SEC Enforcement Case Summary
Private Fund Manager Charged with False Statements & Undisclosed Conflicts

On May 29, 2024, the Securities and Exchange Commission (***SEC***) charged a NY-based registered investment adviser, Mass Ave Global Inc., that reportedly managed more than $1 billion in 16 private funds, including its flagship master-feeder hedge fund, as well as the firm's co-founder, CEO/CIO, and portfolio manager, Winston Feng, for making false and misleading statements to fund investors about fund holdings and exposures, and failing to disclose conflicts of interest. The firm and Feng settled the case agreeing to $350,000 and $250,000 penalties, respectively, and Feng agreed to a 12-month suspension from securities industry activities.

According to the SEC order, the flagship fund was marketed as providing low-net exposure and specializing in Asia-focused investments, with about one-third of the portfolio invested in China and the remainder invested in the rest of Asia and the world in contemplation of how the market in China would impact those companies. The firm regularly reported key portfolio information to investors and potential investors in monthly tear sheets, summary portfolio snapshots, and top ten position reports. While the tear sheets purportedly reported "average gross" and "average net" portfolio exposures, the SEC faulted the firm for not reporting the "dollar-for-dollar value" of the fund's position but instead reporting net beta-adjusted exposure. The SEC order further noted that on multiple occasions certain positions that were reported in tear sheets or snapshot summaries were not actual holdings or correct amounts as of period or date represented. The SEC noted that the snapshot summaries further misrepresented holdings by consolidating positions that provided exposure to the same issuer. The case noted one instance in which the firm's manual calculation of the top ten positions was inaccurate.

The firm's second co-founder, who also served as the head of research for the firm, apparently also traded capital through his own undisclosed fund in China, which the SEC noted diverted his time and attention from the Mass Ave flagship fund and created conflicts as it was done in markets that overlapped with the fund. While the SEC's order notes that Weng knew or should have known about the undisclosed fund activities (based on communications he received), the firm failed to disclose conflicts of interest with respect to such activity to fund investors.

The SEC's case noted that certain portfolio-holding information was disseminated to investors without compliance review and approval or that information reviewed and approved by compliance was modified before its dissemination. The firm initiated an internal review that identified these deficiencies, launched an independent internal investigation, and subsequently issued a letter to investors noting the holding and exposure data was inaccurate and did not contain appropriate disclosures. The firm reportedly implemented enhancements to its policies and procedures, including independent verification of data by the administrator prior to the dissemination of such information.

However, subsequent to sending the investor letters and announcing the termination of one of the firm's officers and the resignation of the second co-founder, the firm received substantial redemption requests representing more than half of the fund's assets. The firm suspended redemptions and then ultimately announced that it would wind down all of its advised funds.

See Press Release – https://www.sec.gov/newsroom/press-releases/2024-64