Do the Right Thing

After crisis and scandals, managers see Asset Manager Code as opportunity

BY CRYSTAL DETAMORE

When Brian Singer, CFA, a member of the CFA Institute Board of Governors and former head of global investment solutions and Americas chief investment officer for UBS, launched his own investment management firm in July 2009, he faced a daunting challenge, taking the start-up plunge one year after the worst financial meltdown since the 1930s.

Not only that, but Singer's start-up investment practice would focus on client outcomes, melding the best of traditional and alternative investments at a time when the beleaguered hedge fund industry was reeling from losses, record withdrawals, and a fairly significant crisis of investor confidence.

Yet, where others may have considered the deck stacked again them, Singer saw opportunity—the potential to differentiate himself by demonstrating his firm's commitment to ethics and integrity, which the founder and chief investment officer of Singer Partners describes as "a pretty substantial anomaly" in the loosely regulated alternative investment industry. To that end, the Winnetka, Illinois firm became a registered investment advisor (RIA) and adopted the CFA Institute Asset Manager Code of Professional Conduct. The Code of Ethics and Standards for asset managers is particularly well suited for firms that are managing client assets as separate accounts or pooled funds, that are not required to register with a regulator (such as hedge funds), and that are not adhering to a code of ethics with a universally accepted scope or rigor.

"We are engaged with a different client base than we had been engaged with in the past," says Singer, who worked for several years at Chicago-based Brinson Partners before the company was acquired by UBS in 1995. "We've broadened out to include clients in the alternative arena, who are typically not used to high levels of transparency and not used to firms that have operated with a code of ethics. We are trying very hard to advance the alternative industry and use, to our advantage, high levels of integrity to bring us into partnership with clients that have the same objectives and same high levels of integrity. [The Asset Manager Code of Professional Conduct] is a statement of who we want relationships with—it helps them find the right managers, and it helps us find the right clients."

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When Regulation Is Not Enough

First released in 2005, the Asset Manager Code of Professional Conduct enhances investor protection by encouraging investment firms to adhere voluntarily to a strict set of ethical standards. More than 400 firms from the United States, Canada, and Spain have claimed compliance with the Asset Manager Code of Professional Conduct, which CFA Institute updated in 2009. Since March 2010, hundreds of organizations have claimed compliance in response to outreach efforts aimed at building awareness and supporting the Code.

Public awareness also has likely increased in response to recent financial scandals that have rocked Wall Street, compounding the challenges faced by assets managers trying to regain investor's confidence following the industry's downturn in 2008. At the same time, a substantial amount of political debate has centered on putting hedge funds—widely blamed for the financial crisis of 2008—on a tighter leash. In the United States, the private and largely unregulated pools of capital could likely soon face greater scrutiny from regulators. Meanwhile, European lawmakers are expected to vote in September on tighter hedge fund regulation.

Regardless of the regulatory outcome, the resulting rules, no matter how comprehensive, are unlikely to anticipate the next round of risks. "Markets and products change very quickly," stresses Jon Stokes, head of Standards of Practice for CFA Institute. "Regulation has a hard time keeping up and has been a poor predictor of the practices and conduct that will lead to future instability."

"Adopting best practices and the highest ethical standards isn't a matter of ticking compliance boxes anymore," Stokes adds. "Truly integrating a culture of integrity will emerge as a key distinguishing factor for financial services firms that want to attract and keep business. Investors demand it. The times demand it. And the crisis in confidence must be addressed."

Ethics from the Top Down

The Asset Manager Code of Professional Conduct is a measurable way to communicate to employees, clients, and investment consultants "our willingness to be held to the highest standards of care and diligence as we provide our

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professional services to the public," says Alan Meder, CFA, a member of the CFA Institute Board of Governors and chief risk officer at Duff & Phelps Investment Management.

For Duff & Phelps, like Singer Partners, adopting the Asset Manager Code of Professional Conduct was a relatively seamless process because CFA charterholders have led the firm and are "firmly committed to the ethical precepts and professional standards of practice of CFA Institute," says Meder.

"If the leaders of our firm were not familiar with the ethical underpinning of CFA Institute, the necessary tone from the top to support firmwide acceptance of the Asset Manager Code could be absent," Meder states. "We believe that adoption of the Code underscores the firm's code of ethics and supports each individual at the firm who complies with the ethics-related requirements of one or more professional designations, including the CFA designation."

Singer agrees that ethical leadership must start at the top and flow down to lower organizational levels to ensure firmwide adherence to strict ethical standards. "It's not what you say, it's what you do," he maintains. "It's what you do at the top of the organization that matters most. If there's any sense of impropriety at the top, the impropriety will be there at all levels."

Competitive Advantage

Firms that have made the commitment to adopt the Asset Manager Code report that their efforts are helping generate new clients. "I think we are getting more clients and visits thanks to it," says Santi Soliveres García-Granero, CFO of Cluster Family Office in Barcelona, Spain. "We have seen so many companies advising clients not in their clients' best interests but in their own interest, and we think it is extremely important to clarify to the public that our company works within high standards regarding ethical and professional responsibilities. In any service-related business, trust between the company and its clients is the most valued asset, not only because trust guarantees clients will continue buying one's services but also to project a good image of the company. You earn clients' trust not only with good work but also by acting in the most ethical manner."

Likewise, at Duff & Phelps, requests for proposals (RFPs) from prospective investors are beginning to ask about the firm's adherence to the Asset Manager Code, according to Meder, who expects to see an increase in such inquiries from clients, consultants, and prospective investors in the future.

In response to those competitive pressures, Singer predicts a gradual increase in the number of Code adoptions among asset management firms. "[This is the] type of thing that will occur slowly, not the kind of thing where people will wake up and say, '[I now have] integrity.' Either they've always had integrity or they don't. But there will be an added element—firms around them failing. I think [some firms] will begin to say, 'We have to do something else to make sure our employees are aware of the need for them to stay several steps above the low bar of the law and [maintain a high level] of ethics and integrity and to communicate to clients and potential clients that that is what is happening internally, and that will dictate their behaviors externally as well as how they're working with clients.'"

For more information on the Asset Manager Code of Professional Conduct and to view a list of registered firms, visit www.cfainstitute.org/assetcode.

Crystal Detamore is a communications specialist for CFA Institute.

New Appointments to GIPS Executive Committee

CFA Institute has announced the appointment of three new members to the GIPS Executive Committee, the decision-making body for the Global Investment Performance Standards (GIPS).

Louis Boulanger, CFA, an actuary and director of Louis Boulanger Now in New Zealand with more than 30 years of experience in the investment performance field, was elected chair of the GIPS Council and will serve on the GIPS Executive Committee. He has served as past chair of the Asia Pacific Regional Investment Performance Subcommittee.

Iain McAra, a vice president of performance analysis at JPMorgan Asset Management with 20 years of investment performance experience, will chair the GIPS Investment Manager Subcommittee and serve on the GIPS Executive Committee. He has represented the United States on the GIPS Council.

Dimitri Senik, CFA, director and head of investment performance services at PricewaterhouseCoopers in Switzerland, will chair the Europe, Middle East, and Africa Regional Investment Performance Subcommittee and serve on the GIPS Executive Committee. He has represented Switzerland on the GIPS Council.

The nine-member GIPS Executive Committee is composed of a diverse group of investment professionals who develop and promote the adoption and implementation of the GIPS standards as the single global standard for calculating and presenting investment performance. The new members will begin their terms in September.