

>>>FAIRVIEW FLASH REPORT<<<

SEC Fines Investment Advisers for Advertising False Performance

WHAT HAPPENED?	<p>On August 25, 2016, the SEC announced penalties against 13 investment advisory firms for violating Rules 204-2(a)(16) and 206(4)-1(a)(5) of the Investment Advisers Act. The firms were in violation of these securities laws due to distributing advertisements with inflated performance figures supplied by their sub-adviser, F-Squared Investments. The SEC also found that the 13 investment advisers failed to obtain the appropriate documentation to substantiate the advertised performance.</p> <p>This is the second announcement the SEC has given concerning F-Squared's services. Penalties were imposed on Virtus Investment Advisers, which was outlined in a Fairview Flash Report titled "\$16.5 Million SEC Settlement for Use of Sub-adviser's Inflated Performance".</p>
WHAT IS THE RESULT?	<p>Investment advisers have the fiduciary duty to guarantee that all performance advertised is accurate. Advisers should thus implement due diligence procedures that require advisory personnel to thoroughly review performance figures provided by sub-advisers or third-parties before distributing the information to clients or potential clients. This review must include the retention of the proper books and records to substantiate the calculations.</p> <p>The failure of the investment advisers to abide by these rules resulted in penalties ranging from \$100,000 to a half-million dollars. The Asset Management Unit of the SEC is continuing its investigation into advisers that used F-Squared as a sub-adviser.</p>
NEXT STEPS	<p>Advisers should assess the efficiency of their policies and procedures in conducting due diligence and retaining the necessary records. It is imperative for advisers to substantiate the performance calculations they acquire from any sub-adviser or third-party engaged by the firm. Please contact Fairview if you have any questions or concerns about your firm's compliance with these issues.</p>

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Sources: [Investment Advisers Paying Penalties for Advertising False Performance Claims](#)