply to such activities with respect to persons to which the adviser offers co-investment opportunities even if the adviser does not classify them as its clients.***

5. We have historically taken the position that most of the *substantive provisions of the Advisers Act* do not apply with respect to the *non-U.S. clients (including funds) of a registered offshore adviser.* In taking this approach, the Commission noted that U.S. investors in an offshore fund generally would not expect the full protection of the U.S. securities laws and that U.S. investors may be precluded from an opportunity to invest in an offshore fund if their participation would result in full application of the Advisers Act and rules thereunder. Similarly, the proposed prohibited activities rule would not apply to a registered offshore adviser's private funds organized outside of the United States, regardless of whether the private funds have U.S. investors. Do commenters agree that registered offshore advisers should not be subject to this rule with respect to their offshore private fund clients or offshore investors? Should other rules in this rulemaking package take the same approach, or a different approach, with respect to a registered offshore adviser's offshore private fund clients? Please explain.
    a. ***Convergence Comment - Yes, we agree that the proposed prohibited activities rule should not apply to a registered offshore adviser's private funds organized outside of the United States, regardless of whether the private funds have U.S. investors. Non-US advisers are subject to local laws and regulations of their registered authority, and we believe that the Commission should collaborate with their regulatory peers in offshore locations to ensure the intent of the Advisers Act are applied as consistently as permissible by local law and regulations.***

6. Instead of prohibiting these activities, should the rule prohibit these activities unless the adviser satisfies certain governance and other conditions (*e.g.*, disclosure to investors in all relevant funds/vehicles, approval by the limited partner advisory committee (or other similar body) or directors)? Should the rule prohibit these activities unless the adviser obtains approval for them by a majority (by number and/or in interest) of investors? Should the rule permit non-pro-rata fee and expense allocations if such practice is disclosed to, and consented by, co-investors?
    a. ***Convergence Comment – Yes, instead of prohibiting the rule, prohibit certain activities unless the adviser discloses their decisions to investors in all relevant funds/vehicles and are approval by the limited partner advisory committee, or other similar body, or directors.***
    b. ***Convergence Comment – Yes, the rule should prohibit these activities unless the adviser obtains approval in advance for them by a majority of investors.***
    c. ***Convergence Comment – Yes, the rule should permit non-pro-rata fee and expense allocations if such practice is disclosed to, and consented to by, co-investors.***

7. Should we amend the books and records rule to require advisers to retain specific documentation evidencing compliance with the prohibited activities rule? For example, records showing how fees and expenses associated with an examination or investigation of the adviser or its related persons by governmental or regulatory authorities were paid or showing the allocations of fees and expenses related to a portfolio investment on an investment-by-investment basis? Would advisers be able to obtain or generate sufficient records to demonstrate compliance with all aspects of the proposed rule? Should we amend the books and records rule to require advisers to prepare a memorandum on an annual basis attesting to their compliance with each aspect of the proposed rule?
    a. ***Convergence Comment - Yes, the Commission should amend the books and records rule to require advisers to retain specific documentation evidencing compliance with the prohibited activities rule.***

b. ***Convergence Comment - Yes, advisers should be able to obtain or generate sufficient records to demonstrate compliance with all aspects of the proposed rule.***
c. ***Convergence Comment - Yes, the Commission should amend the books and records rule to require advisers to prepare a memorandum on an annual basis attesting to their compliance with each aspect of the proposed rule. This will ensure that advisers incorporate annual reviews of fee and expense allocation practices and specifically acknowledge non-pro rata allocations.***

Item 6. Proposed Rules on Borrowing

We request comment on this aspect of the proposed prohibited borrowing rule, including the following items:

1. Should we broaden the scope of the prohibition on borrowings to prevent a private fund adviser from borrowing from co-investment vehicles or other accounts that are not private funds?
   a. ***Convergence Comment – Yes, the Commission should broaden the scope of the prohibition on borrowings to prevent a private fund adviser from borrowing from co-investment vehicles or other accounts that are not private funds and are related parties.***

2. Should we broaden the proposed prohibition to apply when an adviser lends to the fund?
   a. ***Convergence Comment – Yes, the Commission should broaden the proposed prohibition to apply when an adviser lends to the fund. This creates similar conflicts between the adviser and the fund and its LPs.***

3. Should the proposed rule exclude certain activity from the prohibition (e.g., scenarios where a private fund makes tax advances or tax distributions to its general partner (or similar control person) to ensure that the general partner and its investment professionals are able to pay their personal taxes derived from the general partner's interest in the fund)? If so, what activity should we exclude and why?
   a. ***Convergence Comment – No, the proposed rule should not exclude any borrowing or lending activities between the adviser and its private funds and/or LPs.***

4. Are there situations in which a fund would agree to lend a start-up adviser money for initial costs and employee salaries? Are there situations in which a private fund client should be able to make a loan to a private fund adviser because the economic terms would be favorable to the private fund? How would we determine that the terms are favorable to the private fund?
   a. ***Convergence Comment – There are multiple ways for a start-up adviser to fund the initial costs and employee salaries. For example, the adviser can require the fund to pay management fees in advance and it can sell equity in its advisory business. With that said, the Commission should consider the value of this proposed rule from a competitive point of view. There are start-up advisers who are well capitalized, and others that are not. Founders who put their own capital at risk to set-up their advisory business and to comply with rules and***

regulations have to compete against more thinly capitalized founders that cannot afford or have less capital at inception.

5. Should the proposed rule be expanded to prohibit an adviser from borrowing against a private fund client's bank account or other assets, where the lender may be a third party (rather than the private fund)? Why or why not?
    a. ***Convergence Comment – No, the proposed rule should not be expanded. It is a common practice for hedge funds borrow against the value of the fund's assets for the purpose of increasing fund returns and should not be prohibited. In addition, many private equity firms use bridge financing to facilitate timing differences between making portfolio investments and calling capital from their LPs.***
    b. ***Convergence Comment – Any borrowings of this nature that benefit the adviser and/or related individuals should be prohibited. All benefits derived from the current and/or future value of fund assets should inure to the benefit of the fund and its investors.***

6. Should we amend Form ADV and/or Form PF to require advisers to report information about an adviser or its related person lending to, or borrowing from, private funds or other clients? Why or why not? For example, should we require advisers to report whether they engage in this practice and to provide an aggregate amount or range of such loans or borrowings?
    a. ***Convergence Comment – Yes, advisers should be required to report information about its, or its related persons, lending to, or borrowing from, private funds or other clients in Form ADV and Form PF. The current Form ADV is a public document and potential investors and other parties with interest should know whether the financial disclosure in Form ADV, Part 2A Item 18: Financial Information includes borrowings. For example, see the following common disclosure:***
        i. ***Adviser X has no financial commitment that impairs its ability to meet contractual and fiduciary commitments to the Funds and has not been the subject of a bankruptcy proceeding.***
        ii. ***Convergence would argue that advisers who borrow from fund clients and/or LPs should be required to disclose this fact in Form ADV Part 2A Item 18 Financial Information # as follows:***
            1. ***Adviser X has borrowed $ from Fund Y and its failure to meet its commitments under said borrowing may impair its ability to meet contractual and fiduciary commitments to the Funds. The adviser is already required to disclose if it is or has been subject to a bankruptcy proceeding in this section and we believe borrowings from clients is helpful to investors and other parties doing business with the adviser.***

7. Recognizing the limitations of private fund governance mechanisms, as discussed above, should we permit borrowing if it is subject to specific governance and other protections (e.g., advance disclosure to all investors, advance disclosure to an LPAC or similar body, consent of a governing body such as an LPAC, and/or consent of a majority or

supermajority of investors)? Should we require private fund advisers to make ongoing disclosures to investors and/or governing bodies of the status of such borrowings? Why or why not?

   a. ***Convergence Comment – If the Commission does not prohibit borrowings then yes, it should require disclosure of specific governance and other protections (e.g., advance disclosure to all investors, advance disclosure to an LPAC or similar body, consent of a governing body such as an LPAC, and/or consent of a majority or supermajority of investors). Advisers should also be required to disclose fund and/or LP borrowings in Forms ADV and PF.***

8. Should the rule include any full or partial exclusions for certain transactions that may not involve conflicts of interest or that may involve certain third parties that ameliorate the conflicts of interest? For example, should we provide an exclusion if the terms of the borrowing are set by an independent third party and such third party has the authority to act on behalf of the fund in the event of a default by the adviser? Why or why not?

   a. ***Convergence Comment – Yes, it is possible to provide such an exemption if the terms of the borrowing are set by an independent third party and such third party has the authority to act on behalf of the fund in the event of a default by the adviser.***

9. Do commenters envision unintended consequences of this proposed prohibition, such as in circumstances where an adviser's related person has its own commercial relationship with the fund?

   a. ***Convergence Comment – Yes, there are always unintended consequences. For example, banks that lend to these entities would not be able to lend to fund they sponsor.***

10. Should the rule prohibit (or otherwise restrict) advisers from lending to private funds they manage on terms that include excessive interest rates or other abusive practices? To what extent and under what circumstances does this practice occur? Does it raise similar concerns to borrowing?

   a. ***Convergence Comment – Yes, the rule should prohibit advisers from lending to private funds they manage on terms that include excessive interest rates or other abusive practices.***
   b. ***This is not a common practice.***
   c. ***Yes, it raises similar concerns to borrowing.***

Item E. Proposed Rules - Preferential Treatment

We request comment on this aspect of the proposed recordkeeping rule, including the following items:

1. Should we require advisers to maintain the proposed records or would these requirements be overly burdensome for advisers? Are there alternative or additional recordkeeping requirements we should impose?
    a. ***Convergence Comments – Yes, advisers should be required to maintain the proposed records. These requirements should not be considered a burden to the adviser. While this requirement will undoubtedly cost time and money, it should not impose excessive burdens on the adviser.***

2. Should we require advisers to retain a record of each addressee, the date(s) the statement was sent, address(es), and delivery method(s) as proposed? Why or why not?
    a. ***Convergence Comments – Yes, advisers should be required to retain a record of each addressee, the date(s) the statement was sent, address(es), and delivery method(s) as proposed. This practice will encourage the consist adoption of document management technology that already exists across the industry. Providers of this type of technology will benefit from greater scale which should lower prices as their volume grows.***

END OF SECTION II-D

III. Proposed Rules - Written Documentation of All Advisers' Annual Reviews of Compliance Programs

We request comment on the proposed amendments to the compliance rule:

1. Should we expressly require advisers to document the annual review of their compliance policies and procedures in writing, as proposed? If not, why?
    a. ***Convergence Comments – Yes advisers should document the annual review of their compliance policies and procedures in writing. Should the Commission not require such documentation, it should then require the adviser's CCO and CEO make an annual and documented attestation in their Form ADV Brochure that such a review occurred and document the actual changes made to their compliance policies and procedures.***

2. Should we specify certain elements that must be included in the written documentation of the annual review? For example, should we require the written documentation to address matters similar to those that are required in the CCO's written report to a registered fund's board of directors pursuant to rule 38a-1 under the Investment Company Act? Despite the limitations of private fund governance mechanisms, as discussed above, should we require the new documentation to be provided to LPACs, directors, or other governing bodies of private funds? Why or why not?
    a. ***Convergence Comments – Yes, advisers should be required to send the written documentation to address matters similar to those that are required in the CCO's written report to a registered fund's LPACs, directors, or other governing bodies of private funds. This practice provides evidence that the adviser has a systematic process in place to identify and address changes in the adviser's business model. Changes in the adviser's business model will change the complexity and/or risk of the business and often require changes to the compliance manual and other governing documents.***

3. Are there alternate means to document an adviser's annual review of its compliance program?
    a. ***Convergence Comments – Should the Commission not require such documentation it should then require the adviser's CCO and CEO make an annual and documented attestation in their Form ADV Brochure that such a review occurred and document the actual changes made to their compliance policies and procedures.***
4. Are there exceptions to the written documentation requirement that we should adopt?
    a. ***Convergence Comments – No, we do not support exceptions to the proposed rule. While the Commission will be tempted by comments from smaller advisers stating that they cannot afford to comply with these provisions, we do not support any exceptions.***

END OF SECTION III

IV. Additional Comment from Convergence

1. The Size of the Private Fund Industry

a. The private fund industry has grown to the point that it no longer needs the type and amount of rule flexibility suggested in many of the proposed rules and is much better positioned to manage the economic burdens directly suggested and/or implied throughout the Commission's proposed rules.

b. The 2021 annual compounded annual growth rate across all 9 industry growth categories measured and tracked by Convergence ***increased at greater rate than their 3-year and 5-year CAGRs.*** **This is a very bullish signal and suggest the industry will continue to grow.**

Table 1: Select Industry Statistics

Industry Growth Statistics - Based Form ADV Filings							Period-to-Period Growth			CAGR		
Row	Artifact	2017	2018	2019	2020	2021	21 vs 20	21 vs 19	21 vs 17	1-Year	3-Year	5-Year
1	# Filing Advisers	34,809	36,049	36,872	38,009	39,559	4%	7%	14%	4%	4%	3%
2	# Unique Manager Groups	32,237	33,396	34,133	35,195	36,534	4%	7%	13%	4%	3%	3%
3	Total Regulatory Assets ($Bn)	$85,627	$86,899	$100,952	$114,724	$134,582	17%	33%	57%	17%	15%	12%
4	#Private Fund Advisors	10,118	10,746	11,261	11,918	13,113	10%	16%	30%	10%	8%	7%
5	#Private Fund Unique Manager Groups	8,841	9,382	9,812	10,415	11,463	10%	17%	30%	10%	8%	7%
6	# Private Funds	57,664	62,128	65,535	71,213	83,619	17%	28%	45%	17%	13%	10%
7	# Private Funds (excluding Sub-Advised)	53,454	57,323	60,480	65,731	76,278	16%	26%	43%	16%	12%	9%
8	Private Fund Regulatory Assets ($Bn)	$14,899	$16,187	$18,525	$20,874	$25,269	21%	36%	70%	21%	17%	14%
9	#Beneficial Owners (000s)	3,532	3,667	3,799	4,093	4,739	16%	25%	34%	16%	12%	8%

i. **Private Fund Advisers - Row 4** – in 2021 the number of private fund advisers increased 10% over 2020 vs. a CAGR of 8% and 7% over 3 and 5-years. The number of private fund advisers gives investors more choices, service providers more business and increases the amount of work the Commission is required to do to fulfill its mission.

ii. **Unique Private Fund Manager Groups - Row 3** – in 2021 the number of unique managers groups controlling one or more affiliated private fund advisers increased 10% over 2020 vs. a CAGR of 8% and 7% over 3 and 5-years. These numbers are growing consistently with the growth in unique private advisers.

iii. **Private Funds - Row 6** – in 2021 the number of private funds disclosed by advisers, excluding sub-advised funds, increased 17% over 2020 vs. a CAGR of 13% and 10% over 3 and 5-years. Private fund growth is a better gauge for understanding the cost burden created by the proposed regulations. For example, the cost of requiring an audit for all but a handful of funds should actually lower the cost of audits because the audit firms already know what drives the cost of an existing fund audit and should be able to scale that knowledge and lower marginal cost of additional audits. The same financial scale argument can be applied for other service providers.

iv. **Private Fund Assets - Row 7** – in 2021 private fund assets increased 21% over 2020 vs a CAGR of 17% and 14% CAGR over 3 and 5-years. The private fund

asset information as currently disclosed in Form ADV Section 7B1 "Private Fund Reporting" could be of much greater use to investors, regulators and other service providers if it required an annual disclosure of period-to-period change for each private fund disclosed by the Adviser. Period to period chnages would include market performance, net subscriptions and redemptions, leverage and the value of derivatives. These changes would materially improve the completeness of use data in this section thereby helping the investor and the Commissions understanding of how fund performance, use of derivatives and leverage and net subscriptions and redemptions impact the adviser's management fees and potential signal financial duress. For example, a manager's management fee revenue will increase to some degree when driven by net new subscriptions and market performance and not grow due to use of leverage and the value of derivatives.

v. **Beneficial Owners - Row 9** – in 2021 the number of beneficial owners disclosed in private funds increased 16% over 202 vs a 12% and 8% CAGR over 3 and 5-years. This signal strongly supports the view that more investors are investing and are likely to continue investing into private funds offered by new and existing advisers.

2. **Comments on the Unintended Consequences Created by Low/No Barriers to Entry**
   a. While we applaud the Commission's continued sensitivity to the need for flexibility and the associated cost of regulation, we believe that this very sensitivity creates lower barriers of entry for new advisers coming into the market and certain service providers seeking to enter the private fund market. This encourages these firms to enter a market that is already crowded.
   b. The Commission should evaluate the unintended consequences they may create by differentiating the proposed rules between 1) small and large advisers, 2) advisers offering different strategies, 3) advisers operating in different domiciles and 4) advisers with different liquidity profiles. Convergence has observed certain unintended consequences based on its work with advisers and service providers across the industry, including but not limited the following groups within the private fund market eco-system.
   c. **Adviser Consequences**
      i. Regardless of their size, strategy and domiciliation new advisers who come to the market should be held to the same regulatory standards as existing advisers.
      ii. Many new advisers come to the market without adequate financial resources needed to fund and meet regulatory requirements and this by itself increases industry risk.
      iii. The private fund adviser market is crowded. This level of competition reduces the financial scale benefit that advisers receive from greater asset levels
      iv. Competition for talent increases wage pressures
      v. The crowded private fund adviser market reduces the number of good investments that can be made into funds. Too much money chasing too few ideas will increase asset prices and potentially reduce investor returns.
   d. **Investor Consequences**
      i. Investors who are already invested private funds or are conducting due diligence on making investments in new private funds are today forced to deal with inconsistent

private fund reporting and disclosure standards across the adviser funds in which they invest. For example, we do not see the utility in limiting the information that is today required in the Form ADVs of Exempt and Non-Exempt advisers.

ii. Performance returns may suffer given the negative impact that "crowded trades" can have on asset prices.

e. Regulatory Consequences

i. The capacity of the Commission to fulfill its investor protection mission is strained by the sheer volume of advisers to private funds.

ii. We believe systemic risk is on the rise. We have many examples of advisers entering the private fund market without proper resourcing. The Commissions proposed rules, with limited exceptions, will provide greater standardization and transparency into the private fund market. We believe that the Commission efforts to standardize private fund reporting and disclosures will appropriately increase the barriers of entry. By our count, using the 3/31/2022 regulatory filings,

3. Comments on Private Fund Audits

a. We support the audit requirement for all private funds, with few exceptions, because we believe investors would be better served by consistent audit requirements.

b. We do not believe that fund Audits, by themselves, protect investors from fraud, as suggested by the Commission.

c. The Commission should consider a proposal that requires advisers to publish the fund's annual audited financial statements. This would be consistent with the publication in Form ADV of the Adviser's Surprise Custody Examination and would create greater transparency to investors.

d. The Commission should consider a proposal to requires all advisers to publish a Notification of Late Private fund audits. Late filings can signal potential problems that will give investors greater transparency into potential issues the adviser experiences in their organization.

4. Comments on Private Fund Service Providers

a. The Commission needs to consider the benefits of regulating the many types of service providers to private funds and advisers that are not currently subject to regulatory oversight.

b. There is a growing cottage industry of small Fund Administrators, Compliance firms, Custodians and Fintech companies that are providing <u>mission critical services and safeguards</u> to the fund and/or its adviser who are not subject to the Commissions regulatory oversight.

c. Few financial or regulatory barriers of entry exist for these firms and investors often do not understand the limitation of the work conducted by these firms. We believe these inconsistencies increase risk in the area of cyber security, data privacy and money laundering.

d. The sheer number of these service providers in existence today, using Form ADV disclosures, materially reduces the amount of financial scale these companies could use to lower prices, invest in better products and services and improve the security of their platforms.

5. **Comments on the Quality of Regulatory Filings**
   - **a.** We applaud the Commission's transparency initiative. Investors and other users often use and benefit from the publicly available data contained in Form ADV, Form D and Form 13f and other filing data in their assessment and ongoing monitoring of advisers.
   - **b.** Yet the utility to most users is sub-optimal because the Commission publicly states on its IAPD and EDGAR websites that it <u>does not review the accuracy or consistency of the data</u> submitted in various regulatory filings.
   - **c.** This creates an <u>uneven playing field</u> between users who can and cannot afford to curate and validate the data.
   - **d.** This creates an unlevel playing field among private advisers because the lack of oversight encourages advisers to make a very serious and dangerous financial "bet" as to whether the benefits of compliance quality outweigh the cost. Benefits include positive investor reaction and avoiding criticism that might come from the Commission. If the adviser believes the cost of compliance quality exceeds the benefits, few investors will pay the price. The as to whether anyone, like the Commission or investors, will notice, or even care, about quality. needed to ensure that the quality of their regulatory filings meets a "reasonable level of consistency" with the industry or even peer group withing the industry
   - **e.** Uneven regulatory compliance quality increases the cost that investors and other service providers incur to conduct pre and post operational due diligence on an adviser.
   - **f.** Convergence developed methods to score and track the quality of Form ADV, Form D and Form 13F filings. Our quality measures look at the accuracy, consistency and frequency of filings and over multiple periods and our data science attempts to draw correlations between poor regulatory quality scores and enforcement actions.
   - **g.** The Commission should consider an underwriting a study to determine the correlation between the quality of an adviser's regulatory filings and their ability to meet the spirit and letter of applicable regulatory compliance standards.

END OF SECTION IV

Convergence Inc.
Business Profile

Prepared for:

The Securities and Exchange Commission

April 2022

CONVERGENCE

OPTIMAL PERFORMANCE

Table of Contents

About Convergence

- Founded in 2013, Convergence provides clients with "data and analytics as a service" ("DaaS") by identifying, collecting, normalizing, structuring and enriching raw and unstructured data into meaningful business data-driven "*insights*."

- Data-sets are infused with *"data science"* to create *"insights"* that help our clients *grow revenue, improve efficiency* and *identify and manage risks*.

- Our clients include institutional investors, asset mangers, services providers, government agenies, corporations and colleges and universities.

- Our founders, Advisory Board members and Series A-Investors were all C-Suite executives in asset management firms advising public and private funds including hedge, private equity, real estate, venture capital funds, securitized assets, mutual funds, broker-dealers, securities exchanges and fintech firms.

- We are headquartered in South Norwalk, CT and operate in New Jersey and Hyderabad, India.

- For additional informational please contact John Phinney, jphinney@convergenceinc.com, or George Evans, arozbruch@convergenceinc.com to learn more about the benefits of being a Convergence client.

Convergence Leadership Team

John Phinney, Chairman and CEO

Career History

- Apollo Global Management-Fund Group: CFO/COO, Rohatyn Group: CFO/COO, JPMorgan [Various Divisions]: CFO, Fidelity Alternative Investments: Director of Operations

jphinney@convergenceinc.com

Eileen Cleary, President, Convergence Talent Management

Career History

- Executive Management Consultant, Atlas Data: Chief Executive Officer and Co-founder, J. & W. Seligman & Co. Incorporated: V.P. Human Resources, UJB-Financial: V.P. Employee Benefits

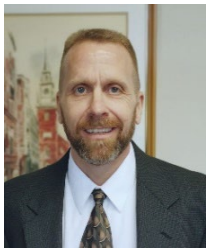
ecleary@convergenceinc.com

George Gainer, CPA Global Head – Client Management

Career History

- Gravitas: Finance & Business Performance Analyst, Apollo [through Gravitas]: Business Analysis & Reporting, Iron Mountain: Acquisition Accounting Manager, KPMG: Transaction Services Manager, Deloitte: Audit Senior Staff

ggainer@convergenceinc.com



John Pethtel, Chief Technology Officer

Career History

- Bank of America – Head of Global Equities Reference Data and Client Delivery, Merrill Lynch: Portfolio Risk Analytics Technology Head, ITG: Senior Product Manager Market and Reference Data, Nicholas Applegate: Market and Reference Data Head

jpethtel@convergenceinc.com

George Evans, Co-President

Career History

- Gladstone Associates: Managing Director, GlobeOp Financial, Outsource Partners International, BISYS Financial Services: Global Head of Business Development, JPMorgan Investor Services: Senior Vice President, The Prudential: Assistant Treasurer

gevans@convergenceinc.com

Alison Rozbruch, JD, Managing Director, Legal/RIA

Career History

- PayPal, Director of Tax Information Reporting;
  Standard Chartered Bank, Director Risk and Compliance Regulatory Reporting;
  Citibank, Senior Vice President, Securities and Fund Services

arozbruch@convergenceinc.com

Vidya Minukuri, Global Head of Data Science & Research

Career History

- Tata Consultancy Services: Assistant Business Consultant & Project Manager, British Telecom [through TCS]: Lead Business Analyst & Solution Architect, Ericsson [through TCS] : IT Systems Engineer and IT development team leader

vminukuri@convergenceinc.com

Data as a Service ("DaaS")

- **Our Clients General Data Challenge** - Most companies struggle to establish a consistent and value-adding "data capabilities" that can drive revenue growth, improve client intimacy and identify and manage risk.

- **The Reasons Driving our Clients Challenge -** Clients often treat their data initiatives as projects – the subject matter expertise needed by the data teams is often held by key revenue producers who are brought into data initiatives periodically – the data needed to support these initiatives is difficult to collect, curate and structure and expensive to source – data scientists are in short supply, difficult to retain and expensive.

- **The Convergence "DaaS" Solution –** After our clients define their business objectives our subject matter experts ("SME") work with our data analysts and scientists to identify, collect and develop the data sets needed to study their objectives – our SMEs and data scientists work with the data to develop and send clients data-driven "insights" that our clients use to achieve their objectives.

Convergence Products

Convergence's offers products across three categories that support three client objectives through three types of service delivery options:

Product Categories

1. Data Sets
2. Data Driven Insights
3. Predictive Analytics

Client Objectives/Benefits/Use Cases

1. Business Development – Raise more Assets
   i. Marketing Support
2. Effectiveness and Efficiency – Improve EBITDA
   i. Carry Plan Administration (SaaS)
   ii. Background Checks and Monitoring
   iii. Email Surveillance
3. Risk Identification – Reduce Risk
   i. Red Flag Identification

Service Delivery Options

1. Push – We push you what you want and need
2. Pull – We provide you access to a Client Portal to access standardized data
3. Workflow – We offer workflow solutions to support various client objectives

Profiles of Convergence Clients

Fund Admins	Fund Auditors	Prime Brokers
• *35 - Top 50*	• *17 - Top 25*	• *8 - Top 10*

Asset Managers	FinTech	Investment Banks
• *10 - Top 100*	• *6 - Top 20*	• *5 - Top 10*

Custodians	Consultants	Inst. Investors
• *3 - Top 10*	• *4 - Top 20*	• *5 - Top 50*

We maintain the confidentiality of our clients. All are referenceable and we are happy to provide references and introductions as needed.

Please refer to pages 17-27 that describe different client use cases and outcomes.

Our Ten Data and Operating Principles

Our 10 data and operating principles differentiate us from most data companies:

Daily Business Focus
The world changes each day, and we focus our data "insights" on supporting our clients in three areas: 1) growing revenue, 2) becoming more efficient and 3) identifying and managing risk.

Independent Data and Informational Assets
We source our data independently of the entities we examine to ensure that we can curate it and tell an original story without conflict.

Business Rules and Algorithms
180,000 lines of code power 350+ business rules and proprietary algorithms trained on our databases to identify and reveal opportunities that are specific to our clients customized needs.

Data Science and Predictive Analytics
We apply data science techniques to discover "signals" in our data that can give our clients a first-mover advantage that they use to support their objectives.

Client and Engagement
Our clients are industry leaders who face myriad challenges in the market. They drive us hard, and we deliver them a steady stream of new insights, products and enhancements.

Our Focus on Non-Investment Risk
Investors should never lose money to non-investment risk and believe that these risks can be managed if identified early. We study and model every SEC enforcement action.

Expertise
Our founders and senior leaders have 100+ years of experience building and leading the growth and risk management functions at the world's leading asset management firms.

Our Focus on Education
We believe educated clients challenge us to be better each day. We provide initial and ongoing training to improve the way they engage with our data and insights.

Your Return on Investment
We care about each dollar that clients spend with us and work to ensure that our data and solutions achieve their specific business goals and create a positive return on investment.

Service Delivery Model
Our service delivery model is flexible and based on a "push-pull" approach based on our client's needs using workflow apps, file feeds and email-based alerts.

Our Data Assets

- We collect, structure and enrich data to create business profiles on 46,000+ US and European asset managers that advise 1) Hedge, 2, Private Equity, 3) Real Estate, 4) Venture Capital, 5) Securitized Assets, 6) Hybrid and 7) Liquidity funds types and 8) UCITS and 9) Mutual Funds.
- Because we cover the entire industry, our data and analytics are deeper and more comprehensive than Prequin, Pitchbook, Discovery, Eurekahedge and Barclays Hedge.

COVERGENCE ALTERNATIVE DATA			
1,800 DAILY RAW DATA ARTIFACTS COLLECTED			INSIGHTS
188,000 LINES OF CODE RUN AGAINST DATA			
350 BUSINESS RULES (ALGORITHMS) APPLIED			
4,000 DAILY DATA ARTIFACTS CREATED			
30 SUBJECT AREAS PROFILED AND STUDIED			
US/Non-US Advisers (46,000)	US Private Funds (98,000)	US Mutual Funds (9,000)	
Non-US Funds (83,000)	Fund Types Advised (10)	Fund Level Strategies (150)	
Service Providers (6 Types over 5,000)	Global Regulators (100)	SEC Enforcement Cases (200)	
Key Executive Staff (200,000)	Institutional Investors (4,000)	Client Types (13)	
Manager Strategies (30)	Manager Risk Scores (5)	Financial Affiliates (35,000)	
Client Types (13)	Country Coverage (165)	Directors & Trustees (22,000)	
Major Asset Classes (31)	Compensation Types (7)	Client Profiles (14)	
ESG Factors (3)	Organizational Stress (3)	Type of Headcount (3)	
SMA Data	Business Activities (14)	Expense Disclosures (52)	
Historical 13F-D-G (193,000)	Historical Form ADVs (Part 1A- 422,000)	Historical Form ADVs (Brochures - 526,000)	
Historical Form Ds (526,000)	SPACS-1 (927)	Predictive Models (7)	
10 YEAR-TIME SERIES ("AS IS" and "AS WAS")			
DATA SCIENCE AND ANALYTICS APPLIED TO ALL			

Subject Example – Non-Investment Risk

- For each RIA we identify and monitor 61 data-driven non-investment risk conditions in RIAs:
  - Operational Risk
  - Compliance Risk
  - Regulatory Event Risk
  - Service Provider Risk
- We have back-tested risk our risk models against the business models of 200 Advisers cited by the SEC for investor wrongdoing.
- We combined time-series data sourced from the Adviser, Manager Risk and SEC Enforcement Cases "subject" and apply Predictive Models to create Regulatory Event Risk scores.

Data Coverage versus Other Alternative Data Providers

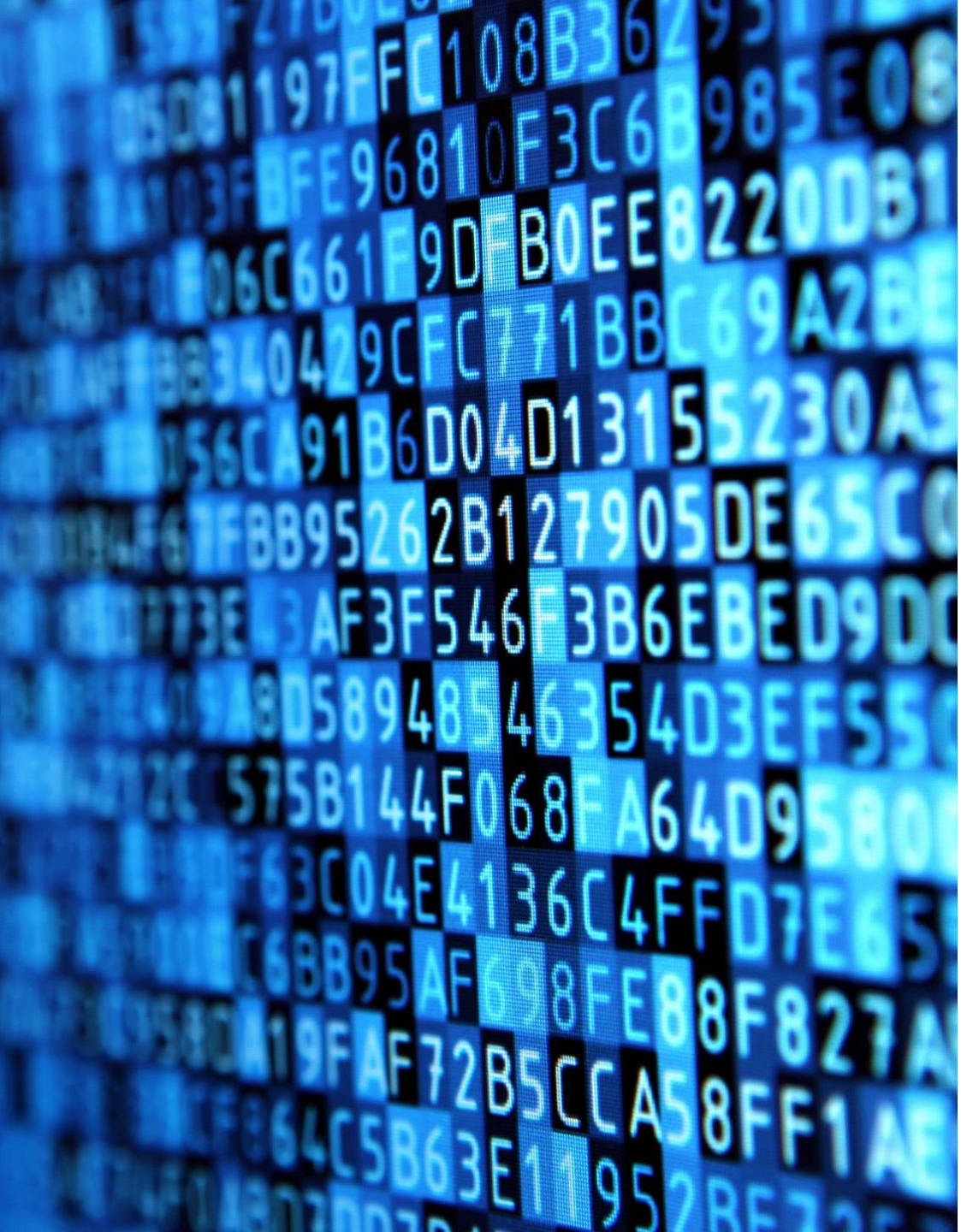
- Convergence has the most comprehensive database in the industry
  - ***We cover 14 fund and entity types, at least 2x more than other data firms***
  - ***We cover 200,000+ US and non-US funds 4x and 36x more active funds than other data firms***
- Our cost per funds is the most competitive in the industry

Alternative Data Firm	Hedge Funds	Private Equity	Venture Capital	Real Estate	Securitized Assets	Hybrid Funds	Managed Futures	EU-Funds	Mutual Funds	Infrastructure Funds	ESG Funds	Natural Resources	Private Debt	SPACS	Global Contact Names	Data Artifacts per Fund	Graveyard Database	URL for Data Source Discovery
Convergence	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES	https://www.convergenceinc.com
BarclaysHedge	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	YES	NO	YES	https://www.barclayhedge.com/databases/overview
Prequin	YES	YES	YES	YES	NO	NO	NO	YES	NO	YES	NO	YES	YES	NO	YES	NO	YES	https://www.preqin.com/data/
Pitchbook	NO	YES	YES	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	YES	NO	NO	https://www.pitchbook.com
HFR	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	YES	NO	YES	https://www.hfr.com/database
HFM/Eurekahedge	YES	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	NO	YES	NO	YES	https://hfm.global/hedge-fund-database

Alternative Data Coverage	Total Active Funds	Hedge Funds	Private Equity Funds	Venture Capital Funds	Real Estate Funds	Securitized Asset Funds	Hybrid Funds	EU Funds	Infra. Funds	ESG Funds	Private Debt Funds	Natural Resources	Mutual Funds	Managed Futures	Graveyard Funds	SPACS	Global Contact Names	Data Artifacts per Fund
Convergence	202,502	17,509	30,405	19,352	5,315	2,219	13,625	89,618	1,005	502	11,010	742	8,900	2,300	40,000	1,000	154,000	4,000
Pitchbook	51,010	0	18,352	21,281	11,377	0	0	0	0	0	0	0	0	0	0	0	NA	NA
Prequin	38,016	24,257	7,104	2,235	2,173	0	0	0	355	0	1,143	749	0	0	57,474	0	NA	NA
HFM/Eurekahedge	17,882	17,882	0	0	0	0	0	0	0	0	0	0	0	0	23,820	0	NA	NA
BarclaysHedge	8,000	6,900	0	0	0	0	0	0	0	0	0	0	0	1,100	20,000	0	29,000	350
HFR	5,600	5,600	0	0	0	0	0	0	0	0	0	0	0	0	21,000	0	NA	NA

Convergence Advantage	Total Active Funds	Hedge Funds	Private Equity Funds	Venture Capital Funds	Real Estate Funds	Securitized Asset Funds	Hybrid Funds	EU Funds	Infra. Funds	ESG Funds	Private Debt Funds	Natural Resources	Mutual Funds	Managed Futures	Graveyard Funds	SPACS	Global Contact Names	Data Artifacts per Fund
Pitchbook	4.0x	NA	1.7x	0.9x	0.5x	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
Prequin	5.3x	0.7x	4.3x	8.7x	2.4x	NA	NA	NA	2.8x	NA	9.6x	1.0x	NA	NA	0.7x	NA	NA	NA
HFM/Eurekahedge	11.3x	1.0x	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.7x	NA	NA	NA
BarclaysHedge	25.3x	2.5x	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	2.1x	2.0x	NA	5.3x	11.4x
HFR	36.2x	3.1x	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	1.9x	NA	NA	NA

- Prequin active fund counts are based on the number of funds that they claim to track performance. They do not disclose the number of graveyard funds (inactive) on their website. Prequin graveyard funds represent the difference between total funds reported by fund type and funds where they disclose performance.



Convergence

Data Sources

Convergence Raw Data Sourced from Form ADV

What is Form ADV?

Form ADV is the uniform form used by investment advisers to register with both the SEC and state securities authorities. The form consists of two parts, both of which are available to the public on the SEC website. **Part 1** requires information about the investment adviser's business, ownership, clients, employees, business practices, affiliations, and any disciplinary events of the adviser or its employees. Part 1 is organized in a check-the-box, fill-in-the-blank format. The SEC reviews the information from this part of the form to manage its regulatory and examination programs. **Part 2A** requires investment advisers to prepare narrative brochures that include plain English disclosures of the adviser's business practices, fees, conflicts of interest, and disciplinary information. The brochure is the primary disclosure document for investment advisers and must be delivered to advisory clients. **Part 2B** describes the backgrounds, education and credentials of key staff.

Why Track and Analyze Form ADV Changes?

Form ADV changes contain rich sources of data that can provide Investors with "clues" into the Managers business and changes in the investment and non-investment risks it underwrites. Change detection and evaluation is a key part of ongoing investor due diligence.

Part 1A - 820+ Artifacts

- Item 1 – Identifying Information
- Item 2 – SEC Registration/Reporting
- Item 3 – Form of Organization
- Item 4 – Successions
- Item 5 – Information About Your Advisory Business
- Item 6 – Other Business Activities
- Item 7.A – Financial Industry Affiliations
- Item 7.B – Private Fund Reporting
- Item 8 – Participation or Interest in Client Transactions
- Item 9 – Custody
- Item 10 – Control Persons
- Item 11 – Disclosure Information
- Item 12 - Small Businesses
- Schedule A
- Schedule B
- Schedule D
- Schedule R
- Disclosure Reporting Page (DRP)
- Signature Page
- Surprise Examination
- Registration Status

Part 2A- 30+ Artifacts

- Item 1 – Cover
- Item 2 – Material Changes
- Item 3 – Table of Contents
- Item 4 – Advisory Business
- Item 5 – Fees & Compensation
- Item 6 – Performance-Based Fees & Side-by-Side Management
- Item 7 – Types of Clients
- Item 8 – Methods of Analysis, Investment Strategies and Risk of Loss
- Item 9 – Disciplinary Information
- Item 10 – Other Financial Industry Activities & Affiliations
- Item 11 – Code of Ethics, Participation or Interest in Client Transactions & Personal Trading
- Item 12 - Brokerage Practices
- Item 13 – Review of Accounts
- Item 14 – Client Referrals & Other Compensation
- Item 15 - Custody
- Item 16 – Investment Discretion
- Item 17 – Voting Client Securities
- Item 18 – Financial Information

Convergence Raw Data Sourced from Form D

What is Form D?

Form D is filed to provide the SEC and public with notice of an exempt offering of securities. The federal securities laws require the notice to be filed by companies that have sold securities without registration under the Securities Act of 1933 in an offering made under Rule 504 or 506 of Regulation D or Section 4(a)(5) of the Securities Act.

A company (in this case a fund or other legal entity) must file this notice within 15 days after the first sale of securities in the offering. For this purpose, the date of first sale is the date on which the first investor is irrevocably contractually committed to invest.

Why Track and Analyze Form D Changes?

Convergence injects contextual meaning into Form D changes to give our clients **insights** and **meaning** into the Manager's business, including;

- Inaccurate or late Form D filings that may signal compliance problems
- Failed new fund offerings that may signal capital raising challenges
- Material declines in the number of limited partners may signal redemptions
- Sales Commission data gives you the opportunity to see the types of fees and amounts being paid by the Manager and across the market.

Form D - 120+ Artifacts

- Item 1 – Issuer's Identity
- Manager Identity-Convergence maps the issuer to a Manager using proprietary technology
- Item 2 – Principal Place of Business & Contact Information
- Item 3 – Related Persons
- Item 4 – Industry Group
- Item 5 – Issuer Size
- Item 6 – Federal Exemption(s) and Exclusion(s) Claimed
- Item 7 – Types of Filing Entity
- Item 8 – Duration of Offering
- Item 9 – Type(s) of Securities Offered
- Item 10 –Business Combination Transaction
- Item 11 – Minimum Investment
- Item 12 – Sales Compensation
- Item 13 – Offering & Sales Amounts
- Item 14 – Investors
- Item 15 – Sales Commissions and Finders' Fees Expenses
- Item 16 – Use of Proceeds
- Signature & Submission

Convergence Raw Data Sourced from Form 13F

What is Form 13F

SEC Form 13F is a quarterly report that is filed by institutional investment managers with at least $100 million in equity assets under management. It discloses their U.S. equity holdings to the SEC and provides insights into what large investors are doing. Congress believed that this institutional disclosure program would increase investor confidence in the integrity of the United States securities market.

The Form must be filed within 45 days after the last day of such calendar year and within 45 days after the last day of each of the first three calendar quarters of the subsequent calendar year." Filers must amend Form 13F filings when they discover errors. These amendments include "New Holdings Added" and "Restatements".

Why Track and Analyze Form 13F Changes?

For 13 F change analysis can provide valuable insights into the Managers business and thinking. Convergence injects contextual meaning into Form 13F changes to give us and our clients **insights** into the Adviser's business, including;

- Changes in the Manager's views on companies and the market
- Errors in prior filings may impact a prior period net asset value (NAV) of the Manager's funds.
- Frequent errors may suggest operational, accounting and compliance issues.

Form 13F - 128 Artifacts

- **Reference Data,** including
- Type of Filing
- Identity of Filer
- Filing Exemptions-Active
- Filing Extension-Expired
- Signature
- Title
- Address
- Other Reporting Managers
- **Holdings Data,** including
- Item 1 – Name of Issuer
- Item 2 – Title of Class
- Item 3 – CUSIP
- Item 4 – Value
- Item 5 – Shares/Principal Amount, Put/Call
- Item 6 – Investment Discretion
- Item 7 – Other Managers
- Item 8 – Voting Authority Sole/Shared/None

Convergence Raw Data Sourced from Schedule 13D

What is Schedule 13D?

Schedule 13D is a form that must be filed with the SEC when a person or group acquires more than 5% of any class of a company's shares. This information must be disclosed within 10 days of the transaction. Schedule 13D is also known as a "beneficial ownership report."

When a person or group of persons acquire a significant ownership stake in a company, characterized as more than 5% of a voting class of its publicly traded securities, the SEC generally requires that they disclose the purchase on a Schedule 13D form. Any investor with a stake of 20% or more, must automatically file 13D, regardless of whether they intend to exert control.

Why Track and Analyze Schedule 13D Changes?

Schedule 13D change analysis can provide valuable insights into the Managers business and thinking. Convergence injects contextual meaning into Schedule 13D changes to give us and our clients **insights** into the Adviser's business, including;

- Changes in the Manager's views on companies and the market
- Errors in prior filings may impact a prior period net asset value (NAV) of the Manager's funds.
- Frequent errors may suggest operational, accounting and compliance issues.

Schedule 13D Artifacts

Common Fields in 13D and 13G

- Name of Reporting Persons
- Group Membership
- Citizenship or Place of Organization
- Sole Voting Power
- Shared Voting Power
- Sole Dispositive Power
- Shared Dispositive Power
- Aggregate Amount Beneficially Owned by Each Reporting Person
- Percent of Class Represented
- Type of Reporting Persons
- Signature
- Title
- Address
- Source of Funds
- Disclosure of Legal Proceedings Required
- Item 4 – Purpose of Transaction
- Item 5 – Interest in Securities of the Issuer

Convergence Raw Data Sourced from Schedule 13G

What is Schedule 13G?

Schedule G is similar to Schedule D and is filed to provide investors with To file Schedule 13G instead of Schedule 13D, the individual must own between 5% and 20% of a company's stock. Also, they may only be a passive investor, without an intention to exert control over the company. If the individual does not meet these criteria, and the size of the stake exceeds 20%, the individual must complete and file Form 13D.

Schedule G provides insights into what large investors are doing. Congress believed that this institutional disclosure program would increase investor confidence in the integrity of the United States securities market.

Why Track and Analyze Schedule 13G Changes?

Schedule 13D change analysis can provide valuable insights into the Managers business and thinking. Convergence injects contextual meaning into Schedule 13D changes to give us and our clients **insights** into the Adviser's business, including;

- Changes in the Manager's views on companies and the market
- Errors in prior filings may impact a prior period net asset value (NAV) of the Manager's funds.
- Frequent errors may suggest operational, accounting and compliance problems.

Schedule 13G Artifacts

- Name of Reporting Persons
- Group Membership
- Citizenship or Place of Organization
- Sole Voting Power
- Shared Voting Power
- Sole Dispositive Power
- Shared Dispositive Power
- Aggregate Amount Beneficially Owned by Each Reporting Person
- Percent of Class Represented
- Type of Reporting Persons
- Signature and Title
- Address Item 1(a) Name of Issuer
- Item 1(b) - Address of Issuer's Principal Executive Offices
- Item 2(a) – Name of Person Filing
- Item 2(b) – Address of Principal Business Office
- Item 2(c) – Citizenship
- Item 2(d) – Title of Class of Securities
- Item 2(e) – CUSIP
- Item 3 – Type of Person
- Item 4 – Ownership
- Item 5 – Ownership of 5% or Less of a Class
- Item 6 – Ownership of More than 5% on Behalf of Another Person
- Item 7 – Identification and Classification of the Acquiring sub
- Item 8 – Identification and Classification of Members of the Group
- Item 9 – Notice of Dissolution of Group
- Item 10 – Certification

Convergence Raw Data from Other Sources

Manager Website - 8 Subjects

- About Us
- Our People
- Our Funds
- Our Clients
- Strategies
- Our Locations
- Contact Information
- Other Information

RICS (N-1A) - 8 Subjects

- Funds
- Advisers
- Service Providers
- Domiciliation
- Key Staff
- Size
- Performance
- Industry Classification

LPs (DOL 5500) - 8 Subjects

- Plan Name
- Plan Assets
- Key Staff
- Investee Managers
- Strategies
- Funds
- Fees
- Consultants

Why Track and Analyze Changes from these Sources?

- The Managers website represents marketing material and the data within it should be consistent with data in its various regulatory filings. Thus, changes made to a Managers website that are, or are not consistent with various regulatory filings yield insights into the quality of the Adviser's compliance team.

- N-1A provides raw information on open-end management investment companies. Convergence applies its data curation and change detection and analytical technology to identify and infuse meaning into changes that provide the user with contextual meaning. Changes shape insights into the decisions being made by the RIC.

- DOL 5500 provides raw information on the capital allocated to asset managers by covered institutional investors. Convergence applies its change detection and analytical technology to identify and infuse meaning into changes to provide contextual meaning. Changes are used to shape insights into the decisions being made by this class of Investors.

Convergence Derivative Data Artifacts

Completion Artifacts

- Completion artifacts are derived by cross referencing multiple data sources to "complete" the "profile" of an adviser, which is then consolidated into control groups that oversee the filing adviser(s). Completion data can be tied directly to an Advisers regulatory filings or other public statements it makes about itself.

Predictive Artifacts

- Predictive artifacts are created from curated data and come from the application of data science techniques and models that describe various "transactions." For example, we have studied 10,000 decisions made by Advisers to terminate Fund Administrators and Auditors that are used to help clients reduce this risk.

Trend & Analytical Artifacts

- Trend and Analytical artifacts are created from the study of time-series based macro and micro-economic business conditions. For example, we created 9 artifacts to describe asset growth. The data is used by advisers and services providers to evaluate new products, markets and the firms competing for business in these areas.

Convergence Derivative Data Artifacts are Needed to Tell a Compelling Story

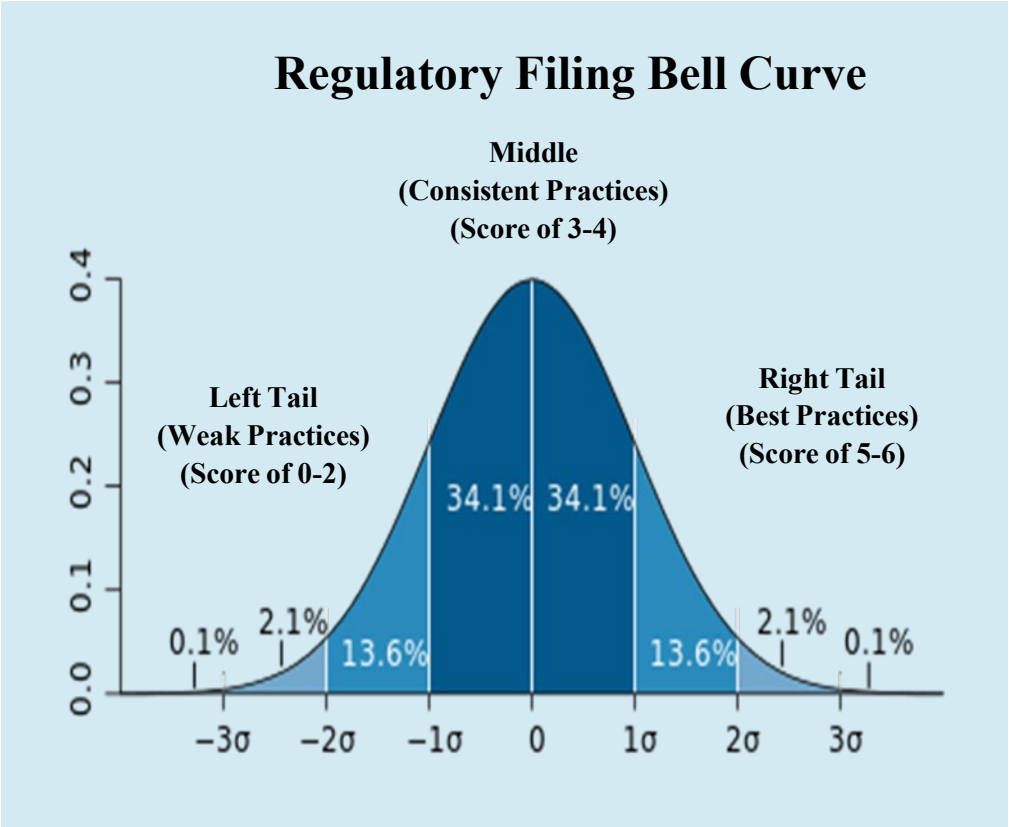
- Completion artifacts are needed to complete the 1) profile of an Adviser and the manager group that controls them, 2) map them to appropriate peer groups and 3) facilitate time-series based analytics on like-for-like firms.

- Predictive artifacts are needed to get out in front of likely transactions (events) in the following areas, 1) identify commercial risk, 2) identify regulatory and litigation risk and 3) create business development opportunities.

- Trend and analytical artifacts are needed to understand who markets and the firms within them are changing and how your firm, or study firm are performing relative to the overall market and/or peer group.

Our Approach to Measuring Regulatory Quality

- The quality of an adviser's regulatory filings provide insights into the challenges and opportunities faced by the filing Adviser and/or controlling Manager Group's compliance team. We score the quality of multiple regulatory filings and identify opportunities that can help the Adviser improve its score.



Tactical and Strategic Support Solutions

Identify and Manage Non-Investment Risk

- Convergence actively identifies, measures and monitors the level of non-investment risk in 46,000+asset managers using absolute and relative risk measures.
  - Absolute risk is the Adviser's non-investment risk score
  - Relative risk is the Adviser's absolute risk score relative to the absolute risk scores of all peer group managers.

- Non-investment risk analysis is used by institutional investors to support pre and post investment due diligence, by advisers to gain improved "insights" into how their non-investment risk compares to competitors and by service providers to support new client acceptance testing and future recertification.

- We rigorously examine the non-investment risk conditions in SEC enforcement actions to determine the linkage they have to various wrongdoing cases. Our SEC case library includes 200+ fully modelled SEC enforcement actions taken against advisers for various infractions. We create a risk score for each event for 40,000+ advisers. This informs clients on similarities that can lead to wrongdoing if not managed.

- We are happy to provide you with a demonstration of the competitive intelligence product suite within the Convergence Research Portal.

Tactical Business Development – Sales Support

- Convergence supports the sales efforts of service providers by identifying advisers *"most likely"* to be open to a conversation with them based on "event-driven" observations we make daily, or, that we predict may happen using data science. Predictive analytics give clients a "first mover" advantage.

- We support an Adviser's fund-raising efforts by identifying marketing forms around the globe who are successful at raising assets for strategies in various geographies. We also connect our GP and LP clients where appropriate.

- We are happy to share additional details under a jointly executed NDA.

Strategic Business Development – M&A

- Convergence provides strategic support to many of our clients who want to grow via acquisition or collaborate with firms to round-out their product offering. We provide detailed analysis of the general market for various products and services and more detailed analysis of the buying behavior of advisers. Our services cover the following:

  - Trend analysis
  - Identification of acquisition and collaboration targets
  - Facilitation of meetings
  - Collaboration targets

- We have facilitated several deals, including recently the strategic investment by a private equity firm in a compliance and governance firm serving 1,500 clients. Our insights into growth trends, pricing and risk helped the buyer justify the pricing it offered the seller and establish their ability to help the seller meet future growth targets.

Competitive Intelligence

- We create “asset manager profiles” that advisers and service providers use to improve their competitive intelligence and understanding of the market, their competitors and themselves.

- We are happy to provide you with a demonstration of the competitive intelligence product suite within the Convergence Research Portal.

Examples of Client Use Cases

Asset Managers – Service Provider Selection Data Sets

- **Profile of Client**
  - $9bn PE, VC and RE Adviser (FOF)
- **Challenge**
  - The Board of this Adviser asked us to i) identify the number of non-Big 4 Audit firms capable of supporting their diverse fund types and investment strategies and ii) develop a customized league table that they could use to prioritize a short list of Auditors to invite to an RFP and iii) oversee the RFP process to replace the incumbent Auditor.
- **Solution**
  - **Convergence Service Provider Database™** contains a complete business profile of 500+ Audit firms that audit private funds. Profiles include the name, size and reference data for each fund, business won and lost over a 10-year period.
  - We created a customize model that incorporated key filters that the Board and the Adviser agreed were important in the selection process including the Auditor's PCAOB supervisory history and client regulatory history.
- **Results**
  - *The Adviser replaced the incumbent Auditor with one that met their RFP requirements.*

Asset Managers – Fund Raising Data Sets – Compliance Solutions

- **Profile of Client**
  - $11bn Hybrid Manager – Mutual Funds - Hedge Funds -SMAs
- **Challenge**
  - The company was struggling to raise assets for a newly acquired hedge fund that that invest in structured credit.
  - The Adviser's Board raised concerns about their ability to manage the risk and compliance requirements created by the three different investment platforms based on SEC comments about hybrid managers.
- **Solution**
  - **Convergence Regulatory Filing Analyzer™ and Subject Matter Experts**
    - We reviewed risk management and compliance policies and procedures and detected several opportunities to improve the data inputs provided by the Advisers operational, accounting and technology functions that reduced data inaccuracies, omissions and inconsistencies. Our initial observations led to a full the review of all front-middle-back-office functions that supplied data to the Compliance group.
- **Results**
  - *The acquired Hedge Fund raised $700mm within three years of implementing our recommendations*

Asset Managers – Service Provider Growth Data Sets

- **Profile of Client**
  - $3bn Hedge Fund Manager that lends to and invests in publicly traded Fund Administration and Fintech firms.
- **Challenge**
  - The firm was looking alternative data to add to their internal research and investment models on investee companies
- **Solution**
  - **Convergence Fund and Asset Roll-Forward Analysis™** is a proprietary analytic that decomposes growth into 9-factors. The analysis pinpoints how competitive a company's sales team is in winning business from new and existing clients. The Manager obtained greater insights into the market and competitor growth factors, improving its ability to discuss quarterly financial results with the CEO and CFO of each investee company.
- **Results**
  - *Our independent research supported their objective.*

Asset Managers – Risk Data Sets – M&A Support

- **Profile of Client**
  - $14bn Private Equity Manager (EU)
- **Challenge**
  - The firm needed M&A due diligence support to identify the business risk in a company that provides fund governance services to 1,500 investment advisers. The firm wanted to understand the amount of operational risk in these clients and identify key "red flags" to consider when negotiating legal indemnities and risk carve-outs with the seller. The firm issued an RFP to 5 major consulting firms and awarded Convergence the business because of the depth and breadth of our services and ability to complete the works in 14 business days.
- **Solution**
  - **Convergence Non-Investment Risk Analytics™**. We ran the 1,500 advisers through our database and provided the client a 5-year times series risk analytics that included:
    - Operational risk profile of company versus market, by peer group
    - Identification of "high-risk" advisers, and for these advisers we provided:
      - Full set of operational-compliance-vendor-regulatory risk scores
      - Full set of factor-level scores and red flag identification
- **Results**
  - *The manager announced the deal on July 1, 2021 and subsequently closed it in late 2021.*

Institutional Investors – Risk Data Sets – Operational Due Diligence

- **Profile of Client**
  - $60BN Public Pension Plan.
- **Challenge**
  - The plan wanted to monitor more frequently the 120+ single manager investments and improve the quality and efficiency of their pre-investment due diligence on potential investee managers.
- **Convergence Solution**
  - **Convergence Complexity Profiling Service™** was implemented to identify and push daily risk changes identified within 61 Complexity Factors™ that directly impacted operating risk across all single manager investments.
- **Results**
  - *The service was rolled-out to 25 Investment, Risk Management and Operational Due Diligence professionals in a customizable personal news page.*
  - *The service was expanded to include pre-investment due diligence on potential investee managers and the use of a Convergence Analysts to examine changes in risk factors using the Convergence Risk Management Workflow.*

Fund Administrators – Tactical Business Development Data Sets

- **Profile of Client**
  - $100bn Fund Administrator
- **Challenge**
  - The firm wanted an independent assessment of its growth relative to its peers in the markets in which it competes. Given their product capabilities they wanted us to identify the size the addressable market.
- **Solution**
  - **Convergence Competitive Analysis and Sales Advisory Services™** was chosen to establish the client's growth versus peers, where it was winning and not winning its fair share of new business and monitor and alert them to new business opportunities. Semi-annual updates were requested to track the firms progress against their growth initiatives.
- **Results**
  - *The client tripled sales by 3x over three years by targeting business that they could support and advisers that were showing operational and compliance stress. The Administrator moved into the Top 10 through organic growth.*

Fund Auditor – Tactical Business Development Data Sets

- **Profile of Client**
  - Top 10 Fund Auditor
- **Challenge**
  - The firm wanted to standardize it sales efforts across 20 US office locations using a data-driven approach for identifying targets, developing their narrative (pitch) and measuring results.
- **Solution**
  - **Convergence Fund Auditor Best Fit Analysis - Competitive Analysis and Sales Advisory Services™** was chosen to support the firms NY business development team for a two-year proof of concept.
- **Results**
  - *The client's NY business increased the amount of new fund business by 4x over two years by identifying and pitching Advisers with business challenges that the Auditor had great experience solving.*

FinTech Firm – Tactical Business Development Data Sets

- **Profile of Client**
  - Top 10 "software as a service" provider to financial institutions
- **Challenge**
  - The firm wanted a more intelligent approach to calling on prospects in the asset management space for its fund accounting technology. They had been buyers of Prequin data.
- **Solution**
  - **Convergence Sales Advisory Services** provided them with a prioritized list of prospects based on a model we built using the asset and headcount growth attributes of asset managers they had success selling to. We used the model to identify and prioritize 3,000 managers within our database. Many of whom were not part of the Prequin data-set.
- **Results**
  - *Immediate sales success. Positive ROI of 3x the price of the service was achieved within 120 days of sending them our first model.*
  - *Additional services added for different client target segments.*

Fund Auditor – Client Acceptance Testing Data Sets

- **Profile of Client**
  - Top 30 Fund Auditor
- **Challenge**
  - The firm wanted to automate, standardize and lower the cost of its client acceptance testing ("CAT") procedures consistent with PCAOB Auditing Standard No. 12: Identifying and Assessing Risks of Material Misstatement - Obtaining an Understanding of the Company and Its Environment
    - The auditor should obtain an understanding of the company and its environment ("understanding of the company") to understand the events, conditions, and company activities that might reasonably be expected to have a significant effect on the risks of material misstatement. Obtaining an understanding of the company includes understanding:
    - Relevant industry, regulatory, and other external factors;
    - The nature of the company;
    - The company's selection and application of accounting principles, including related disclosures;
    - The company's objectives and strategies and those related business risks that might reasonably be expected to result in risks of material misstatement; and
    - The company's measurement and analysis of its financial performance.
    - In obtaining an understanding of the company, the auditor should evaluate whether significant changes in the company from prior periods, including changes in its internal control over financial reporting, affect the risks of material misstatement.
- **Solution**
  - **Convergence Asset Manager Business and Non-Investment Risk Reporting** was chosen to automate, standardize and lower the cost of its CAT process.

Fund Administrators – Strategic Business Development Data Sets

- **Profile of Client**
  - $20bn EU Fund Administrator
- **Challenge**
  - The firm wanted help to identify small administrators and add-on service providers with specific product profiles and growth challenges interested in having strategic discussions.
- **Solution**
  - **Convergence's M&A Data Sets** was chosen to identify fund administrators who were experiencing growth challenges and client run-off
- **Results**
  - *In 4 weeks, we identified 60 firms. Our client spoke with 20 firms and went to NDA with two. One deal has closed, and one has gone to LOI.*