Panel II: Private Fund Adviser Topics

- Jennifer Duggins
- Brendan McGlynn
- Michael Neus
- Alpa Patel
- Adam Reback
- Igor Rozenblit

Private Fund Unit

- **Leadership:** Igor Rozenblit and Jennifer Duggins
- **Location:** SEC Regions with high concentration of private fund advisers
- **Goals:**
  1. Build examiner “pattern recognition”
  2. Use industry knowledge to conduct more thorough and efficient exams
  3. Understand compliance risks through analysis of industry dynamics
Private Fund Adviser Topics—Private Equity

“Legacy” Risks

Expense Shifting
- Senior Advisors
- Back Office Outsourcing
- Procurement Programs

Hidden Fees
- Monthly Fee Accelerations
- Offset Issues
- Other PortCo Fees

Favoritism
- Co-investment Allocation
- PortCo. Lending by LPs
- Primary/Secondary/Mezzanine Conflicts

Marketing
- Valuation
- Deal Attribution
- Hidden Team Issues

Private Fund Adviser Topics—Private Equity

Real Estate Risks

Expense Shifting
- Front office outsourcing – Asset management spinouts
- Back office outsourcing – Legal, accounting

Conflicts of Interest
- Affiliated property managers
- Relationships with property managers

Marketing
- Representing internal services as being provided at or below market price.
- Disclosure regarding personnel chargebacks of affiliated property managers
Private Fund Adviser Topics—Private Equity

Future Risks

Zombie/End of Life Issues
- Managing funds in liquidation without seeking extensions
- Fee offsets when no more management fee exists
- Fund Restructurings – Valuation in tenders; fiduciary duty in asset sales
- PortCo – Expense Shifting and Disclosure of Fees

Marketing
- Representations made in fund extension process
- Performance attribution in spinouts
- Disclosure of net returns where management fee is paid outside of the fund

Private Fund Adviser Topics—Hedge Fund

Proprietary Capital/Side-by-Side Management
- Disclosure of proprietary/near-prop accounts
- Disclosure of liquidity differences between diff fund classes/prop accounts/SMAs
- Trade, Expense, Capital Allocation

Liquidity and Valuation
- Potential for scope creep into illiquid securities in the face of draw downs
- Accurate liquidity assessment of semi-liquid securities (e.g., certain EM Bonds)
- Accurate valuation of side pockets in uncertain markets
Private Fund Adviser Topics—
Hedge Fund

Compliance
- Potential for weaker programs at smaller advisers
- Conflicts of interests at larger advisers
- Exclusion of compliance from research process
- Lack of compliance buy-in from business

Private Fund Adviser Topics—
Compliance

Keys to CCO Success
1. Independence, access and empowerment
2. Familiarity with all aspects of the business → Credibility
3. Knowledge of formation docs and disclosures
4. Expert in identifying and curing conflicts

Keys to Compliance Program Success
1. Needs palpable buy-in from business
2. Update P&P for current business
3. Clear expense allocation P&P
4. Complete, accurate and updated regulatory filings