

ADMINISTRATIVE PROCEEDING
File No. 3-18113

Investment Adviser Settles with SEC for Improperly Allocating Expenses to its Private Equity Fund Clients

August 16, 2017 – A New York-based investment advisory firm has agreed to pay a \$275,000 penalty to settle charges that it improperly allocated legal fees and employee expenses to private equity funds it advised.

According to a Securities and Exchange Commission order issued today, investment adviser Capital Dynamics Inc. (CDI) improperly had private equity funds it advised pay for over \$1.2 million in legal and employee expenses. The SEC's investigation found that the private equity funds' organizational documents did not include those legal fees or employee costs among the listed types of expenses that the fund would be responsible for paying. For example, CDI charged the private funds for \$797,257 in legal fees incurred when CDI renegotiated an agreement with its own employees. CDI cooperated with the SEC's investigation and reimbursed more than \$1.4 million to the fund.

The SEC's order further finds that CDI failed to adopt written policies and procedures reasonably designed to prevent violations of the Investment Advisers Act of 1940 and related rules.

The SEC's order finds that CDI violated Sections 206(2) and 206(4) of the Advisers Act, and Rules 206(4)-7 and 206(4)-8. Without admitting or denying the findings, CDI consented to the SEC's order and agreed to pay the \$275,000 penalty. The SEC considered CDI's remedial acts and cooperation in reaching the settlement.

The SEC's investigation was conducted by Prashant Yerramalli and Gregory MacCordy and supervised by Panayiota K. Bougiamas and Mark D. Salzberg of the Enforcement Division's Asset Management Unit.

See also: [Order](#)