



YOUR INDUSTRY. YOUR ISSUES.

2014 YEAR IN REVIEW



Cohen Fund Audit Services focuses on audit and tax matters exclusively for the investment industry. We spend 100% of our time immersing ourselves in industry trends and educating ourselves about issues you may encounter.



2014 YEAR IN REVIEW



Peggy McCaffrey, Partner

Another year has passed, bringing Cohen Fund Audit Services another year of growth, prosperity and relationships of which we are very proud. Cohen has grown in so many ways, and we truly believe it's because we stay focused on what is really important.

Over the course of 2014, we expanded our geographic reach into several new regions, and grew in terms of service offerings, developing formal Master Limited Partnership and tax consulting practices; technical complexity and specialty projects; and service to registered and unregistered advisors, to name a few.

We continued to develop our team to proactively manage our client and technical growth, while still providing exceptional client service. In addition to a strong team of professionals specializing in the investment industry, we focus on training and cultivating the best up-and-coming talent through our robust internship program.

And we continue to focus on giving our clients great service and a high-quality product. This past year, in particular, we renewed our focus on quality control processes that exceed the requirements of our professional standards; welcomed the PCAOB Audit Quality Indicator Project as a way to enhance our service to the industry; and continued to share our expertise with clients through various communication channels, culminating in our annual client conference.

As the new year kicks off, we are excited for it to bring as many — if not more — opportunities to help your organization and ours continue to find much success. We wish you a very prosperous 2015 and remind you that our doors are always open to discuss our firm and our industry.

**Cohen Fund Audit Services**

[STRONG FOUNDATION]  
CONTINUED GROWTH.



2014 COHEN CLIENT CONFERENCE

Cohen Fund Audit Services hosted its third annual Client Conference August 20 – 21, 2014. More than 140 attendees from across the country filled the Pfister Hotel in Milwaukee, Wisconsin for the event. The backdrop of the historic grand hotel was an idyllic setting to hold the trends-and-traditions-themed conference, which included everything from technical sessions and industry roundtable discussions, to keynote speakers on the latest industry happenings, to high-profile networking opportunities at the Milwaukee Art Museum.

AWARDS

- BEST EMPLOYER IN OHIO
- BEST ACCOUNTING FIRM TO WORK FOR
- TOP PLACES TO WORK
- INSIDE PUBLIC ACCOUNTING'S TOP 100 FIRMS
- NORTHCOAST 99



Some of the insights shared included updates on accounting, tax and legal issues for mutual fund trustees and directors, providing an in-depth look at top issues of vital interest to mutual funds. Areas included IRS diversification and qualification tests, PCAOB initiatives for audit committees, board governance and current SEC exam initiatives. Trustees and directors also learned more about best practices around topics such as trustee compensation, CCO oversight, advisor and sub-advisor contract renewals, derivative usage and liquid alternative funds.

So many insights were shared at this year's Cohen Client Conference. We thank all of our speakers and attendees, and the great city of Milwaukee for hosting us!

COMMUNITY INVOLVEMENT

We believe that our success is greatly tied to the success of the communities in which we live and work, and that it is important for us to give back of our time and money. That means we get involved in an array of activities. One of our annual outings is the firm's Day of Caring, a designated day on which each of our offices coordinates a hands-on community service event to help out a local organization while building camaraderie within our team. We've worked with organizations such as Firestone Park YMCA, Boys and Girls Club, Cleveland Foodbank, Antrim Park, Ice Age Trail, beintween and Easter Seals Adult Day Center.

UP CLOSE

Wedding bells are ringing for **Marcy (nee Conklin) Kempf** and her new husband **Nathan**.

Oh baby!!! Congratulations to **Stacey Rodgers** and her husband on the arrival of their new baby boy **Grady Frederick**; to **Chris MacLaren** and his wife on the arrival of their daughter, **Audrey Catherine**; and finally to **Mike Maimone** and his wife for the arrival of their daughter **Alexandria Noel**.

Way to go **Kevin Kray, Anthony Fabris, Jake Vogel, Mark Danese, Joe Brennan, Matt Green, Keren Nass** and **Mark Tersigni** for passing your CPA exams!

[STRENGTH & TALENT]  
**MORE PERSONAL.**  
**MORE SOLUTIONS.**

FOCUS ON YOU

We continue to focus on exceptional quality with the highest level of service in the investment industry. To carry out our mission, we have developed an internal quality control team to stay ahead of the curve and exceed the requirements of our professional standards. Our team reviews and interprets new standards and regulations in the industry and provides the necessary training to our staff to uphold the technical quality you have come to expect.



Our own Peggy McCaffrey was appointed to the AICPA Investment Companies Expert Panel.

Our commitment holds strong and is showcased through our annual reporting of our quality control process to audit committees, client alerts, social media presence, external speaking and panel discussions, conferences and workshops, and hosting timely and relevant webinars on topics affecting our clients.

As a registered public accounting firm, we are subject to PCAOB oversight and its regular on-site inspection process over our public company audit practice. We are pleased to say that our most recent inspection issued was

a clean report without any deficiencies identified or quality control considerations.

And finally, our own Peggy McCaffrey was appointed to the AICPA Investment Companies Expert Panel. This prestigious appointment will allow her to serve as a voice for emerging investment companies — and is yet another marker to put Cohen Fund Audit Services on the national map. We know Peggy will represent our firm and our clients well!



WEBINARS AND TRAINING

- > Cleveland Hedge Fund Symposium – Hedge Funds; Investors Be Aware
- > InfoVest 21 – Stand Alone vs. Series Trust
- > Compliance and Auditing Panel
- > Compliance and Regulatory Workshop
- > Key Considerations for Launching an MLP 40 Act Fund
- > Cleveland Tax Institute
- > Custody Exams
- > MLP Taxation: Know Your Options
- > Derivatives Update



# TOP TALENT

Christopher Harris



Our commitment to recruiting and retaining top talent starts with developing meaningful, long-term relationships with colleges and universities by sponsoring events, donating to foundations, serving on committees, speaking in classrooms, networking with professors, etc.

Our efforts include an extensive internship program, on-campus interviewing, attendance at many campus events, and the use of our specific career website, [cohencpa.jobs](http://cohencpa.jobs). We also hold "Round Robin" interviews that give candidates the opportunity to meet and socialize with staff at all levels.

We find that college recruiting, employee referrals, internships and networking are usually most successful in yielding the highest performing employees. We measure the effectiveness of these recruiting sources informally via the large volume of high quality applicants we receive through them and through the extensive tenure of those we've hired. We also stay in touch with best practices in our industry to constantly measure, refine and improve our processes. Importantly, we target top performers, from college students to lateral hires, and often win.

We work closely with Xavier University and their D'Artagnan Capital Fund program which is an opportunities fund that values large cap equities within the S&P 500 utilizing a bottom-up approach. The students extensively research company financials, management, and industry competitors in formulating financial valuation models which lead to investment decisions. The goal as a fund is to continuously



"Our recruiting team does a great job scouring over 20 college campuses and performs over 300 on-campus interviews. This is paramount to our success in hiring top talent."

Chris Bellamy, Partner

outperform the benchmark – the S&P 500– on a risk-adjusted return basis while remaining compliant in accordance with our prospectus.

Chris Harris, a recent new hire at our firm, completed the D'Artagnan Capital Fund program and stated, "This program helped me prepare for the work I'm doing now with Cohen. I understand the investment industry more and the nuances surrounding our day-to-day job requirements. Cohen's involvement with Xavier also made the decision to work with them much easier – their relationship with my professors and university showcased their commitment to me."

We believe that students want to work for a winning firm. They want to be proud of the quality and prestige their firm brings. So we tell the story of the various types of recognition we receive by peers and local business and industry leaders. We have won multiple best places to work awards, as well as multiple awards for growth and community involvement. The combination of local, industry and national awards we have won speaks volumes about the culture and what it is like to work at our firm.

## SCHOOL SPIRIT: RECRUITMENT



- |  |   |
|--|---|
| <b>Baldwin-Wallace College</b>         | <b>Ohio University</b>                    |
| <b>Case Western Reserve University</b> | <b>University of Dayton</b>               |
| <b>John Carroll University</b>         | <b>University of Wisconsin-Whitewater</b> |
| <b>Marquette University</b>            | <b>University of Wisconsin-Milwaukee</b>  |
| <b>Miami University</b>                | <b>Xavier University</b>                  |
| <b>Ohio State University</b>           |   |

[ LEADERS & PROMOTIONS ]  
**MORE DEPTH.**  
**EXPERIENCED LEADERS.**



Peggy McCaffrey



Rob Velotta



Andreama Shengelya



Brett Eichenberger



Adam Magaña

## MASTER LIMITED PARTNERSHIPS (MLP) SERVICE TEAM

You have come to know Cohen as a leader in providing audit and tax services to 1940 Act Regulated Investment Companies and Investment Partnerships. What you may not know is that many individuals on the Cohen team also have an extensive background in C corporation taxation.

Put these two areas of expertise together, and you have a uniquely positioned practice to service the growing number of C Corporation investment structures that have made their way into the investment company space. These investments range from offshore blocker corporations, domestic blocker corporations, and standalone C corporation investment funds, particularly MLP funds.

We have devoted significant time and effort immersing ourselves in the MLP space developing a service offering deep in the specifics of MLP investing and the consequences of these investments, with an integrated focus on the

nuanced needs of addressing a corporate tax expense in a publicly offered fund or privately offered fund. This offering includes outsourced or co-sourced tax services for these funds; working in partnership with investment advisors, fund accounting, administrators and outside auditors to provide a seamless full-scale service model to meet investor, regulatory, and tax-related needs. Our services can be specifically customized for an individual fund's specific needs and to fill the gaps in what may be provided by others working with the fund.

## SERVICES

A sample of some of the services that we regularly perform for our MLP clients include:

- > Preparation of tax workpapers for financial statement and/or tax return purposes, including basis calculations for various MLPs
- > Assistance to management in determination of appropriate federal and state tax rates for daily or other accrual periods and analysis of actual vs. estimated tax amounts
- > Consultation regarding the integration of tax-related matters into financial statements, including tax footnotes
- > Performance of state tax nexus studies for income and franchise tax exposure
- > Identification of tax structure of underlying investments and consultation related to tax treatment of these investments
- > Preparation of federal and state tax returns
- > Assistance with E&P calculations and 1099 reporting



Mark Schikowski, Partner

“Our ability to stay ahead of the curve with the ever-changing investment industry, provides our clients with the knowledge necessary to deliver service that exceeds expectations. The drive for knowledge and constant curiosity of our staff enables us to explore new areas and become experts in these fields. The expertise we have in niche areas — along with our audit and tax services — showcase our strength in technical depth, breadth, and aptitude.”

## PROMOTIONS



**Adam Magaña, CPA  
Senior Tax Manager**  
Cleveland, OH  
Focus: Tax issues of private funds and MLPs



**Beth Whitmer, CPA  
Senior Tax Manager**  
Cleveland, OH  
Focus: Tax issues of mutual and hedge funds



**Alex Hocking, CPA  
Valuation Specialist**  
Cleveland, OH  
Focus: Investment valuation and pricing, including oversight of 3rd party pricing sources



**Jake Vogel, CPA  
Audit Senior**  
Cleveland, OH  
Focus: Audit and tax issues of mutual funds, SSAE16, and custody exams



**Rachel Gorski, CPA  
Audit Senior**  
Cleveland, OH  
Focus: Audit issues of mutual and hedge funds



**Kevin Kray, CPA  
Audit Senior**  
Cleveland, OH  
Focus: Audit issues of mutual funds and GIPS examinations

## NEW HIRES



## THE CLASS OF 2014

- Anthony Fabris** | Milwaukee
- Emily Cheng** | Cleveland
- Alissa Perteet** | Milwaukee
- Deborah Ladd** | Milwaukee
- Andrew Mallow** | Milwaukee
- Matthew Green** | Cleveland
- Christopher Harris** | Cleveland
- Kevin Malloy** | Cleveland
- Mark Tersigni** | Cleveland

# INDUSTRY OVERVIEW

A look back and a glimpse forward into audit and tax matters exclusively for the investment industry.

2014/15

GREATER SERVICE. GREATER RESOURCES.

The Public Company Accounting Oversight Board (PCAOB) continued to focus time and effort on the development of methods by which audit committees and others can identify and assess factors which impact audit quality and provide additional perspective on key elements of a firm's system of quality control.

Initially introduced in 2013 by the PCAOB, audit quality indicators (AQIs) represent measurable gauges by which an audit firm, an engagement team or a group of audits, or even an individual engagement partner, can be evaluated. These AQIs take a variety of forms, and it has been noted in the published comments that context would be important to understanding the meaning of these indicators and their applicability to both firm and client. The PCAOB has yet to issue an anticipated concept release specific to AQIs, though additional discussion papers were issued in November 2013 and June 2014 providing the likely direction of this project. In addition, in April 2014, the Center for Audit Quality (CAQ) published their own take on AQIs, with similar

Marcy Kempf, Partner



themes to that of the PCAOB, and is currently being pilot tested within the audit industry.

With the extreme growth of alternative mutual funds or “liquid alts,” the Securities and Exchange Commission (SEC) generated attention this year when it announced it would be conducting a series of sweep exams of various liquid alt managers and funds. With the intersection of alternative investment managers less accustomed to the regulatory framework of the Investment Company Act of 1940, and the SEC’s amplified examination and enforcement rhetoric, it is no surprise that liquid alt funds would be subjected to an enhanced level of scrutiny. Though commentary resulting from the sweep exams has yet to be received, the topics most likely to be addressed include shareholder transparency and risk reporting, liquidity, leverage, board governance, and sub-advisor oversight.

One of the other key developments in 2014 was the SEC’s adoption of long-awaited amendments to Rule 2a-7 governing Money Market Funds (MMFs). An initiative sparked by risks identified during the

financial crisis that began back in 2008, MMF reform aims to protect investors by reducing the risk of investor runs and improving transparency. The amendments to Rule 2a-7 mean that MMFs will undergo fundamental changes to their operations and structure. Beginning in 2016, Institutional Prime MMFs will be required to use a floating NAV for transactions, rather than amortized cost, and “basis point rounding” for share prices; government and retail MMFs may continue using the amortized cost method and penny rounding. Additionally, MMFs will have to use liquidity fees and gates, such as charging a fee of up to 2% on all redemptions if weekly liquid assets fall below a 30% threshold. Among other reporting requirements, new public disclosures will include weekly or even daily disclosures when a fund’s liquid assets fall below specific thresholds or for other material events. Other areas of MMF reform include key diversification requirements; stronger stress-testing requirements; and removing credit rating requirements, making Form N-MFP disclosures necessary when a fund’s board uses a credit rating to determine minimal credit risk.

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## COMPETITIVE ADVANTAGE. CREATIVE SOLUTIONS.

**At Cohen, we take tremendous pride in our tax department – working with clients to implement tax planning strategies, tax compliance best practices, addressing unique tax characteristics of investments, and a variety of other issues. The list below represents some of the hot button items that we have been working on with our clients and is a mixture of 40 Act, Hedge Fund, Private Equity, and Investment Advisor issues. We are hoping that you can check off items on this list, but we also hope the list may trigger one or two questions about how your firm may best address an issue. If this is the case, as always, your Cohen tax team is here to help address your needs.**

Rob Velotta, Partner



### HOT BUTTON LIST

- 1 Consider using equalization and/or redemption-in-kind to help reduce RIC’s required dividend payments for funds experiencing significant outflows.
- 2 States are getting very aggressive in targeting service business and are considering economic nexus in many cases, not just physical nexus, and often include considering where investors of funds are residents. Investment advisors should consider whether their activities in various states would rise to the level that would require tax filings in their states.

- 3 Much of the time spent dealing with the taxation of derivatives or corporate actions really involves understanding the instrument or the transaction. In many cases, the taxation is described in detail in SEC filings. Once the details are understood, it is a lot easier to address the tax consequences.
- 4 The concept of a “simple” equity fund is becoming more and more uncommon. Investments in REITs, foreign securities, MLPs, grantor trusts, options trading, etc. all have unique tax characteristics that need to be considered. Again, knowing the trading philosophy and holdings of a fund can make addressing the tax issues a lot simpler.
- 5 With increased tax rates, including the net investment income tax, it is even more important to consider your tax accounting methods, structure, and year-end tax. Would it be beneficial/allowable to elect cash basis for an advisor? Would a C corporate structure make sense vs. a flow-through entity? Does your year make sense, given your entity’s activities?
- 6 Many advisors have converted private partnerships into 40 Act Funds. If you are contemplating this conversion or any in-kind contribution to either a Private or Public fund, have you addressed the rules to allow the transaction to be tax free to investors?
- 7 The tax structure of your fund can be a benefit or a detriment to current or prospective investors. For example, a private partnership may be investing in underlying partnerships that may cause investors to have state tax filings. Is unrelated business income tax being appropriately managed for tax-exempt investors?

Is there any value to using a blocker corporation to gain certain investment exposure in a fund? Are there any special credits or incentives that a fund may be eligible for by investing in certain types of activities that may be in line with the fund’s objectives?

- 8 RIC Modernization is now 4 years old. Has your RIC utilized all of its pre-RIC Modernization capital loss carry-overs that are subject to an 8-year carryforward? Are there changes of ownership or mergers that may cause a fund’s capital losses to have any limitations.
- 9 There are entire books written on the taxation of debt instruments. Is your fund appropriately dealing with modification of debt instruments, issues in convertible debt, distressed debt situations, and making elections regarding the treatment of discounts and premiums on debt?
- 10 Compensation structure and retention of key employees of management companies is always a significant issue. Is ownership or compensation of the management company in line with retaining key employees? Are retirement plans like 401(k) plans, profit-sharing plans, and/or cash balance plans being considered? Is the incentive of key personnel in line with the goals of the company?

**As discussed above, these are just a few of the items that we spend time with our clients on each year. We look forward to hearing from you soon.**

# [ COHEN FUND AUDIT SERVICES IN 2015 ] STRONG PEOPLE. STRONG COMPANY.

## RINGING IN THE NEW YEAR

Chris Bellamy, Partner



**2015 is shaping up to be an exciting year for Cohen with a continued focus on growth and expansion. With the addition of our upcoming class of college graduates, we will have more than 50 professionals focused on providing services to the investment industry. In addition, the firm has added resources in areas such as international, state and local taxation, and private equity valuation and due diligence – which will be of great value to our clients.**

### PROFESSIONALS

More professionals will require more space and accordingly, we anticipate doubling the size of our office in Milwaukee for the second time in the last three years. Our initial staff of 3 in 2011 is anticipated to exceed 15 professionals by this fall.

### COHEN CLIENT CONFERENCE

Our client conference will be held September 10 – 11, 2015 at the Marriott in downtown Cleveland, Ohio and will include an expanded agenda to focus on topics suggested by our attendees and an integrated tax track. We continue to push ourselves in all areas of the industry to provide you with the best content and services throughout the year and at our conference. We look forward to seeing everyone in Cleveland!

We are excited about the new year and want to sincerely thank our clients and friends in the investment industry for their continued faith and commitment to our firm. We are honored to serve such an illustrious group and wish you great success in 2015.

## YOUR SERVICE TEAM

2014 YEAR IN REVIEW



**Peggy McCaffrey, CPA**

216-649-1718  
pmccaffrey@cohenfund.com

**Chris Bellamy, CPA**

216-649-1701  
cbellamy@cohenfund.com

**Mark Schikowski, CPA**

216-774-1143  
mschikowski@cohenfund.com

**Rob Velotta, CPA, MT**

216-774-1126  
rvelotta@cohenfund.com

**Marcy Kempf, CPA**

414-203-6328  
mkempf@cohenfund.com

**Brett Eichenberger, CPA**

216-649-1704  
beichenberger@cohenfund.com

**Aly Cottam, CPA**

216-649-1702  
acottam@cohenfund.com

**Lisa Downing, CPA, MSA**

216-649-1703  
ldowning@cohenfund.com

**Alex Hocking, CPA**

216-649-1706  
ahocking@cohenfund.com

**Megan Howell**

216-774-1145  
mhowell@cohenfund.com

**Chris MacLaren, CPA**

216-774-1175  
cmaclaren@cohenfund.com

**Adam Magaña, CPA, MT**

216-774-1161  
amagana@cohenfund.com

**Mike Maimone, CPA**

216-774-1193  
mmaimone@cohenfund.com

**Mike Meckstroth, CPA**

414-203-6338  
mmeckstroth@cohenfund.com

**Shelly Nahrstedt, CPA**

216-649-1715  
snahrstedt@cohenfund.com

**Alissa Perteet, CPA**

414-203-6333  
aperteet@cohenfund.com

**Stacey Rodgers, CPA**

216-774-1177  
srodgers@cohenfund.com

**Lindsay Selick, CPA**

216-649-1709  
lselick@cohenfund.com

**Beth Whitmer, CPA**

614-707-5406  
bwhitmer@cohenfund.com