



# MEBT Municipal Employees' Benefit Trust

Mailing Address: PO Box 90012 · Bellevue, WA 98009-9012

## **Baron Trading Error – SeaWorld Entertainment, Inc. (SEAS)**

To: MEBT Plan Chairs:

### **Explanation of Issue:**

On January 23, 2014 Baron purchased SeaWorld Entertainment, Inc. (SEAS) at a price that valued SeaWorld at greater than \$3 billion. Baron has an internal guideline that requires 80% of their clients' securities must have a market cap of \$3 billion or less. Normally the trade ticket has a maximum price on it that trading and compliance review to ensure the trade is within the guideline. This was not the case for this trade so the purchase went through. On discovery by Baron, the position was liquidated on March 31, 2014 resulting in a loss of \$25,786.25. Baron (trading or compliance) should have seen that the price was in excess of the maximum price and the trade should have been denied. This was a miscommunication between Baron's trading and compliance.

### **How was it caught?**

The error was noticed when Baron's compliance team was doing their regular quarterly audit and realized that the maximum price check was not enforced on January 23, 2014.

### **Process Enhancements:**

To make sure Baron does not violate their guideline of an 80% market cap limitation based on the percentage of net assets reflected by companies with market caps under \$3 billion, they have added the following guidelines to their procedures:

- Baron will include the max price on the order ticket unless the trader requests that it not be included because 1) the current price is more than 3% lower than the max price; or 2) the portfolio manager has a limit that is less than the max price.
- There will be an email maintained by Compliance that documents the decision not to include the max price on the ticket. It will contain the name of the trader who made the request and the reason.
- The Compliance Associate who reviews executions daily to ensure that all were done below the max prices will send an email to the Chief Compliance Officer daily explaining the results of the review. If any executions were done above the max price, those trades will be moved out of the client account to Baron's trading error account.



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## **Corrective Actions:**

Baron wired \$25,786.25 to Wilmington Trust to deposit into the MEBT account on April 16, 2014.

## **Who was impacted and by how much?**

The trade was not in violation of MEBT policies (the 80% under \$3 billion guideline is a Baron guideline, not one that is given by MEBT). There was no one harmed under MEBT rules and there does not appear to be any operational or valuation error on the part of the Plans or Trust.

## **What was done to correct the issue?**

The MEBT Trust Committee held a special meeting on April 15, 2014 to discuss the issue and hear about the due diligence and discussions of MEBT vendors and legal counsel on the matter. It then directed Wilmington Trust to deposit the \$25,786.25 received from Baron into the MEBT pooled fund as earnings.