



## CFA INSTITUTE

### ETHICS IN PRACTICE:

# Capitalizing on Tax Benefits Is OK, Right?

#### CASE STUDY

Marte is an asset manager in Puerto Rico, a US territory. Residents of Puerto Rico receive significant tax advantages by investing in local securities. To capitalize on this advantage, Marte's firm offers clients shares in a closed-end investment fund, organized under Puerto Rico's financial laws and regulations, that holds at least 67% local securities and is permitted to borrow against up to 50% of its assets. The fund is usually leveraged to the extent legally permitted. Many of Marte's clients have a modest net worth and conservative or moderate investment objectives. Marte convinces them to invest 85% or more of their assets in shares of the closed-end fund. Marte's actions are

- A. appropriate because they take advantage of the fund's unique tax benefits for his clients.
- B. inappropriate because the fund uses leverage to boost returns.
- C. appropriate as long as Marte fully discloses the risks and benefits of the fund to his clients.
- D. inappropriate because the fund is an unsuitable investment for his retail clients.

