

Financial Institutions

Loss Scenarios



Contract Stipulation Overlooked

Cause of Action: Failure to Adhere to Contract Provisions

Type of Organization: Investment Adviser

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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The claim scenarios described here are intended to show the types of situations that may result in claims. These scenarios should not be compared to any other claim. Whether or to what extent a particular loss is covered depends on the facts and circumstances of the loss, the terms and conditions of the policy as issued and applicable law. Certain facts may have been changed to protect confidentiality.

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