



## EXPENSE ALLOCATION CONSIDERATIONS Independent Analysis & Ongoing Monitoring Service

Expense allocation has become one of the most hotly debated and examined topics across the investment management industry. In recent years, it has attracted scrutiny from both investors and the regulators, driving fund managers to shift their attention to this area. Institutional LPs have been hyper focused on this issue, demanding full transparency and disclosure within the manager's expense allocation policies and procedures and applicable fund documents. Meanwhile, the SEC continues to identify expense allocation as one of its key exam priorities and the subject of enforcement actions.

Allocation of expenses is critical for both hedge fund and private equity fund managers, and across the alternative asset industry as a whole. It is imperative that expense allocation is properly disclosed and validated, periodically tested and closely monitored. In light of several [recent SEC enforcement actions](#), we wanted to issue a reminder to our clients and friends that Constellation routinely performs independent review and verification of expense allocation policies and practices, as well as ongoing monitoring to support our clients as they grow and scale. Our support model is bifurcated into the following components:

### **Phase I: Current State Diagnostic**

Constellation performs comprehensive independent assessments to verify that the manager's expense allocation policy, PPM, LPA and other pertinent documents are in alignment with the SEC's guidance and correspond to the actual internal business practices of the manager. It may be appropriate that certain operational components are passed to the fund and we can assist with this assessment. Our professionals will provide advice and consultation to help optimize expenses while staying in-line with investor expectations, industry accepted guidelines and regulatory requirements.

### **Phase II: Quarterly Monitoring of Expense Allocations**

As an industry leading practice, Constellation performs ongoing monitoring and testing on a quarterly basis, including periodic reviews of the policy and verifying alignment with applicable investor documents. As the investment manager grows, and the underlying structure scales in complexity, our experts can provide suggestions for adjustment of the policy as needed and make recommendations for enhancement.

Our goal is to provide you with the peace of mind that your expense allocation policy and its application have been verified and tested by an independent third party, so you can be ready when asked about it during a regulatory exam or by an investor. If you have any questions or need assistance, please email us at [webmail@constellationadvisers.com](mailto:webmail@constellationadvisers.com).

## **ABOUT CONSTELLATION**

Constellation Advisers, LLC is a premier co-sourced and outsourced investment management service provider with a boutique firm approach. Founded in 2008, the firm draws from decades of experience in investment management and financial services. Constellation is the leading provider of outsourced CFO, accounting, operational, regulatory and compliance support services to a range of alternative and traditional investment management firms and their investors, including private equity funds, hedge funds, credit funds, venture capital funds, family offices, mutual funds, fund of funds, among others. With its headquarters in New York and centers of excellence in San Francisco, Dallas, Los Angeles, Chicago, and Cary, NC, Constellation services over 500 clients across the United States and internationally.

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