



## SEC Helps Investors Evaluate Conflicts of Interest in the Consulting Industry

The SEC has recently focused attention on conflicts of interest in the investment consulting industry. While its work so far has focused on consulting to pension plans, the potential for conflicts and resulting harm to beneficiaries they have discussed is relevant to all institutions. The SEC's staff investigation report on this topic in May 2005 (<http://www.sec.gov/news/press/2005-75.htm>) concluded: "the business alliances among pension consultants and money managers can give rise to serious potential conflicts of interest under the Advisers Act that need to be monitored and disclosed to plan fiduciaries." Angeles has no such "business alliances" with firms recommended to our clients, and therefore, no such conflicts of interests that prevent us from serving as fiduciaries to our clients.

On June 1, 2005, the SEC published a list of "tips" for investors, consisting of comments and a set of questions with comments from the SEC designed to "encourage the disclosure and review of more and better information about potential conflicts of interest." (<http://www.sec.gov/investor/pubs/sponsortips.htm>) According to the SEC, disclosure of conflicts is necessary to "assist plan fiduciaries in evaluating the objectivity of the recommendations provided, or to be provided, by a ... consultant."

Angeles welcomes continued scrutiny of an area that should deeply concern all investors that rely on or are considering relying on the advice of an investment consultant. We found the SEC's questions valuable, and have articulated Angeles' policies on each one. The questions, SEC comments, and Angeles' policies are below. **The bottom line: Angeles is independent, objective, and we strive to avoid any conflict of interest.**

**Please let us know at (310) 393-6300 if you have any questions or comments.**

1. Are you registered with the SEC or a state securities regulator as an investment adviser? If so, have you provided me with all the disclosures required under those laws (including Part II of [Form ADV](#))?

SEC Comment: You can check yourself — and view Part I of the firm's Form ADV — by searching the SEC's [Investment Adviser Public Disclosure](#) website. Your investment adviser must furnish you with a copy of Part II of Form ADV. At present, the IAPD database contains Forms ADV only for investment adviser firms that register electronically using the Investment Adviser Registration Depository. In the future, the database will expand to encompass all registered investment advisers—individuals as well as firms—in every state. If you can't locate an investment adviser in IAPD, be sure to contact your [state securities regulator](#) or the SEC's Public Reference Branch ([publicinfo@sec.gov](mailto:publicinfo@sec.gov))

**Angeles Policy: Angeles Investment Advisors is registered with the SEC and has been since inception. Our ADV Part II (<http://www.angelesadvisors.com/resources.html>) is sent to clients regularly when updated and is available on our Web site, Part I is available at the SEC website as discussed above, and by calling us to request a copy.**

2. Do you or a related company have relationships with money managers that you recommend, consider for recommendation, or otherwise mention to the plan for our consideration? If so, describe those relationships?

SEC Comment: When pension consultants have alliances or financial or other relationships with money managers or other service providers, the potential for material conflicts of interest increases, depending on the extent of the relationships. Knowing what relationships, if any, your pension consultant has with money managers may help you assess the objectivity of the advice the consultant provides.

**Angeles Policy: Angeles does not have any relationships with money managers we recommend to clients, or other service providers. Angeles has no affiliates or related companies. Angeles' strives to provide our clients completely objective investment advice.**

3. Do you or a related company receive any payments from money managers you recommend, consider for recommendation, or otherwise mention to the plan for our consideration? If so, what is the extent of these payments in relation to your other income (revenue)?

SEC Comment: Payments from money managers to pension consultants could create material conflicts of interests. You may wish to assess the extent of potential conflicts.

**Angeles Policy: Angeles Investment Advisors does NOT accept ANY payments from any money manager or any other service provider. Angeles Investment Advisors' sole source of revenue is from its clients, who pay "hard dollars" for consulting advice.**

4. Do you have any policies or procedures to address conflicts of interest or to prevent these payments or relationships from being considered when you provide advice to your clients?

SEC Comment: Probing how the consultant addresses these potential conflicts may help you determine whether the consultant is right for your plan.

**Angeles Policy: Angeles believes that conflicts of interest in investment consulting are best managed by avoidance, and we have built our business to ensure we have none. We also have a detailed conflict of interest policy which is described here (<http://www.angelesadvisors.com/resources.html>) and available upon request.**

5. If you allow plans to pay your consulting fees using the plan's brokerage commissions, do you monitor the amount of commissions paid and alert plans when consulting fees have been paid in full? If not, how can a plan make sure it does not over-pay its consulting fees?

SEC Comment: You may wish to avoid any payment arrangements that could cause the plan to pay more than it should in pension consultant fees.

**Angeles Policy: Angeles accepts only "hard dollar" fees from clients, and does not accept payment using brokerage commissions.**

6. If you allow plans to pay your consulting fees using the plan's brokerage commissions, what steps do you take to ensure that the plan receives best execution for its securities trades?

SEC Comment: Where and how brokerage orders are executed can impact the overall costs of the transaction, including the price the plan pays for the securities it purchases.

**Angeles Policy: Angeles accepts only hard dollar fees from clients, and does not accept payment using brokerage commissions. Angeles Investment Advisors' clients do not risk overpaying or diminishing effective trading due to use of brokerage fees to cover our fee.**

7. Do you have any arrangements with broker-dealers under which you or a related company will benefit if money managers place trades for their clients with such broker-dealers?

SEC Comment: As noted above, you may wish to explore the consultant's relationships with other service providers to weigh the extent of any potential conflicts of interest.

**Angeles Policy: Angeles has no financial relationships with any investment or other service providers recommended to clients. Angeles has no brokerage or other non-consulting services or affiliates.**

8. If you are hired, will you acknowledge in writing that you have a fiduciary obligation as an investment adviser to the plan while providing the consulting services we are seeking?

SEC Comment: All investment advisers (whether registered with the SEC or not) owe their advisory clients a fiduciary duty. Among other things, this means that advisers must disclose to their clients information about material conflicts of interest.

**Angeles Policy: Angeles will acknowledge in writing to clients that it has a fiduciary obligation to them.**

9. Do you consider yourself a fiduciary under ERISA with respect to the recommendations you provide the plan?

SEC Comment: If the consultant is a fiduciary under ERISA and receives fees from third parties as a result of their recommendations, a prohibited transaction under ERISA occurs unless the fees are used for the benefit of the plan (e.g., offset against the consulting fees charged the plan) or there is a relevant statutory or class exemption permitting the receipt of such fees.

**Angeles Policy: Angeles is a fiduciary to its clients, and receives no fees from third parties as a result of our recommendations or for any other reason.**

10. What percentage of your plan clients utilize money managers, investment funds, brokerage services or other service providers from whom you receive fees?

SEC Comment: The answer may help in evaluating the objectivity of the recommendations or the fiduciary status of the consultant under ERISA.

**Angeles Policy: Angeles receives no fees from any source other than its clients, including no fees from money managers, investment funds, brokerage services or other service providers.**

We welcome your questions and comments. Please call any of us at (310) 393-6300 any time.

With deep appreciation,



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