



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.

Contract Stipulation Overlooked

Cause of action: Failure to adhere to contract provisions

Number of employees: Under 20

Assets under management: Approximately \$400 million

DESCRIPTION OF EVENT

An investment adviser managed a large public pension retirement fund. The fund manager sent a letter to the adviser stating that the adviser's contract was being terminated at the end of the business day and instructing the adviser to cease trading at that time. That day the adviser liquidated the portfolio of thinly traded securities and put approximately 75% of the funds in cash or cash equivalents. The advisory contract contained a stipulation that the adviser must advise the client if more than 25% of the fund's assets are cash, but the adviser did not advise the fund manager for several days. During that time, the stock portfolio, had it remained intact, would have increased in value by more than \$10 million. The fund sued the adviser, alleging failure to adhere to contract provisions.

RESOLUTION

The case settled for over \$8 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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