



## *Loss Scenario—ForeFront for Investment Advisers*

In today's dynamic market, the slightest market adjustment can spawn litigation. Even the most diligent and respected asset managers are susceptible to claims from a wide variety of sources, including dissatisfied clients and stockholders, state and federal agencies, and even their own employees.

### Not the Client's Intention

**Cause of action:** Failure to follow investment guidelines

**Number of employees:** Under 25

**Assets under management:** Approximately \$1.5 billion

#### **DESCRIPTION OF EVENT**

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An investment adviser had discretionary authority over approximately \$75 million of the client's assets. The employee in charge of the account believed that the client intended that the account be used as a hedging fund for the rest of the client's investments and therefore took a substantial short position in U.S. Treasury securities. As interest rates rose, the account's value declined by two-thirds in one month. The client sued the adviser and its directors and officers, claiming that he had directed the adviser to invest the account conservatively and had been led to believe that the funds were invested in Treasury bonds, thereby reducing the risk of loss.

#### **RESOLUTION**

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The claim settled for more than \$20 million.



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Loss scenarios are hypothetical in nature and for illustrative purposes only. Whether or not or to what extent a particular loss is covered depends on the facts and circumstances of the loss and the terms, conditions, and endorsements of the policy as issued. It is impossible to state in the abstract whether the policy would necessarily provide coverage in any given situation. Consult your agent, broker, or other expert.

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