
FIRMA National Risk Management Training Conference

Portfolio Management *Current Issues for Compliance and Risk Professionals*

May 22, 2017

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Agenda

This session will provide background on some current topical issues for compliance and risk professionals supporting a firm's portfolio management function

- **Compliance Techniques:** Challenges in administering a uniform compliance monitoring program when you have mutual funds, private (Cayman) funds and common trust funds. Is there a one size fits all, or do you need a bigger boat?
- **Trading Oversight:** New trading techniques. When is it more important to trade for alpha than it is for best execution? Managing the expectations of examiners and auditors
- **SEC Rulemaking:** Expected changes to the portfolios, and the compliance program surrounding portfolio management, that stem from the SEC's final liquidity and proposed derivatives rules for registered investment companies
- **Dealing with Complexity:** The rising use of ETFs and index based investment strategies within actively managed "traditional" investment funds

Compliance Techniques

Compliance Techniques

Compliance program challenges when you have mutual funds, private funds (Cayman) and common trust funds.

- **Operational issues**
 - Daily compliance/weekly compliance
 - Different rules
 - Voluntary application of uniform rules
 - Keep it simple when possible

Compliance Techniques

Compliance program challenges when you have mutual funds, private funds (Cayman) and common trust funds.

- Use of Technology/Vendors
 - Build it – IT resources
 - Buy it – IT resources and budget
 - Use of fund admin
 - Automation is the key!!!

Compliance Techniques

Compliance program challenges when you have mutual funds, private funds and common trust funds.

- **Supervision and allocation/aggregation issues**
 - Keeping straight the multi-legal entity/regulatory oversight
 - Document the common enterprise, but packaging for the right audience
 - Side by side issues, conflicts

Compliance Techniques

Compliance program challenges when you have mutual funds, private funds and common trust funds – keep it simple!

- **Multi legal entity and customized Board reporting**

- Mutual funds
- Private (Cayman) funds
- Bank/Trust Committees
- Registered Investment Adviser

- **Regulatory reporting**

Trading Oversight

Trading Oversight

New trading techniques - managing the expectations of examiners and auditors.

- **When is the timing of purchase more important than just price?**
- **Spread trading over time to minimize market impact.**
- **Stop or defer the trade altogether to wait for the opportune time.**
- **Principal trading strategies, or baskets traded based on attributes rather than identified securities.**
- **Fixed income: Does “best execution” really exist?**
- **What documentation or records can you show that support client benefit?**

SEC Rulemaking

SEC Rulemaking

Portfolio management changes that stem from the SEC's final liquidity rule 22e-4 for mutual funds

- **Post financial crisis, a focal point for the SEC**
- **Timing of liquidity determinations, no less frequently than monthly**
- **What if you also have leverage/use derivatives?**
- **Use vendors for liquidity bucketing, or do it yourself?**
- **Regulatory reporting**

SEC Rulemaking

Navigating existing and proposed derivatives coverage rules for mutual funds

- Detailed rules concerning how to calculate exposures, and designate cover
- Getting the process right, navigating existing law, and thinking about what may come next when constructing portfolios and risk techniques
- Legal, Compliance, PMs, Risk, IT and Ops all speak the same language don't they?
- Will commercial providers enter the game?
- Regulatory reporting
- Use of derivatives has been a focal point for the SEC, but will the proposed rule 18f-4 be made final?

Dealing with Complexity

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Active versus passive debate – what's a fiduciary to do?

- Many portfolio managers believe passive investment strategies can work within actively managed portfolios, and others do not
- Improved transparency, lower (compared to active) cost, and predictable performance
- ETF “like” strategies, within active portfolios

Dealing with Complexity

Risks with use of passive investments within active strategies

- Is counterparty risk an issue?
- Is ETF liquidity an issue?
- Limits on “other investment companies”
- Lower fees, but double fees?
- “Model” risk management
- Disclosure



Conclusion

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- **Portfolio managers are considering new and innovative strategies; so too must Compliance and Risk professionals adapt our thinking and tools**
- **Automation is the key**
- **Keep it simple**

Questions

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