MEMO# 2013

July 13, 1990

SEC SANCTIONS INVESTMENT ADVISER TO MUTUAL FUNDS

July 13, 1990 TO: INVESTMENT ADVISER MEMBERS NO. 30-90 RE: SEC SANCTIONS INVESTMENT ADVISER TO MUTUAL FUNDS ____ The SEC recently sanctioned an investment adviser to two mutual funds for violating Sections 206(1) and 206(2) of the Investment Advisers Act by failing to timely reimburse the fund for expenses it received in excess of its contractual 2 percent limit and continuing to accept a management fee from the funds during the period the reimbursement was due. The SEC also found that the failure to reimburse the funds resulted in a loan between the funds and the adviser in violation of Section 17(a)(3) of the Investment Company Act. In addition, the adviser was found to have violated the anti-fraud provisions of the securities laws since the funds' registration statements and prospectuses contained inaccuracies and omissions regarding these matters, and the adviser failed to disclose all material facts regarding its poor financial condition which was reasonably likely to impair its ability to meet contractual commitments to clients. The SEC also found that an affiliated broker-dealer of the funds violated Section 17(a)(1) of the Investment Company Act when it sold securities to the funds acting as principal for those trades. The adviser was suspended for 90 days and the broker-dealer was suspended for 45 days pursuant to the settlement order. A copy of the SEC order is attached. W. Richard Mason Assistant General Counsel Attachment