PINE ADVISOR SOLUTIONS www.pineadvisorsolutions.com

Quarterly Newsletter

Q4 Brain Teaser Question 💡

I have keys but open no locks. I have space but no room. You can enter, but you can't go outside. What am I?

Answer at the end!

In This Issue

In August, PINE hosted our 2nd Annual Blood Drive. A special thanks to Colorado Children's for coming out!

I. The New York Stock Exchange Proposed Annual Shareholder Meeting Rule Change and the Impact to Closed-End Investment Companies

On June 6th, 2024, the New York Stock Exchange ("NYSE") proposed a rule change to eliminate the annual shareholder meeting requirement for Closed-End investment companies ("CEFs") for each fiscal year. The proposal would revise Section 302.00 of the NYSE Listed Company Manual ("Manual") which currently requires CEFs listed on the NYSE to hold an annual shareholder meeting. The NYSE justifies this proposition in that the annual requirement for CEFs does not provide shareholders additional protections and that in the regulations surrounding the Investment Company Act of 1940, as amended (the "1940 Act") adequately protect shareholders.

Notably, the Investment Company Institute ("ICI") recently released a comment letter on July 30th, 2024, in favor of the NYSE's proposed amendments. The ICI argues that the current requirement originates in a pre-1940 Act era and is an unnecessary expense and burden to CEFs that do not provide additional benefit to the shareholder. Rather, these annual shareholder meetings have historically been the main tool for activists to take control of CEFs trading at a discount. In addition, neither the 1940 Act nor any other regulation requires any registered fund to hold annual shareholder meetings further compelling the proposed amendment. ICI's insightful statement could pose a significant influence on the SEC's final decision.

If the proposed filing gets approved, what are some possible implications?

Many individuals in the registered fund industry would argue that by approving the proposed amendment, the Securities and Exchange Commission would significantly reduce fund expenses and significantly reduce the likelihood of activist groups forcing votes or potentially taking over a fund.

Additionally, if the proposed amendment is approved, some predict that the industry may see a significant increase in the listing of CEFs in the long run. This is especially beneficial for investors as CEFs offer the opportunity to diversify one's investment and gain exposure to a variety of asset classes which could benefit the investor's return on investment.

II. Income Federal Reserve Policy Changes

Meeting Overview

Chair Jerome Powell opened the latest Federal Reserve meeting, which concluded on July 31, 2024, with a reminder of the mandated goal of stable prices and maximum employment. He assured us that there has been remarkable progress in recent months regarding declining inflation. The most recent data indicates a current inflation rate of 2.5%, down from 7%. Powell's goal is sub 2% but stated previously, "If you wait until inflation gets all the way down to 2%, you've probably waited too long". He signaled yet again that the Federal Open Market Committee will be looking to make cuts sooner than later, at the current trajectory. Nonetheless, the Fed's stance is to hold the federal funds rate constant at 5.25% - 5.50% and to reduce the Fed securities holdings. He reassures the current state of the interest rates is moving the economy into a better position based on the employment supply & demand, and inflation indicators. If the economy remains strong, and inflation does not continue to fall, it is likely the rate will remain unchanged to best provide stability and long-term success.

Powell's response to the question, "Can we be expecting a rate cut in September?" was "We have made no decisions for September". The committee feels that it is moving in the direction of a rate cut when deemed appropriate. Conclusively, he says that a rate cut in September is on the table for discussion if the overall economy continues toward the mandated goals. He offered a scenario of what would make a rate cut in September worth considering; if inflation continued its current declining path, economic growth remained relatively strong, and the labor market stayed consistent.

On August 23rd, at the Jackson Hole Symposium, Powell restated the previous stance on mandated goals but with a different tune based on the latest economic data. He believes that inflation is now well under control, however, the job market is cooling. The most current data suggests that it may be appropriate to start cutting rates in September at the next meeting.

Opinion

For fund managers and investors, it has been a difficult road with high borrowing costs. Particularly in the private equity world where obtaining funding comes with a higher level of scrutiny. According to Ropes and Gray, private equity deals dropped in total quantity by -22% quarter over quarter. Additionally, June 2024 finalized the lowest number of deals in a month since May 2020. Unlike the public markets, valuations in PE are typically based on the ability of investors to obtain an investment at a particular point in time. Whereas public securities are valued on their lifetime expected cash flow. With cuts on the horizon, it would be expected that deal volume will increase in the 4th quarter of 2024.

Conclusion

Overall, the Fed's stance remains cautious, balancing the risks of inflation against the need to support economic growth and employment. The upcoming economic data will be crucial in determining whether the anticipated rate cuts materialize.

III. Navigating the SEC's Focus on Electronic Communications and Recordkeeping

In recent months, the U.S. Securities and Exchange Commission (SEC) has intensified its focus on the importance of proper electronic communications and recordkeeping within the financial services industry. This initiative is not limited to broker-dealers but extends equally to investment advisers, emphasizing the critical need for compliance across all sectors. Rule 204-2 of the Investment Advisers Act of 1940, otherwise known as the Books and Records Rule, requires that an adviser maintains, in an easily accessible place, books and records relating to the adviser's business. This includes all copies of business-related written communications. The spotlight on off-channel communications—those occurring outside of firm-approved platforms—is a key area where the SEC is ramping up its scrutiny.

Why Are We Addressing This?

The rise in enforcement actions and significant fines imposed by the SEC underscores the importance of adhering to strict communication protocols. For instance, in a notable case involving a standalone private fund manager, the SEC imposed penalties due to the manager's failure to maintain proper records of off-channel communications, including those conducted via personal devices and unauthorized messaging platforms. In recent enforcement actions, fines have ranged from $10 million to $125 million, depending on the severity and scope of the violations. Additionally, several investment advisory firms were penalized in 2023 as part of the SEC's broader sweep targeting non-compliance with electronic recordkeeping rules. These actions highlight the increasing risks for investment advisers who do not ensure their communication practices align with SEC regulations. This article aims to alert investment advisers and their support teams to the growing regulatory risks associated with off-channel communications. Our goal is to provide insights into how the SEC's focus could impact your operations and highlight how PINE can support you in navigating these challenges.

What Has PINE Observed?

At PINE, we have been actively monitoring the SEC's actions in this area. The SEC has made it clear that the use of unauthorized communication channels—such as personal email, messaging apps, and social media platforms—without proper archiving can lead to severe penalties. Several high-profile cases have emerged where firms faced substantial fines due to non-compliance with electronic communication and recordkeeping rules. The SEC's enforcement actions have not been limited to isolated incidents but reflect a broader examination priority that all firms should take seriously.

In particular, during SEC examinations, we have observed an increased emphasis on reviewing electronic communications. The SEC is now looking beyond traditional email correspondence to scrutinize communications on platforms that are often overlooked by firms. Recent enforcement actions have highlighted the use of off-channel communications such as WhatsApp, Signal, and even text messages on personal devices, where records were not properly maintained. This expansion of focus is a reminder that firms must be vigilant in their compliance efforts, ensuring that all forms of communication are appropriately recorded and stored.

How PINE Can Assist You

PINE is committed to helping our clients stay ahead of these regulatory challenges. Our compliance support services are designed to ensure that your firm's communication policies align with the latest SEC requirements. We can assist you in implementing robust communication protocols, selecting compliant communication platforms, and ensuring that all records are properly maintained and easily accessible.

Moreover, our team can provide training and ongoing support to help your staff understand the importance of adhering to these regulations and the risks associated with non-compliance. By partnering with PINE, you can be confident that your firm is well-equipped to meet the SEC's expectations and avoid the costly penalties that have been levied on other firms in recent months.

Conclusion

The SEC's heightened focus on off-channel communications serves as a critical reminder of the importance of robust recordkeeping and compliance practices. As the regulatory landscape continues to evolve, investment advisers must remain proactive in managing their communication channels. At PINE, we are here to guide you through these complexities and ensure that your firm is prepared to meet regulatory demands. Together, we can navigate these challenges and safeguard your firm's reputation and financial well-being.

Nermin Arafa - Associate Director

PINE is excited to welcome Nermin as our Associate Director of Chief Financial Officer services! Nermin brings years of experience and expertise to the team!

Education - Nermin earned her Degree of Master of Business Administration at Regis University in Denver, CO.

Prior Experience - Nermind has 6 years in fund accounting with multiple fund administration firms ranging from mutual, hedge, and private equity funds. Also, she worked for 2 years as a Fund Accountant on the General Partner side.

Get to Know Nermin!

We asked Nermin a few questions to hopefully give our readers some insight into her background and personality.

1. Why did you join PINE?

The company's values and cultures align with my own. And I'm grateful to have the opportunity to work with brilliant people.

2. What is your favorite movie?

The Gentlemen

3. What are some of your favorite weekend activities?

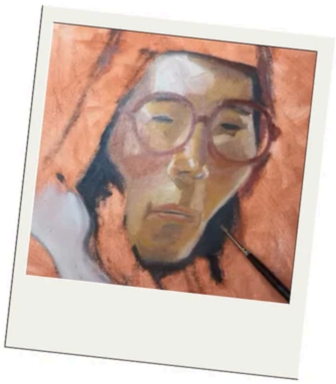
Painting & Spinning Class

4. What is something you recommend everyone do or try at least once?

Living and traveling abroad and immersing in another country's culture, food, and values. It's not an easy experience but it is an opportunity to depict things from another perspective.

5. One last thing Nermin would like to share:

Here's my current painting in progress.



Get in Touch

Brain Teaser Answer 💡

The answer is **a keyboard**. ⌨️

Empowering Growth,
Guiding Success

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PINE Advisor Solutions, 501 S. Cherry St., Suite 610, Denver,CO,80246,,720-651-8156