

MEMO# 6644

February 9, 1995

SEC FILES COMPLAINT AGAINST FORMER PORTFOLIO MANAGER FOR PERSONAL TRADING ACTIVITIES

* Securities and Exchange Commission v. John Kaweske, No. 95-N-296 (D. Co. filed Feb. 6, 1995). February 9, 1995 TO: BOARD OF GOVERNORS No. 27-95 COMPLIANCE COMMITTEE No. 9-95 INVESTMENT ADVISERS COMMITTEE No. 11-95 SEC RULES COMMITTEE No. 19-95 RE: SEC FILES COMPLAINT AGAINST FORMER PORTFOLIO MANAGER FOR PERSONAL TRADING ACTIVITIES

_____ The Securities and Exchange Commission recently filed a complaint against a former mutual fund portfolio manager in connection with his personal trading activities.* The Commission's complaint alleged that, as part of a fraudulent scheme to deceive his employer and funds that he managed (the "Funds"), the portfolio manager concealed from his employer secret arrangements whereby his son received commissions from issuers of securities based upon the Funds' purchases of those securities. The Commission's complaint also alleged that the former portfolio manager concealed from his employer and the Funds that he was a founder, director and shareholder of a company whose securities were purchased by the Funds. Finally, the Commission alleged that he failed to report to his employer personal securities transactions that were required to be reported under the Investment Company Act of 1940. According to the Commission's complaint, many of these transactions were in securities that were bought or sold by the Funds. The complaint is notable in part for the absence of certain allegations that might have been anticipated in light of press attention to this matter last year. For example, the complaint does not allege that the portfolio manager engaged in front-running or otherwise personally profited from the Funds' investments, nor does the complaint allege that the Funds' investments were inappropriate for the fund. The Commission seeks the entry of an order permanently enjoining the former portfolio manager from violating Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, Section 206 of the Investment Advisers Act of 1940, and Section 17(j) of the Investment Company Act and Rule 17j-1 thereunder. The Commission also seeks civil penalties. A copy of the Commission's complaint is attached. Paul Schott Stevens General Counsel Attachment