
BlackRock fined \$12 million for fund manager conflict of interest

By Editorial Staff Thu, Apr 23, 2015

One of the firm's top portfolio managers had a \$50 million interest in one of his funds' largest holdings, the Securities and Exchange Administration said, in announcing its settlement of the charges with BlackRock.

As BlackRock promotes its CORI retirement income product, and at a time when the Labor Department is trying to remove conflicts of interest in the sale of retirement products, BlackRock has been fined for a conflict of interest on the part of one of its top portfolio managers.

BlackRock Advisors LLC has agreed to pay \$12 million to settle federal charges that it failed to disclose that one its top portfolio managers had a \$50 million interest in one of his funds' largest holdings, the Securities and Exchange Administration announced this week.

Daniel J. Rice III was managing energy-focused funds and separately managed accounts at BlackRock when he founded Rice Energy, a family-owned and operated oil-and-natural gas company, according to the SEC's order instituting a settled administrative proceeding. As general partner of Rice Energy, Rice personally invested about \$50 million in the company.

Rice Energy later formed a joint venture with a publicly-traded coal company that eventually became the largest holding (almost 10%) in the \$1.7 billion BlackRock Energy & Resources Portfolio, the largest Rice-managed fund.

The SEC's order finds that BlackRock knew and approved of Rice's investment and involvement with Rice Energy as well as the joint venture, but failed to disclose this conflict of interest to either the boards of the BlackRock registered funds or its advisory clients.

According to the SEC, BlackRock and its then-chief compliance officer Bartholomew A. Battista failed to report Rice's violations of BlackRock's private investment policy—a "material compliance matter"—to their boards of directors. Battista agreed to pay a \$60,000 penalty to settle the charges against him.

"This is the first SEC case to charge violations of Rule 38a-1 for failing to report a material compliance matter such as violations of the adviser's policies and procedures to a fund board," said Julie M. Riewe, Co-Chief of the SEC Enforcement Division's Asset Management Unit. BlackRock and Battista neither admitted nor denied the findings.

© 2015 RIJ Publishing LLC. All rights reserved.