



CFA INSTITUTE

ETHICS IN PRACTICE:

Performance, Footnotes, and Benchmarks.

CASE STUDY

Howard Young is CEO, portfolio manager, and sole owner of Stewardship Investment Advisers (SIA), a registered investment adviser with more than \$154 million assets under management and over 250 discretionary accounts. For several years, Young has distributed marketing materials to clients and potential clients that contain gross-of-fee performance for returns on SIA's managed portfolios. Young believes that gross-of-fees calculations are the most relevant because management fees are negotiable and can vary by client. Young includes a footnote at the end of the brochure disclosing that advisory fees would have to be netted out to show actual performance. The marketing material also includes a table that compares percentage increases in the S&P 500 Index with percentage increases in SIA's performance. SIA's performance includes the reinvestment of dividends. Young believes that the S&P 500 is the most appropriate and understandable benchmark because it is commonly reported in the financial press and recognizable by his clients. Has Young engaged in misconduct by using gross-of-fee returns or showing the S&P 500 performance? Decide what you believe is the correct answer and use the Ethical Decision-Making Framework to help explain your choice.

- A. Young is guilty of misconduct in showing gross-of-fee performance.
- B. Young is NOT guilty of misconduct in showing gross-of-fee performance.
- C. Young is guilty of misconduct in providing the S&P 500 as a benchmark.
- D. Young is NOT guilty of misconduct in providing the S&P 500 as a benchmark.

