

## >>>FAIRVIEW FLASH REPORT<<<

### SEC Censures Private Equity Firm for Failing to Disclose Relationships with Third-Party Service Provider

<b>WHAT HAPPENED?</b>	<p>On January 10, 2017, the SEC instituted cease-and-desist proceedings against Centre Partners Management, LLC (“CPM”) for failing to disclose relationships and subsequent conflicts of interest between three of its principals (“Principals A, B, and C”) and a third-party service provider. CPM thus breached its funds’ governing documents by excluding these potential conflicts of interests from its reports to the advisory committees. The relationships highlighted by the SEC included the following:</p> <ul style="list-style-type: none"><li>• Principal A’s wife is the sister of the service provider’s co-founder, CEO, President, and majority shareholder;</li><li>• Principals A, B, and C collectively owned 9.6% of the service provider’s outstanding shares; and</li><li>• Principals A and B hold two of the three seats on the service provider’s board of directors.</li></ul> <p>Despite being unaware of these potential conflicts of interest, CPM’s fund clients paid for the service provider to conduct due diligence services for portfolio company investments from 2001 to 2014.</p>
<b>WHAT ARE THE IMPLICATIONS?</b>	<p>CPM’s conduct violated Section 206(2) of the Advisers Act by failing to disclose potential conflicts of interest. CPM also violated Sections 206(4) of the Advisers Act, and Rule 206(4)-8 thereunder, by omitting material facts from its disclosures to investors. Even though neither CPM nor its Principals profited from the service provider’s engagement, the SEC still brought charges against CPM for breaching its fiduciary duty to fund clients and failing to disclose conflicts of interest as required. Accordingly, the SEC has censured CPM and ordered the adviser to pay a civil money penalty of \$50,000.</p>
<b>WHAT DOES THIS MEAN FOR ME?</b>	<p>The SEC’s fine and censure of CPM exemplifies how enforcement actions can be initiated against registered investment advisers even where there is minimal benefit to the adviser. Fairview encourages all registered investment advisers to review all outside activities, personal investments, and any other potential areas of risk that might create conflicts of interest. Furthermore, disclosures should be reviewed and current so that any</p>

potential conflicts of interest are reported in a timely manner. As always, Fairview is available to assist clients with drafting disclosures and amending the firm's ADV.

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

Sources: [PE Firm Censured for Failing to Disclose Investment in Service Provider](#)