

**MEMO# 7325**

October 6, 1995

# **SEC SANCTIONS PORTFOLIO MANAGER WITH RESPECT TO PERSONAL TRADING ACTIVITIES**

October 6, 1995 TO: COMPLIANCE COMMITTEE No. 38-95 INVESTMENT ADVISER MEMBERS  
No. 45-95 SEC RULES MEMBERS No. 69-95 RE: SEC SANCTIONS PORTFOLIO MANAGER WITH  
RESPECT TO PERSONAL TRADING ACTIVITIES

The Securities and Exchange Commission recently sanctioned a portfolio manager to registered investment companies with respect to his personal trades. A copy of the Commission's order is attached. The Commission found that the portfolio manager engaged in a pattern of personal trading in conflict with the interests of his clients while he was associated with two investment advisers, and that he should have disclosed to his clients his personal financial interest in the securities that he traded. The Commission found that from 1990 to 1992 the portfolio manager engaged in 25 transactions, in 24 securities that he was also trading for the investment companies and other clients that he was advising. Most of the trades allegedly were personal purchases before client purchases, although some were personal sales during or after client purchases. According to the Commission, the portfolio manager generally held the securities for less than one month, held none of the securities in question for more than two and a half months and made a profit on 22 of the 25 trades. All but one of his trades allegedly occurred within seven days of clients' trades; one trade occurred within 21 days of a trade by a non-investment company client. According to the Commission, the clients' trades generally represented a large percentage of the securities' total trading volume. The Commission also found that one of the investment advisers with which the portfolio manager was associated required prior approval of personal trades, but that he failed to obtain such approval or to report 12 personal securities transactions while associated with this adviser. Without admitting or denying the Commission's allegations, the portfolio manager agreed to (1) a censure, (2) disgorgement of over \$115,000 plus prejudgment interest, (3) penalties of \$275,000, (4) refrain from all personal trading (except for transactions in registered investment companies) while associated with an investment adviser or investment company, (5) refrain from associating with an investment adviser or investment company for a period of one year unless all of the prospective investors in the registered investment companies he manages receive notification of the Commission's action before investing, and (6) cease and desist from future violations of Section 17(j) under the Investment Company Act of 1940 and Rule 17j-1(a) and (c) thereunder and Sections 206(1) and 206(2) under the Investment Advisers Act of 1940.

Thomas M. Selman Associate Counsel Attachment Note: Not all recipients of this memo will receive an attachment. If you wish to obtain a copy of the attachment referred to in this memo, please call the Institute's Information Resource Center at (202)326-8305 or

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