

THE HARTFORD ASSET MANAGEMENT CHOICE<sup>SM</sup> POLICY - CLAIMS SCENARIOS

## Manage risk before it arises with Asset Management Choice.



We know  
your industry  
and deliver  
accordingly

### With 30+ years experience

insuring investment advisers, we understand the rapidly-changing environment in which your business operates. Asset Management Choice is designed to meet the unique needs of your firm and its funds – helping you stay ahead of emerging risks so that you can focus on your clients. Combined with our full suite of standard lines solutions, The Hartford can help provide your firm with maximum protection – today and tomorrow.

Asset management firms and their investment funds face management and professional liability exposures at unprecedented levels as regulatory scrutiny of the industry has intensified in the years following the financial crisis. In addition to investor protection, regulators such as the Securities and Exchange Commission have made emerging threats such as cyber security preparedness a priority.<sup>1</sup>

### DON'T LET THIS HAPPEN TO YOU

The following claims scenarios illustrate the range of situations your firm could face and the need for comprehensive liability coverage from The Hartford.

#### Type 1: Investigation Expenses

Defense costs incurred during an SEC, Department of Justice, Department of Labor or Attorney General investigation – alleging wrongful acts by the adviser – and arising from performance of or failure to perform professional services.

#### CLAIM 1

- Allegation**
- The public was defrauded by having to pay an inflated price while the client profited.
  - Claims alleged market timing and late trading of mutual funds in violations of Securities Act of 1933 [Sections 17(a)(2) and (3)], Investment Advisers Act of 1940 [Section 206(4) and Rule 206(4)-8], Section 13(1) and Section 34 (b) of the Investment Company Act of 1940 and Section 15(g) of the Securities Exchange Act of 1934.
  - Class action lawsuit filed.

**Result** Defense costs were in excess of \$10 million and the settlement was \$180 million.

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continued



Type 1: Investigation Expenses continued

**CLAIM 2**

- Allegation**
- The public was defrauded by having to pay an inflated price while the client profited.
  - Claims alleged market manipulation in violation of the Federal Commodity Exchange Act for creating an artificial increase in the price of futures contracts.
  - Class action lawsuit filed.

**Result** Defense costs amounted to more than \$30 million and the case was settled for \$92 million.

Type 2: Fund Objectives/Principal Investment Strategies

**CLAIM 1**

- Allegation**
- Fund shareholders lost money on investments and claimed that higher risk, hard-to-value securities had been added to their investment portfolio and were outside of the fund's stated investment strategy.
  - The shareholders alleged misleading statements and that the fund made investments outside of the stated investment strategy set forth in the fund prospectus/offering documents.
  - The firm violated Section 34(b) of the Investment Company Act of 1940, Sections 17(a)(2) and 17(a)(3) of the Securities Act of 1933 (Securities Act), and Section 206(4) of the Investment Advisers Act of 1940 and Rule 206(4)-8.

**Result** This resulted in a significant amount of defense costs plus a \$35 million settlement.

Type 3: Suitability Claims/Mismanagement

**CLAIM 1**

- Allegation**
- Alleged breach of fiduciary duty for failing to disclose revenue-sharing arrangements with certain mutual funds to clients.
  - Alleged violations of Sections 206(2) and 207 of the Investment Advisers Act of 1940 and Section 15(c) of the Investment Company Act of 1940.

**Result** Settlement of \$1.1 million plus defense costs.

continued

Type 3: Suitability Claims/Mismanagement continued

**CLAIM 2**

**Allegation** Alleged fraud for concealing a significant error in the computer code of the firm's quantitative investment model used to manage client assets.

**Result** Settlement of \$25 million plus defense costs.

**CLAIM 3**

**Allegation** Investment advisory firm engaged in trades that represented a conflict of interest and failed disclosure of the practices to clients and consent. The firm also misled prospective investors through failure to disclose appropriate fee deductions when calculating performance.

**Result** Settlement of \$600,000 plus defense costs.

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<sup>1</sup> Examination Priorities for 2014, available at: [sec.gov/about/offices/ocie/national-examination-programpriorities-2014.pdf](http://sec.gov/about/offices/ocie/national-examination-programpriorities-2014.pdf)

The scenarios summarized herein are offered only as examples. Coverage depends on the actual facts of each case and the terms, conditions, and exclusions of the issued policy. Please refer to the issued policy to determine all terms, conditions and exclusions of coverage. Coverage is provided by the property and casualty companies of The Hartford Financial Services Group, Inc. and may not be available to all businesses in all states. All information and representations herein are as of July 2015.

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