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Legal Risk Management Tip May 2006

The Importance of Reviewing Investment Management Contracts

When was the last time that you reached into your file drawers to dust off your investment management contracts or investment policy statements? One of the first document requests that the Securities and Exchange Commission Staff is requesting during investment adviser examinations is evidence of how firms are ensuring that portfolio management decisions are consistent with clients' mandates (investment objectives, restrictions, and risk tolerance), regulatory requirements, disclosures and fiduciary obligations. Such mandates typically are reflected in both investment management agreements and investment policy guidelines. Now would be a good time to test your compliance controls to see if the client's objectives are being met. Rather than allowing these documents to age, review the terms of the agreement. See if it is time to add an addendum based on your business model or change in portfolio management processes. This type of proactive approach will ensure that your compliance program is dynamic and help to avoid potential client conflicts down the line.

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