



U.S. Securities and Exchange Commission

Fred Alger Management and Fred Alger & Company to Pay \$40 Million to Settle Market Timing and Late Trading Violations

**FOR IMMEDIATE RELEASE
2007-6**

Washington, D.C., Jan. 18, 2007 - The Securities and Exchange Commission today announced that Fred Alger Management, Inc. (Alger Management) and Fred Alger & Company, Incorporated (Alger Inc.) will pay \$40 million to settle the Commission's charges that the companies allowed market timing and late trading in the Alger Fund. The Commission issued an Order that found Alger Management and Alger Inc. failed to disclose these arrangements to the Board of Trustees of the Alger Fund. Without admitting or denying the Commission's charges, the companies agreed to pay \$30 million in disgorgement of ill-gotten gains and a \$10 million penalty, all of which will be used to compensate investors.

The Commission's Order finds that from at least 2000 through October 2003, Alger Inc. permitted select investors to market time the Alger Fund, and in 2002, Alger Inc. began to demand that market timers make a 20% sticky asset investment in exchange for timing capacity. Alger Inc. also permitted at least one investor to late trade the Alger Fund.

Mark K. Schonfeld, Director of the SEC's Northeast Regional Office, said, "Alger breached its fiduciary duties when it allowed harmful market timing in exchange for the additional management and other fees generated by the timers' money. In particular, Alger affirmatively attempted to lure timers to its funds by permitting them to time if they agreed to make a sticky asset investment."

Alger Management is a registered investment adviser located in New York, N.Y., that serves as the adviser to the Alger Fund Group mutual fund complex. Alger Inc. is a registered broker-dealer that serves as the principal underwriter and distributor for mutual funds in the Alger Fund Group.

According to the Commission's Order, from at least 2000 through late 2002, Alger Inc. permitted select investors to market time the Alger Fund. Over time, Alger Inc. also began to demand that market timers make sticky asset investments in certain portfolios within the Alger Fund in exchange for timing capacity. In early 2003, Alger Inc. formalized this practice by requiring sales employees to negotiate a sticky asset investment equal to 20% of an investor's funds within the Alger Fund Group mutual fund complex in return for new timing capacity. Several of these arrangements were then negotiated with market timers.

Alger Inc. also permitted one hedge fund customer, Veras Investment Partners (Veras), to engage in late trading of Alger Fund portfolios. Specifically, despite the 4:00 p.m. close of the stock market, Veras' principals requested the ability to enter trades until 4:30 p.m. because their trading model was based on a "signal" from the close of the futures market at 4:15 p.m. Alger's Vice Chairman James P. Connelly, Jr., approved the

arrangement, which allowed Veras to trade shares of Alger Fund portfolios after both the stock and futures markets closed but still receive that day's NAV as if the orders had been timely entered before the 4:00 p.m. market close. The Commission previously brought a settled enforcement action against Connelly in October 2003.

Neither Alger Management nor Alger Inc. disclosed these market timing and late trading arrangements to the Alger Fund's Board of Trustees. The market timing in the Alger Fund diluted the value of long-term shareholders' investments. At the same time, Alger Management and Alger Inc. benefited through advisory fees paid to Alger Management and distribution and servicing fees paid to Alger Inc.

As a result of these activities, Alger Management and Alger Inc. violated the antifraud and various other provisions of the Investment Advisers Act, the Investment Company Act, and the Securities Exchange Act of 1934. The Order censures Alger Management and Alger Inc., and directs Alger Management and Alger Inc. to cease and desist from committing or causing any future violations of the provisions referred to above. Further, the Order directs Alger Management and Alger Inc., jointly and severally, to pay disgorgement of \$30 million plus a civil money penalty of \$10 million. The \$40 million will be paid into a Fair Fund to be distributed according to a plan to be developed by an independent distribution consultant. Alger also agreed to retain an independent compliance consultant to review various policies and procedures. Alger Management and Alger Inc. consented to the issuance of the Order without admitting or denying any of the findings in the Order.

The Commission acknowledges the assistance of the New York Attorney General in this matter.

#

For more information, contact:

Mark K. Schonfeld
Director, Northeast Regional Office
(212) 336-1020

Helene Glotzer
Associate Regional Director
(212) 336-0078

Kay L. Lackey
Assistant Regional Director
(212) 336-0117

▶ Additional materials: [Administrative Proceeding No. 34-55118](#)

<http://www.sec.gov/news/press/2007/2007-6.htm>

[Home](#) | [Previous Page](#)

Modified: 01/18/2007