

>>>FAIRVIEW FLASH REPORT<<<

SEC Alleges Private Equity Firm Breaches Fiduciary Duty

<p>WHAT HAPPENED?</p>	<p>The SEC has recently alleged that New Silk Route Advisors, L.P. (“NSR”) violated its fiduciary duty through repeated co-investments made by two private equity funds it manages (the “NSR Funds”) without approval of the funds’ advisory boards. Between January 2008 and April 2014, the NSR Funds invested over \$250 million in four portfolio companies in which an affiliate of the adviser was also invested. The NSR Funds’ Limited Partnership Agreements (“LPAs”) specifically required the consent of the advisory boards for the NSR Funds to conduct such co-investments.</p>
<p>WHAT ARE THE IMPLICATIONS?</p>	<p>NSR’s failure to disclose the co-investments prevented the NSR Funds’ advisory boards from evaluating any potential conflicts and from providing or withholding informed consent. As a result, NSR violated Section 206(2), Rule 206(4)-7 and Rule 206(4)-8 of the Advisers Act. Section 206(2) of the Advisers Act prohibits investment advisers from engaging in any business activity that operates as a fraud or deceit upon clients or prospective clients. Rule 206(4)-8 under the Advisers Act makes untrue, misleading, or omitted statements of a material fact to any investor or prospective investor in the pooled investment vehicle unlawful. NSR’s breach of these rules, by not operating according to the LPA, led the Commission to censure the respondent and fine a civil money penalty in the amount of \$275,000.</p>
<p>WHAT DOES THIS MEAN FOR ME?</p>	<p>The SEC has demonstrated that LPAs can and will be used as enforcement tools as they contain important disclosures on which the limited partner investors rely upon when deciding to invest in a private fund or partnership. Private equity firms should ensure that their business activities abide by the terms and conditions listed in their current LPA and offering documents of the private funds managed by the adviser. Please contact Fairview with any questions or concerns.</p>

[Fairview Privacy Policy and Terms of Use](#)

Source: [Private Equity Firm Failed to Obtain Approval for Co-Investments](#)