

Asset Manager  
Code of  
Professional Conduct



The mission of the CFA Centre for Financial Market Integrity is to be a leading voice on issues of fairness, efficiency, and investor protection in global capital markets and to promote high standards of ethics, integrity, and professional excellence within the investment community.

Its sponsoring organization, CFA Institute, is the 70,000-member, non-profit organization that awards the Chartered Financial Analyst® designation worldwide. CFA Institute was known as the Association for Investment Management and Research (AIMR) from 1990 through early 2004, and before that was two separate organizations with roots going back to 1947.

# Asset Manager Code of Professional Conduct

## Introduction

CFA Institute formed the CFA Centre for Financial Market Integrity (the “CFA Centre”) to explicitly support the CFA Institute mission to lead the investment industry in setting the highest standards of ethics and professional conduct. Asset managers in particular hold a unique place of trust in the lives of millions of investors. Investment professionals and firms who undertake and perform their responsibilities with honesty and integrity are critical to maintaining investors’ trust and confidence and upholding the client covenant of trust, loyalty, prudence, and care. CFA Institute and its members are committed to reinforcing those principles. To foster this culture of ethics and professionalism, the CFA Centre offers this voluntary code of conduct. It is designed to be broadly adopted within the industry as a template and guidepost for investors seeking managers that adhere to sound ethical practice.

The Asset Manager Code of Professional Conduct (the “Code”) outlines the ethical and professional responsibilities of firms that manage assets on behalf of clients. Although the CFA Institute *Code of Ethics* and *Standards of Professional Conduct* address individual conduct, this Code is meant to apply, on a global basis, to firms (“Managers”), who manage client assets as separate accounts or pooled funds (including collective investment schemes, mutual funds, and fund of funds). In part, this document responds to requests from Managers to extend the scope of the *Code* and *Standards* to the firm level. Although many institutional asset managers, particularly those in well-regulated jurisdictions, may already have such a code in place, they should use this Code to evaluate their own code and ensure that all of the principles have been included. This Code has also been developed for use by asset managers, including hedge fund managers, who may not already have such a code in place.

Ethical leadership begins at the highest level of an organization. The Code should, therefore, be adopted by the Manager’s board of directors, senior management, or similar oversight body. Such adoption sends a strong message regarding the importance of ethical behavior at the firm. Rather than creating rules that only apply to certain people or groups, this Code is intended to cover all employees of the firm. Although not every employee is actively involved in conduct covered in the Code, a code that is broadly applied reinforces the need for all employees to understand the ethical issues involved in the asset management business. By adopting and enforcing a code of conduct for their firm, Managers demonstrate their commitment to ethical behavior and the protection of investors’ interests. In doing so, the Managers also protect and enhance the reputation of their firms.

The Code sets forth minimum ethical standards for providing asset management services for clients. It is meant to be general in nature and allow flexibility for asset managers of various sizes and structures to develop the particular policies and procedures necessary to implement the Code. The goal of this Code is to set forth a useful framework for all asset managers to provide services in a fair and professional manner and to fully disclose key elements of these services to clients, regardless of whether individual Managers are required to register or comply with applicable securities laws or regulations. Unregistered hedge fund managers in particular are encouraged to adopt the Code and implement its provisions to ensure fair dealing and integrity and to promote self-regulation in this dynamic sector.

We recognize that in the highly regulated and complex business of investment management, a code of ethics is not sufficient by itself. To be implemented effectively, the principles and standards embodied in the Code must be supported by appropriate compliance procedures. The specific compliance procedures that translate principle into practice will vary based on a variety of factors, including the specific business of the Manager, the type of clients, the size of the firm (both assets under management and number of employees), the regulatory regime with which the Manager must comply, as well as many other factors.

Managers must adhere to any applicable laws or regulations governing their activities. The provisions of this Code may need to be supplemented with additional provisions to meet the requirements of applicable security regulation in markets around the world. Inevitably, as with any globally oriented work of this kind there will be some markets in which the Code closely reflects or is aligned with existing regulation or accepted best practice. In other markets, the Code will expand on the existing work of regulatory authorities. In still others, the Code will break new ground. Managers may also operate in different market structures, which may affect the manner in which the code can be applied. Despite these differences, the Code nevertheless provides a universal set of principles and standards relevant to all asset managers.

Clients have a responsibility to be aware of, understand, and monitor how their assets are invested. But to fulfill this responsibility, clients must be able to count on full and fair disclosure from their Manager. Providing clients with a Code of Ethics that sets a framework for how the Manager conducts its business is an important step in developing the trust and confidence necessary for a successful investment management relationship.

# General Principles of Conduct

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**MANAGERS HAVE THE FOLLOWING RESPONSIBILITIES TO THEIR CLIENTS:**

1. Act in a professional and ethical manner at all times.
2. Act for the benefit of clients.
3. Act with independence and objectivity.
4. Act with skill, competence, and diligence.
5. Communicate with clients in a timely and accurate manner.
6. Uphold the rules governing capital markets.

# Asset Manager Code of Professional Conduct

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## A. Loyalty to Clients

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### MANAGERS MUST:

1. Place client interests before their own.
2. Preserve the confidentiality of information communicated by clients within the scope of the Manager-client relationship.
3. Refuse to participate in any business relationship or accept any gift that could reasonably be expected to affect their independence, objectivity, or loyalty to clients.

## B. Investment Process and Actions

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### MANAGERS MUST:

1. Use reasonable care and prudent judgment when managing client assets.
2. Not engage in practices designed to distort prices or artificially inflate trading volume with the intent to mislead market participants.
3. Deal fairly and objectively with all clients when providing investment information, making investment recommendations, or taking investment action.
4. Have a reasonable and adequate basis for investment decisions.
5. When managing a portfolio or pooled fund according to a specific mandate, strategy, or style:
  - a. only take investment actions that are consistent with the stated objectives and constraints of that portfolio or fund;
  - b. provide adequate disclosures and information so investors can consider whether any proposed changes in the investment style or strategy meet their investment needs.
6. When managing separate accounts and before providing investment advice or taking investment action on behalf of the client:
  - a. Evaluate and understand the client's investment objectives, tolerance for risk, time horizon, liquidity needs, financial constraints, and any other unique circumstances (including tax considerations, legal or regulatory constraints, etc.), and any other relevant information that would affect investment policy.
  - b. Determine that an investment is suitable to a client's financial situation.

## C. Trading

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### **MANAGERS MUST:**

1. Not act, or cause others to act, on material nonpublic information that could affect the value of a publicly traded investment.
2. Give priority to investments made on behalf of the client over those that benefit their own interests.
3. Use commissions generated from client trades only to pay for investment-related products or services that directly assist the Manager in its investment decision-making process and not in the management of the firm.
4. Maximize client portfolio value by seeking best execution for all client transactions.
5. Establish policies to ensure fair and equitable trade allocation among client accounts.

## D. Compliance and Support

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### **MANAGERS MUST:**

1. Develop and maintain policies and procedures to ensure that their activities comply with the provisions of this Code and all applicable legal and regulatory requirements.
2. Appoint a compliance officer responsible for administering the policies and procedures and for investigating complaints regarding the conduct of the Manager or its personnel.
3. Ensure portfolio information provided to clients by the Manager is accurate and complete and arrange for independent third-party confirmation or review of such information.
4. Maintain records for an appropriate period of time in an easily accessible format.
5. Employ qualified staff and sufficient human and technological resources to thoroughly investigate, analyze, implement, and monitor investment decisions and actions.
6. Establish a business-continuity plan to address disaster recovery or periodic disruptions of the financial markets.

## E. Performance and Valuation

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### **MANAGERS MUST:**

1. Present performance information that is fair, accurate, relevant, timely, and complete. Managers must not misrepresent the performance of individual portfolios or of their firm.
2. Use fair market prices to value client holdings and apply, in good faith, methods to determine the fair value of any securities for which no readily available, independent, third-party market quotation is available.

## F. Disclosures

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### **MANAGERS MUST:**

1. Communicate with clients on an ongoing and timely basis.
2. Ensure that disclosures are prominent, truthful, accurate, complete, and understandable and are presented in a format that communicates the information effectively.
3. Include any material facts when making disclosures or providing information to clients regarding themselves, their personnel, investments, or the investment process.
4. Disclose the following:
  - a. Conflicts of interests generated by any relationships with brokers or other entities, other client accounts, fee structures, or other matters.
  - b. Regulatory or disciplinary action taken against the Manager or its personnel related to professional conduct.
  - c. The investment process, including information regarding lock-up periods, strategies, risk factors, and use of derivatives and leverage.
  - d. Management fees and other investment costs charged to investors, including what costs are included in the fees and the methodologies for determining fees and costs.
  - e. The amount of any soft or bundled commissions, the goods and/or services received in return, and how those goods and/or services benefit the client.
  - f. The performance of clients' investments on a regular and timely basis.
  - g. Valuation methods used to make investment decisions and value client holdings.
  - h. Shareholder voting policies.
  - i. Trade allocation policies.
  - j. Results of the review or audit of the fund or account.
  - k. Significant personnel or organizational changes that have occurred at the Manager.



# Appendices



# Appendix A — Recommendations and Guidance

Adoption of the Code, by itself, is insufficient for a Manager to meet its ethical and regulatory responsibilities. Managers must adopt additional, detailed policies and procedures to effectively implement the Code. The following section provides guidance explaining the Code and includes further recommendations and illustrative examples to assist Managers seeking to implement the Code. These examples are not meant to be exhaustive, and the policies and procedures needed to support the Code will be dependent on the particular circumstances of each firm and the legal and regulatory environment in which the firm operates.

This guidance highlights particular issues that Managers should consider when developing their internal policies and procedures to accompany the Code. The guidance is not intended to cover all issues or aspects of a Manager's operations that would have to be included in such policies and procedures in order to fully implement and support the Code.

## A. Loyalty to Clients

### MANAGERS MUST:

#### 1. Place client interests before their own.

Client interests are paramount. Managers should institute policies and procedures to ensure that client interests supersede Manager interests in all aspects of the Manager–client relationship, including (but not limited to) investment selection, transactions, monitoring, and custody. Managers should take reasonable steps to avoid situations where the Manager's interests and client interests conflict and institute operational safeguards to protect client interests. Managers should implement compensation arrangements that align the financial interests of clients and Managers and avoid incentives that could result in Managers taking action in conflict with client interests.

#### 2. Preserve the confidentiality of information communicated by clients within the scope of the Manager–client relationship.

As part of their ethical duties, Managers must hold information communicated to them by clients or other sources within the context of the Manager–client relationship strictly confidential, and they must take all reasonable measures to preserve this confidentiality. This duty applies when Managers obtain information on the basis of their confidential relationship with the client or their special ability to conduct a portion of a client's business or personal affairs. Managers should create a privacy policy that addresses how confidential client information will be collected, stored, protected, and used.

This duty to maintain confidentiality does not supersede a duty (and in some cases the legal requirement) to report suspected illegal activities involving client accounts to the appropriate authorities. Where appropriate, Managers should consider creating and implementing a written anti-money-laundering policy to prevent their firms from being used for money laundering or the financing of other illegal activities.

#### 3. Refuse to participate in any business relationship or accept any gift that could reasonably be expected to affect their independence, objectivity, or loyalty to clients.

As part of holding clients' interests paramount, Managers must establish policies for accepting gifts or entertainment in a variety of contexts. In order to avoid the appearance of a conflict, Managers must refuse to accept gifts or entertainment from service providers, potential investment targets, or other business partners of more than a minimal value. Managers should define what the minimum value is and should consult local regulations, which may also establish limits.

Managers should establish a written policy limiting the acceptance of gifts and entertainment to items of minimal value. Managers should consider creating limits (e.g., amount per time period, per vendor) for accepting gifts and prohibit the acceptance of any cash gifts. Employees should be required to document and disclose to the Manager, through a supervisor, the firm's compliance office, or senior management, the acceptance of any gift or entertainment.

This provision is not meant to preclude Managers from maintaining multiple business relationships with a client as long as potential conflicts of interest are managed and disclosed.

## **B. Investment Process and Actions**

### **MANAGERS MUST:**

#### **1. Use reasonable care and prudent judgment when managing client assets.**

Managers must exhibit the care and prudence necessary to meet their obligations to clients. Prudence requires caution and discretion. The exercise of prudence requires acting with the care, skill, and diligence that a person acting in a like capacity and familiar with such matters would use under the same circumstances. In the context of managing a client's portfolio, prudence requires following the investment parameters set forth by the client and balancing risk and return. Using care in managing client assets requires Managers to act in a prudent and judicious manner in avoiding harm to clients.

#### **2. Not engage in practices designed to distort prices or artificially inflate trading volume with the intent to mislead market participants.**

Market manipulation is illegal in most jurisdictions and damages the interests of all investors by disrupting the efficient functioning of financial markets and causing deterioration in investor confidence.

Market manipulation includes practices that distort security prices or values or artificially inflate trading volumes with the intent to deceive persons or entities that rely on information in the market. Such practices can, for example, involve transactions that deceive market participants by distorting the price-setting mechanism of financial instruments and the dissemination of false or misleading information. Transaction-based manipulation includes, but is not limited to, transactions that artificially distort prices or volume in order to give the impression of activity or price movement in a financial instrument (e.g., trading in illiquid stocks at the end of a measurement period in order to drive up the price and improve Manager performance); or securing a large position with the intent to exploit and manipulate the price of an asset and/or a related derivative. Information-based manipulation includes, but is not limited to, spreading knowingly false rumors to induce trading by others and pressuring sell-side analysts to rate or recommend a security in such a way that benefits the Manager or the Manager's clients.

#### **3. Deal fairly and objectively with all clients when providing investment information, making investment recommendations, or taking investment action.**

In order to maintain the trust that clients place in them, Managers must deal with all clients in a fair and objective manner. Managers must not give preferential treatment to favored clients to the detriment of other clients. In some cases, clients may pay for a higher level of service or certain services and certain products may only be made available to certain qualifying clients (e.g., certain funds may only be open to clients over a certain asset level). These practices are permitted as long as they are disclosed and made available to all clients.

This provision is not intended to prevent Managers from engaging in secondary investment opportunities — often referred to in some jurisdictions as “side letter,” “sidecar,” or “tag-a-long” arrangements with certain clients as long as such opportunities are fairly allocated among similarly situated clients for whom the opportunity is suitable.

#### **4. Have a reasonable and adequate basis for investment decisions.**

Managers must act with prudence and make sure their decisions have a reasonable and adequate basis. Prior to taking action on behalf of their clients, Managers must analyze the investment opportunities in question and should act only after undertaking due diligence to ensure there is sufficient knowledge about specific investments or strategies. Such analysis will depend on the style and strategy employed. For example, a Manager implementing a passive strategy will have a very different basis for investment actions than a Manager that employs an active strategy. Managers can rely on external third-party research, provided that they have made reasonable and diligent efforts to determine that such research has a reasonable basis. When evaluating investment research, Managers should consider the assumptions used, the thoroughness of the analysis performed, the timeliness of the information, and the objectivity and independence of the source.

Managers should have a thorough understanding of the securities in which they invest and the strategies they employ on behalf of clients. Managers should understand the structure and function of the securities, how they are traded, liquidity, and any other risks (including counterparty risk).

Managers who implement complex and sophisticated investment strategies should understand the structure and potential vulnerabilities of such strategies and communicate these in an understandable manner to their clients. For example, when implementing complex derivative strategies, Managers should understand the various risks and conduct statistical analysis (i.e., stress testing) to determine how the strategy will perform under different conditions. By undertaking adequate due diligence, Managers can better judge the suitability of investments for their clients.

#### **5. When managing a portfolio or pooled fund according to a specific mandate, strategy, or style:**

- a. only take investment actions that are consistent with the stated objectives and constraints of that portfolio or fund;**

In cases where Managers are given a specific mandate by clients or offer a product, such as a pooled fund, whereby the Managers do not know the specific financial situation of each client, Managers must manage the funds or portfolios within the stated mandates or strategies. Clients need to be able to evaluate the suitability of the investment funds or strategies for themselves. Subsequently, they must be able to trust that Managers will not diverge from the stated or agreed-on mandates or strategies. When market events or opportunities change to such a degree that Managers wish to have flexibility to take advantage of those occurrences, such flexibility is not improper but should be expressly understood and agreed on by Managers and clients. Best practice is for Managers to disclose such events to clients when they occur or, at the very least, in the course of normal client reporting.

- b. provide adequate disclosures and information so investors can consider whether any proposed changes in the investment style or strategy meet their investment needs.**

In order to give clients an opportunity to evaluate the suitability of investments, Managers need to provide adequate information to them about any proposed material changes to their investment strategies or styles — well in advance of such changes. Clients should be given enough time to consider the proposed changes and take any actions that may be necessary. If the Manager decides to make a material change in the investment strategy or style, clients should be permitted to redeem their investment if desired, without incurring any undue penalties.

#### **6. When managing separate accounts and before providing investment advice or taking investment action on behalf of the client:**

- a. Evaluate and understand the client's investment objectives, tolerance for risk, time horizon, liquidity needs, any other unique circumstances (including tax considerations, legal or regulatory constraints, etc.), and any other relevant information that would affect investment policy.**

Prior to taking any investment actions for clients, Managers must take the necessary steps to understand and evaluate the client's financial situation, constraints, and other relevant factors. Without understanding the client's situation, the Manager cannot select and implement an appropriate investment strategy. Ideally, each

client will have their own Investment Policy Statement (IPS) that includes a discussion of risk tolerances (both the ability and willingness to bear risk), return objectives, time horizon, liquidity requirements, liabilities, tax considerations, and any legal, regulatory, or other unique circumstances.

The purpose of the IPS is to provide Managers with written, strategic plans to direct investment decisions for each client. The Manager should take an opportunity to review the IPS for each client, offer any suggestions on clarifying the IPS, and discuss with them the various techniques and strategies to be employed in meeting the client's investment goals. Managers should review each client's IPS with the client at least annually and whenever circumstances suggest changes may be needed.

The information contained in an IPS will allow Managers to assess whether a particular strategy or security is suitable for a client (in the context of the rest of the client's portfolio) and serve as the basis for establishing the client's strategic asset allocation. (Note: In some cases, the client will determine the strategic asset allocation; in other cases, that duty will be delegated to the Manager). The IPS should also specify the Manager's role and responsibilities in managing the client's assets as well as schedules for review and evaluation. The Manager should also reach agreement with the client as to an appropriate benchmark or benchmarks by which the Manager's performance will be measured and any other details of the performance evaluation process (e.g., when performance measurement should begin).

**b. Determine that an investment is suitable to a client's financial situation.**

Managers must evaluate investment actions and strategies in light of each client's circumstances. Not all investments are suitable for every client, and Managers have a responsibility to ensure that only appropriate investments and investment strategies are included in a client's portfolio. Ideally, individual investments should be evaluated in the context of clients' total assets and liabilities, and may include client assets held outside of the Manager's account, to the extent that such information is made available to the Manager and is explicitly included in the context of the client's IPS.

## C. Trading

### **MANAGERS MUST:**

**1. Not act, or cause others to act, on material nonpublic information that could affect the value of a publicly traded investment.**

Trading on material nonpublic information, which is illegal in most jurisdictions, erodes confidence in capital markets, institutions, and investment professionals and promotes the perception that those with inside and special access can take unfair advantage of the general investing public. Although trading on such information may lead to short-term profitability, over time, individuals and the profession as a whole will suffer if investors avoid capital markets because they perceive them to be unfair, favoring the knowledgeable insider.

Different jurisdictions and regulatory regimes may define materiality differently, but in general, information is material if it is likely that a reasonable investor would consider it important and that it would be viewed as significantly altering the total mix of information available. Information is "nonpublic" until it has been widely disseminated to the marketplace (as opposed to a select group of investors).

Managers must adopt compliance procedures, such as establishing information barriers (e.g., fire walls), to prevent the disclosure and misuse of material nonpublic information. In many cases, pending trades or client or fund holdings may be considered material nonpublic information, and Managers must be sure to keep such information confidential. In addition, merger and acquisition information, prior to its public disclosure, is generally considered material nonpublic information. Managers should evaluate company-specific information that they may receive and determine whether it meets the definition of material nonpublic information.

This provision is not meant to prevent Managers from using the mosaic theory to combine pieces of material public and nonmaterial nonpublic information to draw conclusions that are actionable.

## **2. Give priority to investments made on behalf of the client over those that benefit their own interests.**

Managers must not execute their own trades in the same security prior to client transactions. Investment activities that benefit the Manager must not adversely affect client interests. Managers must not engage in trading activities that work to the disadvantage of clients (e.g., front-running client trades).

In some investment arrangements, such as limited partnerships or pooled funds, Managers put their own capital at risk alongside that of their clients in order to align their interests with the interests of their clients. These arrangements are permissible only if clients are not disadvantaged.

Managers should develop policies and procedures to monitor and, where appropriate, limit the personal trading of their employees. In particular, Managers should require employees to receive approval prior to any personal investments in initial public offerings or private placements. Managers should develop policies and processes designed to ensure that client transactions take precedence over employee or firm transactions. One possible method would be to create a restricted list and/or watch list of securities that are owned in client accounts or may be bought or sold on behalf of clients in the near future and require employees to seek approval prior to trading in any of these securities. In addition, Managers could require employees to provide the compliance officer with copies of trade confirmations each quarter and annual statements of personal holdings.

## **3. Use commissions generated from client trades only to pay for investment-related products or services that directly assist the Manager in its investment decision-making process and not in the management of the firm.**

Managers must recognize that commissions paid (and any benefits received in return for commissions paid) are the property of the client. Consequently, any benefits offered in return for commissions must benefit the Manager's clients.

To determine whether a benefit generated from client commissions is appropriate, Managers must determine whether it will directly assist in the Manager's investment decision-making process. The investment decision-making process can be considered the qualitative and quantitative process and the related tools used by the manager in rendering investment advice to clients, including financial analysis, trading and risk analysis, securities selection, broker selection, asset allocation, and suitability analysis.

Some Managers have chosen to eliminate the use of soft commissions (also known as soft dollars) to avoid any conflicts of interest that may exist. Managers should disclose their policy on how benefits are evaluated and used for the client's benefit. If Managers choose to use a soft commission or bundled brokerage arrangement, they should disclose their use to clients. Managers should also consider complying with industry best practices regarding their use and reporting, such as the CFA Institute Soft Dollar Standards.

## **4. Maximize client portfolio value by seeking best execution for all client transactions.**

When placing client trades, Managers have a duty to seek terms that secure best execution for and maximize the value of (i.e., ensure the best possible result overall) each client's portfolio. Managers must seek the most favorable terms for client trades given the particular circumstances for each trade (such as transaction size, market characteristics, liquidity of security, security type). Managers also must consider which brokers or venues provide best execution while considering, among other things, commission rates, timeliness of trade executions, and the ability to maintain anonymity, minimize incomplete trades, and minimize market impact. In cases where a client directs the Manager to place trades through a specific broker or through a particular type of broker, Managers should alert the client that by limiting the Manager's ability to select the broker, the client may not be receiving best execution and the Manager should seek written acknowledgment of such from the client.

## **5. Establish policies to ensure fair and equitable trade allocation among client accounts.**

When placing trades for client accounts, Managers must allocate trades fairly so that some client accounts are not routinely traded first or receive preferential treatment. Where possible, Managers should use block trades and allocate shares on a pro-rata basis using an average price or some other method that ensures fair and equitable allocations. When allocating shares of an initial or secondary offering, Managers should strive to ensure that all clients for whom the security is suitable are given opportunities to participate. When Managers do not receive a large enough allocation to allow all eligible clients to participate fully in a particular offering, they must ensure that certain clients are not given preferential treatment and should establish a system to ensure that new issues are allocated fairly (e.g., pro rata). Manager's trade allocation policies should specifically address how initial public offerings and private placements will be handled.

## **D. Compliance and Support**

### **MANAGERS MUST:**

#### **1. Develop and maintain policies and procedures to ensure that their activities comply with the provisions of this Code and all applicable legal and regulatory requirements.**

Detailed, firm-wide compliance policies and procedures are critical tools to ensure that Managers meet their legal requirements when managing client assets. In addition, the fundamental principle-based ethical concepts embodied in the Code should be implemented by more specific policies and procedures.

Documented compliance procedures will assist Managers in fulfilling the responsibilities enumerated in the Code and will ensure that the standards expressed therein are adhered to in the day-to-day operation of their firms. Precise compliance programs, internal controls, and self-assessment tools that are appropriate for each Manager will differ based on various factors, including the size of the firm and the nature of its investment management business.

#### **2. Appoint a compliance officer responsible for administering the policies and procedures and for investigating complaints regarding the conduct of the Manager or its personnel.**

Effective compliance programs require Managers to appoint a compliance officer that is competent, knowledgeable, and credible and is empowered to carry out their duties. Depending on the size and complexity of the Manager's operations, some Managers may designate an existing employee to also serve as the compliance officer or hire a separate individual for that role; others may require an entire compliance department. Where possible, the compliance officer should be independent from the investment and operations personnel and should report directly to the CEO or board of directors. The compliance officer and senior management should regularly convey to all employees that adherence to compliance policies and procedures is crucial and that anyone who violates them will be held liable. Managers should consider requiring all employees to acknowledge that they have received a copy of the Code (as well as any subsequent material amendments), that they understand and agree to comply with it, and that they will report any suspected violations of the Code to the designated compliance officer. Compliance officers should take steps to implement appropriate employee training and conduct continuing self-evaluations of the Manager's compliance practices to assess the effectiveness of such procedures.

Among other things, the compliance officer should also be charged with reviewing firm and employee transactions to ensure the priority of client interests. Because personnel, regulations, business practices, and products constantly change, the role of the compliance officer (particularly the role of keeping the firm up to date on such matters) is that much more important.

The compliance officer should document and act expeditiously to address any compliance breaches and work with management to take appropriate disciplinary action.



**3. Ensure portfolio information provided to clients by the Manager is accurate and complete and arrange for independent third-party confirmation or review of such information.**

Managers have a responsibility to ensure that the information they provide to clients is accurate and complete. By receiving an independent third-party confirmation or review of that information, clients can have an additional level of confidence that the information is correct and can enhance the Manager's credibility. Such verification is also good business practice because it can serve as a risk management tool to help the Manager identify potential problems. The confirmation of portfolio information can take the form of an audit or review, as is the case with most pooled vehicles, or copies of account statements and trade confirmations from the custodian bank where the client assets are held.

**4. Maintain records for an appropriate period of time in an easily accessible format.**

Managers must retain records that substantiate their investment activities, the scope of their research, the basis for their conclusions, and the reasons for actions taken on behalf of their clients. Managers should also retain copies of other compliance-related records that support and substantiate the implementation of the Code and related policies and procedures, as well as records of any violations and resulting actions taken. Records can be maintained either in hard copy or electronic form. Regulators often impose requirements related to record retention. In the absence of such regulation, Managers must determine the appropriate minimum time frame for keeping firm records. Unless otherwise required by local law or regulation, Managers should keep records for at least six years.

**5. Employ qualified staff and sufficient human and technological resources to thoroughly investigate, analyze, implement, and monitor investment decisions and actions.**

In order to safeguard the Manager–client relationship, Managers need to allocate all the resources necessary to ensure that client interests are not compromised. Clients pay significant sums to Managers for professional asset management services, and their assets should be handled with the greatest possible care.

Managers of all sizes and investment styles struggle with issues of cost and efficiency and tend to be cautious about adding staff in important operational areas. Nevertheless, adequate protection of client assets requires appropriate administrative, back-office, and compliance support. Managers should ensure that adequate internal controls are in place to prevent fraudulent behavior.

A critical consideration is employing only qualified staff. Managers must ensure that client assets are invested, administered and protected by qualified and experienced staff. Employing qualified staff reflects a “client-first” attitude and helps ensure that Managers are applying the care and prudence necessary to meet their obligations to clients. This provision is not meant to prohibit the outsourcing of certain functions. The Manager retains the liability and responsibility for any outsourced work.

Managers have a responsibility to clients to deliver the actual services they claim to offer. Managers must employ adequate resources to carry out the research and analysis needed to implement their investment strategies with due diligence and care. Also, Managers must have adequate resources to monitor the portfolio holdings and investment strategies. As investment strategies and instruments become increasingly sophisticated, the need for sufficient resources to analyze and monitor them will become ever more important.

**6. Establish a business-continuity plan to address disaster recovery or periodic disruptions of the financial markets.**

Part of safeguarding client interests is establishing procedures for handling client accounts and inquiries in situations of national, regional, or local emergency or market disruption. Commonly referred to as business-continuity or disaster-recovery planning, such preparation is increasingly important in an industry highly susceptible to a wide variety of disasters and disruptions.

The level and complexity of business-continuity planning depends on the size, nature, and complexity of the organization involved. At a minimum, Managers should consider having:

- adequate backup, preferably off-site, for all account information;
- alternative plans for monitoring, analyzing, and trading investments if primary systems become unavailable;
- plans for communicating with mission-critical vendors and suppliers;
- plans for employee communication and coverage of critical business functions in the event of a facility or communication disruption; and
- plans for contacting and communicating with clients during a period of extended disruption.

Numerous other factors should be considered, according to the needs of the organization, when creating the plan, which may include establishing backup office and operational space in the event of an extended disruption and dealing with key employee deaths or departures.

As with any important business planning, Managers should ensure that employees and staff are knowledgeable about the plan and are specifically trained in areas of responsibility. Plans should be tested on a firm-wide basis at periodic intervals to promote employee understanding and identify any needed adjustments.

## E. Performance and Valuation

### **MANAGERS MUST:**

- 1. Present performance information that is fair, accurate, relevant, timely, and complete. Managers must not misrepresent the performance of individual portfolios or of their firm.**

Although past performance is not necessarily indicative of future performance, historical performance records are often used by prospective clients as part of the evaluation process when hiring Managers. Managers have a duty to present performance information that is a fair representation of their record and includes all relevant factors. In particular, Managers should be certain not to misrepresent their track record by taking credit for performance that is not their own (i.e., when they were not managing a particular portfolio or product) or by selectively presenting certain time periods or investments (i.e. cherry picking). Any hypothetical or back-tested performance must be clearly identified as such. Managers should also provide as much additional portfolio transparency as feasibly possible. Any forward-looking information provided to clients must also be fair, accurate, and complete.

One such model for performance reporting is embodied in the Global Investment Performance Standards (GIPS®), which are based on the principles of fair representation and full disclosure and are designed to meet the needs of a broad range of global markets. By adhering to these investment performance standards, Managers will help assure investors that the performance information is both complete and fairly presented. When Managers comply with the GIPS standards both prospective and existing clients benefit because they can have a greater degree of confidence in the reliability of the performance numbers that Managers present, and this, in turn, may enhance clients' sense of trust in their managers.

- 2. Use fair market prices to value client holdings and apply, in good faith, methods to determine the fair value of any securities for which no readily available, independent, third-party market quotation is available.**

In general, fund Managers' fees are calculated as a percentage of the assets under management. In some cases, an additional fee is calculated as a percentage of the annual returns earned on the assets. Consequently, a conflict of interest may arise when the portfolio Manager has the additional responsibility of determining end-of-period valuations and returns for portfolio assets.

These conflicts may be overcome by transferring responsibility for the valuation of assets (including foreign currencies) to an independent third party. For pooled funds with boards of directors comprising independent members, such independent members should have the responsibility of approving the asset valuation policies and procedures and reviewing the valuations. For those pooled funds without independent directors, it is recommended that this function be undertaken by independent third parties who are expert in providing such valuations.

Widely accepted valuation methods and techniques should be used to appraise portfolio holdings of securities and other investments and should be applied on a consistent basis.

## **F. Disclosures**

### **MANAGERS MUST:**

#### **1. Communicate with clients on an ongoing and timely basis.**

Developing and maintaining clear, frequent, and thorough communication practices is critical to providing high-quality financial services to clients. Understanding the information communicated to them allows clients to know how Managers are acting on their behalf and gives clients the opportunity to make well-informed decisions regarding their investments. Managers must determine how best to establish lines of communication that fit their circumstances and that enable clients to evaluate their financial status.

#### **2. Ensure that disclosures are truthful, accurate, complete, and understandable and are presented in a format that communicates the information effectively.**

Managers must not misrepresent any aspect of their services or activities, including (but not limited to) their qualifications or credentials, the services they provide, their performance records or the records of their firm, and characteristics of the investments or strategies they employ. A misrepresentation is any untrue statement or omission of fact or any statement that is otherwise false or misleading. Managers must ensure that misrepresentation does not occur in oral representations, marketing (whether through mass media or printed brochures), electronic communications, or written materials (whether publicly disseminated or not).

To be effective, disclosures must be made in plain language and in a manner designed to effectively communicate the information to clients and prospective clients. Managers must determine how often, in what manner, or under what particular circumstances disclosures must be made.

#### **3. Include any material facts when making disclosures or providing information to clients regarding themselves, their personnel, investments, or the investment process.**

Clients must have full and complete information in order to judge the abilities of Managers and their actions in investing client assets. “Material” information is information that reasonable investors would want to know relative to whether or not they would choose to use or continue to use the Manager.

#### **4. Disclose the following:**

- a. Conflicts of interests generated by any relationships with brokers or other entities, other client accounts, fee structures, or other matters.**

Conflicts of interest often arise in the investment management profession and can take many forms. Best practice is to avoid such conflicts if possible. When Managers cannot reasonably avoid conflicts, they must carefully manage them and disclose them to clients. Disclosure of conflicts protects investors by providing them with the information they need to evaluate the objectivity of their Managers’ investment advice or actions taken on their behalf, and by giving them the information to judge the circumstances, motives, or possible Manager bias for themselves. Examples of some of the types of activities that can constitute actual or potential conflicts of

interest include soft or bundled commissions, referral and placement fees, trailing commissions, sales incentives, directed brokerage arrangements, allocation of investment opportunities among similar portfolios, personal or firm holdings in the same securities as clients, whether the Manager co-invests alongside clients, and the use of affiliated brokers.

**b. Regulatory or disciplinary action taken against the Manager or its personnel related to professional conduct.**

Past professional conduct records are an important factor in an investor's selection of a Manager. This record includes actions taken against a Manager by any regulator or other organization.

Managers must fully disclose any significant instances in which any employee or the firm has been found to have violated conduct standards or other standards reflecting on the integrity, ethics, or competence of the individuals or organization involved.

**c. The investment process, including information regarding lock-up periods, strategies, risk factors, and use of derivatives and leverage.**

Managers must disclose to clients and prospective clients the manner in which investment decisions are made and implemented. Such disclosures should address the overall investment strategy and should include a discussion of the specific risk factors inherent in such a strategy.

Understanding the basic characteristics of an investment is an important factor in judging the suitability of each investment on a stand-alone basis, but it is especially important in determining the effect each investment will have on the characteristics of the client's portfolio. Only by thoroughly understanding the nature of the investment product or service can a client determine whether changes to that product or service could materially affect his or her investment objectives.

**d. Management fees and other investment costs charged to investors, including what costs are included in the fees and the methodologies for determining fees and costs.**

Investors are entitled to full and fair disclosures of costs associated with the investment management services provided. These disclosures include information relating to any fees paid to their Managers on an ongoing basis as well as periodic costs that are known to their Managers and that will affect investors' overall investment expenses. At a minimum, Managers should provide clients with gross- and net-of-fees returns and disclose any unusual expenses.

A general statement that certain fees and other costs will be assessed to investors may not adequately convey the total amount of expenses that investors may incur as a result of investing. Therefore, Managers not only must use plain language in presenting this information, they also must clearly explain the methods for determining all fixed and contingent fees and costs that will be borne by investors and explain the transactions that will trigger the imposition of these expenses.

Managers should also retrospectively disclose to each client the actual fees and other costs charged to them, together with itemizations of such charges, when requested by clients. This disclosure should include the specific management fee, incentive fee, and the amount of commissions Managers paid on their clients' behalf during the period. In addition, Managers must disclose to prospective clients the average or expected expenses or fees clients are likely to incur.

**e. The amount of any soft or bundled commissions, the goods and/or services received in return, and how those goods and/or services benefit the client.**

Commissions belong to the client and should be used in their best interests. Any soft or bundled commissions should only be used to benefit the client. Clients deserve to know how their commissions are spent, what is received in return for them, and how those goods and/or services benefit them.

**f. The performance of clients' investments on a regular and timely basis.**

It is reasonable for clients to expect to receive regular performance reporting about their accounts. Without the necessary performance information, even for investment vehicles with lock-up periods, clients cannot evaluate their overall asset allocations (i.e., including assets not held or managed by their Managers) and determine whether rebalancing is necessary. Accordingly, unless otherwise specified by the client, Managers must provide regular, ongoing performance reporting. Managers should report to clients at least quarterly, and when possible, such reporting should be provided within 30 days after the end of the quarter.

**g. Valuation methods used to make investment decisions and value client holdings.**

Clients deserve to know if the assets in their portfolios are valued based on closing market values, third-party valuations, internal valuation models, or other methods. This type of disclosure allows clients to compare performance and determine whether different valuation sources and methods may explain differences in performance results. This disclosure should be made by asset class and must be meaningful (i.e., not general or boilerplate) so that clients can understand how the securities are valued.

**h. Shareholder voting policies.**

As part of their fiduciary duties, Managers that exercise voting authority over client shares must vote them in an informed and responsible manner. This obligation includes the paramount duty to vote shares in the best interests of clients.

To fulfill their duties, Managers must adopt policies and procedures for the voting of shares and disclose those policies and procedures to clients. These policies and procedures should specify, among other things, guidelines for instituting regular reviews for new or controversial issues, mechanisms for reviewing unusual proposals, guidance in deciding whether additional actions are warranted when votes are against management, and systems to monitor any delegation of share-voting responsibilities to others. Managers also must disclose to clients how to obtain information on the manner in which their shares were voted.

**i. Trade allocation policies.**

By disclosing their trade allocation policy, Managers give their clients a clear understanding of how trades are allocated and provide realistic expectations of what priority they will receive in the investment allocation process. Managers must disclose to clients any changes in the trade allocation policy. By establishing and disclosing trade allocation policies that treat clients fairly, Managers foster an atmosphere of openness and trust with their clients.

**j. Results of the review or audit of the fund or account.**

If a Manager submits its funds or accounts for an annual review or audit (as is generally the case with pooled or mutual funds), it must disclose the results to clients. Such disclosure enables clients to hold Managers accountable and alerts them to any potential problems.

**k. Significant personnel or organizational changes that have occurred at the Manager.**

Clients should be made aware of significant changes that have occurred at the Manager in a timely manner. Such significant changes could include personnel turnover and merger and acquisition activities of the Manager.

# Appendix B

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## Asset Manager Code of Professional Conduct Project Staff

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President and Chief Executive Officer

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**Raymond J. DeAngelo**

Managing Director, Member & Society Division

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## CFA Centre for Financial Market Integrity Advisory Council

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The CFA Centre for Financial Market Integrity is guided by an independent advisory council made up of renowned industry leaders:

**John B. Neff, CFA, Chair** – former manager of Vanguard Windsor and Gemini II Funds

**Gary P. Brinson, CFA** – President of GP Brinson Investments; Founder of Brinson Partners, Inc.

**Alan J. Brown** – Head of Investment, Schroders plc

**Jelle Mensonides** – CEO of ABP Investments US Inc.

**John C. Stannard, CFA** – Managing Director, Client Communication and Support–U.K., Russell Investment Group

**Walter P. Stern, CFA** – Vice Chairman and Director of Capital International, Inc. and Vice Chairman of Capital Group International, Inc.

**Amy Y.T. Yip** – Executive Director (Reserves Management), Hong Kong Monetary Authority

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