

2011 YEAR IN REVIEW

YOUR INDUSTRY.

YOUR ISSUES.



Cohen Fund Audit Services focuses on audit and tax matters exclusively for the investment industry. So we spend 100% of our time training for and educating ourselves on issues you may encounter, immersing ourselves in industry trends and developing strategies.



EXCELLENT SERVICE,
TECHNICAL DEPTH

DEAR CLIENTS AND FRIENDS,

It is with great excitement that we share with you this inaugural edition of the Cohen Fund Audit Services Year in Review. Within these pages, we have provided a glimpse of our firm's accomplishments and developments in the industry as we set the stage for a strong 2012.

Cohen Fund Audit Services was fortunate in many ways this past year—a year marked by significant industry and firm-wide change. Heightened Dodd-Frank activity and increased regulatory focus on fair valuation and tax matters related to investment companies certainly challenged both us and our clients. We were able to work closely with our clients to keep them abreast of the changes and to address the issues proactively. This effort was vital to their continued and successful operations.

In addition to helping our clients, we strategically expanded our overall footprint in the investment industry. We bolstered our commitment to providing deep tax expertise by naming a new tax partner to the firm. We took the exciting step of launching our new office in downtown Milwaukee, solidifying our presence in that region. We also were ranked by *Mutual Fund Wire* as one of the top CPA firms in the country serving multiple mutual fund complexes.

Relationships and communication with our clients, service providers and referral sources became an even greater focus for us in 2011 as well. We forged a new partnership with Small Funds Network, which is allowing us to deliver more targeted resources to our clients. We began a new initiative to develop more client webinars on industry topics, and we gained critical access to our local clients and contacts in Milwaukee through the new office.

We are looking forward to 2012 bringing good fortune to us all as we move forward in still uncertain times. We genuinely encourage you to reach out to us with your thoughts, questions and opinions on our firm, the industry and what you would like to see more of from Cohen Fund Audit Services in the coming years.

Best Wishes,

The logo for Cohen Fund Audit Services is written in a black, cursive script font. The words "Cohen", "Fund", "Audit", and "Services" are connected in a fluid, handwritten style.



EXPANDING OUR REACH AND DEPTH

COHEN FUND AUDIT SERVICES REMAINS SHARPLY COMPETITIVE IN OUR OFFERINGS TO THE INVESTMENT INDUSTRY AND OUR COMMUNITY

- > **The Heart of Downtown—Milwaukee.** An integral part of the firm's growth plan, we made Milwaukee our newest home in 2011. Expanding our physical presence outside of Ohio bolstered our long history in the city known as a "hub" for fund activity and opened up new opportunities to better serve both clients and service providers in the region.
- > **More Resources for Small Funds.** We established a partnership with Small Funds Network to bring expert, highly specialized content and support services directly to business executives. This complimentary offering to our clients increased access to tailored webinars, networking opportunities, white papers and other pertinent resources.
- > **Broadening Influence.** Mike Meckstroth, CPA, was elected to the Greater Cincinnati Mutual Funds Association board of trustees. The association reaches fund companies and service partners in eight states and helps to educate professionals on industry-related matters. In one of our local communities, Chris Bellamy, CPA, was appointed to the Community Foundation of Lorain County board of directors, an organization that connects people to causes in Lorain County and adjacent areas.
- > **Giving Back.** Cohen Fund Audit Services team members are also active in the Junior Achievement Bowl-A-Thon fundraiser that provides entrepreneurship, financial literacy and career readiness programs to schools and students throughout our community; and the Ohio Society of CPAs Financial Education Teaches Children Healthy Habits (FETCH!) program that teaches children about budgeting, saving and spending through a fun and interactive board game.

STRONG FOUNDATION,

CONTINUED GROWTH



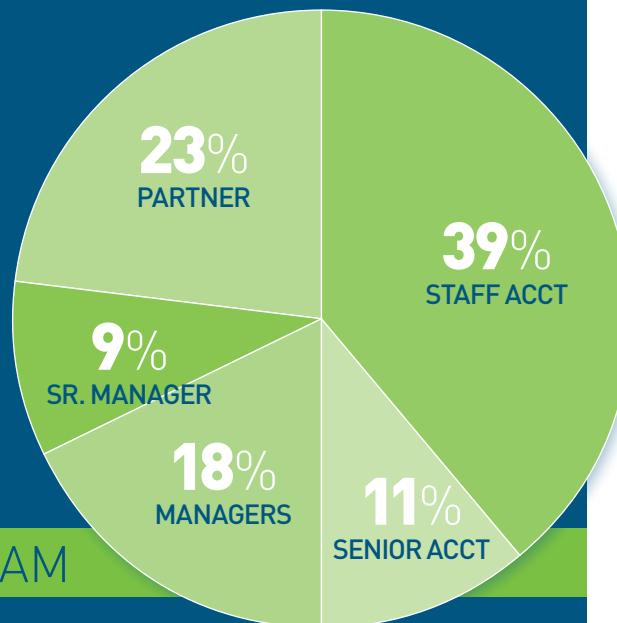
COMMUNITY INVOLVEMENT

Our flagship contribution to our community, which ultimately helps multiple organizations and recipients, is our dedication to the United Way. We lead by example as a United Way Pacesetter. Helping to jump-start the annual campaign and serving as a model for the community, we run our campaign earlier in the year and set the ambitious goal of achieving an increase of at least a 5% over previous year's results. To help us raise as much money as possible for United Way, we devote an entire week to activities that encourage our staff to participate in our cause. We also participate in United Way's "Day of Caring." On a single day, employees volunteer at organizations within their communities. Our volunteer activities typically consist of painting, cleaning and performing community service tasks together to help people in need and to experience the difference we can make in the lives of others.

EXCEPTIONAL DELIVERY

SERVICES:

- > Audit and Tax
 - Mutual Funds
 - ETFs
 - CITs
 - Hedge Funds
 - Alternative Mutual Funds
- > Custody Exams
- > SSAE16
- > GIPS (Global Investment Performance Standards)
- > Agreed-upon procedures



DEFINING OUR TEAM

AWARDS

- > BEST EMPLOYER IN OHIO
- > BEST ACCOUNTING FIRM TO WORK FOR
- > TOP PLACES TO WORK

11 NEW HIRES

As our client base and specialized services continue to grow, so does our staff. We welcomed 11 new team members this year focused on audit and tax services for the investment industry. Each of these professionals focuses on the exceptional client service and technical depth our clients need and expect.



TRAINING

Our firm culture always has stressed giving our employees a sense of freedom and empowerment. We empower them first through knowledge and training, encouraging staff to pursue industry knowledge in areas of interest to them. We encourage them to attend seminars and conferences, subscribe to trade publications and get additional training in areas of their focus. We also host a three-day internal training session for our staff discussing timely topics focused on our industry and best practices.

We also focused on external training for our clients with a focus on practical, operations-based solutions to the industry's compliance and regulatory challenges. We provided both in-house training as well as availability at any time to help service providers and clients when there were new rules and technical pronouncements released.

This training was tailored to our client's specific needs and areas where they requested additional guidance.



KEEPING YOU IN THE KNOW

PROVIDING ADDITIONAL VALUE THROUGH EDUCATIONAL OPPORTUNITIES, WE KEEP YOU IN THE KNOW THROUGH CLIENT ALERTS, WHITE PAPERS AND WEBINARS. HERE IS A SNAPSHOT OF THE AREAS HIGHLIGHTED IN 2011:

ALERTS/WHITE PAPERS:

- > Deadline Approaches for Reporting of Organizations Actions; IRS Issues Form 8937
- > New Fair Value Disclosure Rules to Take Effect
- > Alphabet Soup for Board Members
- > Proactive Ideas and Considerations of Board Governance for Mutual Funds
- > Launching a Mutual Fund: Five Key Considerations
- > Mitigating the Pain of PFICs
- > Is a Collective Investment Trust Right for You?
- > Due Diligence Regarding Alternative Investments
- > RIC Modernization Act Streamlines Tax Rules for Mutual Funds
- > Master Limited Partnership Mutual Funds
- > Taxation of Exchange Traded Notes
- > A Practical Guide to the Tax Issues of Investing in Master Limited Partnerships
- > Transfers to Investment Companies: Pitfalls of Secs. 351 and 721

WEBINARS:

- > 3.24.11
RIC Modernization Act
- > 6.28.11
Small Fund Board Operations and Challenges
- > 7.18.11
Application of the Cost Basis Reporting Rule
- > 11.10.11
Considerations for Mergers & Reorganizations
- > 11.17.11
Excise Tax Post RIC Modernization



Go to cohenfund.com to view webinars, alerts and white papers.



WE ARE PROUD TO CONGRATULATE OUR OWN WHO HAVE ACHIEVED GREAT SUCCESS THROUGHOUT THE YEAR.

9 PROMOTIONS

ROB VELOTTA, CPA, MT
Partner



Rob is a partner 100% focused on tax and business issues for our investment industry clients. He serves as our go-to tax advisor on a variety of tax related matters facing our clients. He specializes in RIC qualification, excise tax calculation and other tax consulting matters. His depth of expertise also includes tax matters for hedge funds, fund-of-funds, MLP funds, family offices and investment advisors. Rob also spends time on international, debt and derivative-related tax issues for our clients.

MORE DEPTH,

EXPERIENCED LEADERS



MARCY CONKLIN, CPA

Audit Senior Manager

FOCUS: Audit and tax issues for mutual and hedge funds and involved in the firm's marketing efforts

MILWAUKEE, WI



BRETT EICHENBERGER, CPA

Audit Senior Manager

FOCUS: Audit and tax issues for mutual and hedge funds and involved in the firm's business development and scheduling process

WESTLAKE, OH



BOB CROSS, CPA, MAcc

Tax Manager

FOCUS: Tax compliance and consulting for mutual funds, hedge funds and investment advisors

CLEVELAND, OH



ADAM MAGANA, CPA, MT

Tax Manager

FOCUS: Tax compliance and consulting for mutual funds, hedge funds, MLP Funds and investment advisors

CLEVELAND, OH



STACEY RODGERS, CPA

Audit Manager

FOCUS: Hedge funds audits, custody exams, investment advisor audits and is a member of the firm's team-building committee

CLEVELAND, OH



ALEX HOCKING, CPA

Audit Senior

FOCUS: Audits of mutual funds and hedge funds and is a member of the firm's pricing team

WESTLAKE, OH



BRAD JONES, CPA

Audit Senior

FOCUS: Audit of mutual funds and hedge funds and is a member of the firm's team-building committee

MILWAUKEE, WI



MIKE MAIMONE, CPA

Audit Senior

FOCUS: Audits of mutual funds and hedge funds, performance of SSAE 16 examinations and is a member of the firm's recruiting team

CLEVELAND, OH

LEADING OUR TEAM



PEGGY McCAFFREY

"I am amazed at the continued commitment of our staff to such enthusiastic client service and technically superior skills. The breadth and depth of our employees' talent is paramount to the success of our firm. I am eager to see what 2012 brings to our firm and clients with such a superior staff leading the charge."



MARK SCHIKOWSKI

"Our continued investment into specific skill development for our up-and-coming employees will yield significant dividends to both our clients and the firm in general. I'm honored to be in the company of such talent from both the audit and tax side of the industry."



CHRIS BELLAMY

"I continue to be thrilled by the technical aptitude and caliber of our staff from top to bottom. Their individual focus and thirst for personal and professional development truly personifies the Cohen culture and is critical to ensuring the top-notch experience that our clients expect and deserve."

2011

INDUSTRY LOOK BACK

THE SEC CONTINUED ITS TREND OF INCREASING REGULATION OF THE INVESTMENT INDUSTRY. AS WE LOOK BACK IN 2011, THERE WERE SIGNIFICANT DEVELOPMENTS THAT WILL IMPACT THE INDUSTRY MOVING FORWARD:

Implementation of the Dodd-Frank Act – Dodd-Frank experienced considerable movement in 2011—adopting 26 rules and proposing a multitude of other actions. One change that had a substantial effect on many in the industry was the increase in the eligibility threshold for SEC registration. Unless an exemption is available or an advisor meets other specific criteria, advisors with less than \$100 million in assets under management are now required to register with each state in which the advisor does business. They cannot register with the SEC (unless serving as an investment advisor to a mutual fund). The new rule caused many advisors to undergo the costly and burdensome process of withdrawing federal registration and registering with their state/states.

On a related note, investors were impacted by the amendment to Rule 203A-1, which provided timelines for changing registration status. Under the new rule, state-registered advisors have 90 days from filing the annual Form ADV to apply for registration with the SEC. For those changing to state registration, there is a 180-day period from an advisor's fiscal year end to withdrawal from the SEC.



BACK



RIC Modernization Act of 2010 – Even though this act was signed into law in December 2010, the real impact of the legislation was not felt until 2011. With the combination of operational challenges for fund clients and service providers alike, as well as the interpretative challenges inherent in any changes to tax law, the RIC Modernization Act was a topic that was discussed early and often throughout the year. The firm sponsored multiple educational webinars on the topic and worked hand-in-hand with clients and tax administration departments for some of the largest service providers nationwide to assist in the implementation of this guidance and take advantage of planning opportunities with clients to maximize the tax efficiency of their funds when possible.

Fair Valuation Guidance – The focus on fair valuation disclosures within financial reporting requirements continued in the industry among both practitioners and regulators. With the release of Accounting Standards Update (ASU) 2011-04 in May 2011, the trend toward more and greater transparency into fund’s valuation methodologies and inputs of Level 3 securities continues to increase. The changes to the accounting guidance also include expanded disclosures of transfers between levels of the fair value hierarchy and clarification of certain terminology such as “principal market,” among other items.



2012

INDUSTRY LOOK FORWARD



Not only has the volatility in the markets over the past few years created challenges to the investment advisor community, the burdens of increased compliance and regulatory requirements of advisors and those in the investment industry have also created additional challenges. The investment industry is constantly evolving and continues to move faster than the regulators. We expect that regulators will continue to try to play catch-up on advances in the industry in 2012 and continue to focus on increasing regulations, disclosures and general transparency in pursuit of protecting investors and the public. Already, in late 2011, we have seen the finalization of the long-discussed change to the accredited investor standard to exclude the value of one's primary residence and certain secured debt from net worth calculations. We expect there to be more to come, including continued interpretations on the specifics of Dodd-Frank.

Transparency will also be part of the tax future as the IRS and Treasury continue this push in the new PFIC reporting requirements, reporting of foreign assets, Schedule UTP related to uncertain tax positions for certain taxpayers and similar recent additions to reporting requirements.





In addition, from a tax perspective, we expect the industry to develop industry standards regarding the implementation of changes required under the RIC Modernization Act of 2010 as well as hopeful IRS clarification on some of the specifics of this act. Cost basis and organizational action reporting rules for RIC became effective on January 1, 2012, moving a substantial amount of compliance burden from investors to funds.

Finally, we expect a continued debate on commodity investments in mutual funds. The IRS suspended PLR issuance on funds using controlled foreign corporation structures and investing in commodity-linked notes in 2011, leaving uncertainty in the industry. Recently, there have been Senate committee concerns about RIC investments in commodities. We expect this debate to continue but are uncertain about the ultimate timing and resolution on this issue.

As the industry continues to evolve, you can expect Cohen Fund Audit Services to be at the forefront of helping our clients meet the burdens of this increasingly demanding regulatory environment.

COMPETITIVE ADVANTAGE,
CREATIVE SOLUTIONS

COHEN FUND AUDIT SERVICES

2012



As we settle in to 2012 and begin to execute on our initiatives, we would like to announce some areas of focus.

Enhancing our services: We will continue to gather client feedback with our daily interactions; however, in addition, we are implementing formal surveys to identify ways to improve our performance and proactively address any of our clients' future needs. We welcome your perspective and constructive feedback to better serve you.

Recruiting, development and retention of staff: Our recruiting efforts are in constant motion, as we continually scour college campuses and the industry for the next talented addition to our team. Our internship program, robust training program and progressive approach to developing individual-specific, flexible work plans has been a key to our success, and we will continue this approach throughout 2012.

Industry developments: As we monitor the actions of the regulators along with new, unique products that are being manufactured by the industry, we anticipate 2012 being an active year. We will strive to keep our clients abreast of changes through a variety of media, ranging from client alerts and webinars to personal phone calls and meetings.

Technology: Our investments in technology ensure we are on the forefront of innovation. The ongoing software and hardware upgrades we are implementing will also expand the number of pricing services we utilize and centralize our pricing process to become more efficient for our clients.

LOOK FOR US AT THE FOLLOWING EVENTS:

**ICI 2012 Mutual Funds and Investment
Management Conference**

March 18-21
Phoenix, AZ

ICI General Membership Meeting

May 9-11
Washington, DC

2012 Morningstar Investment Conference

June 20-22
Chicago, IL

ICI Tax & Accounting Conference

September 30-October 3
Orlando, FL

Schwab Impact 2012

November 13-16
Chicago, IL



YOUR INDUSTRY.

YOUR ISSUES.

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