# IN A VOLATILE BUSINESS CLIMATE, THE RIGHT PROTECTION CAN MAKE ALL THE DIFFERENCE.

**RISK IS A DYNAMIC EXPOSURE** that every private equity and venture capital firm face on a day-to-day basis. The Hartford understands these highly complex and evolving risks and provides solutions to help mitigate them.

With a dedicated in-house claims department, The Hartford is prepared to provide solutions and market-leading coverage. Our coverage can help insure against:

- Potential damages
- Settlement awards
- Defense costs stemming from traditional private equity and investment firm activities

### The exposures are significant.

Take a look at these claim scenarios, which demonstrate the types of exposures private equity firms face and how The Hartford products can help.

| SCENARIO 1 | |
|---|---|
| Type of claim | Breach of fiduciary duty and theft |
| Scenario | Limited partners assert that, over a 10-year period, fees and expenses have been wrongfully charged to an investment fund. Allegedly, the charges don't comply with the partnership agreement. The private equity firm tries to demonstrate that such fees and expenses were adequately disclosed and charged in compliance. But the limited partners sue the general partner in federal court anyway, on grounds that include breach of fiduciary duty and theft. |
| Outcome | After extensive litigation, parties reach a settlement agreement, including a cash settlement and agreement restructuring. Allocated covered defense costs and indemnity total $1MM. |

| SCENARIO 2 | |
|---|---|
| Type of claim | Breach of fiduciary duty |
| Scenario | A private equity firm acquires a portfolio company. As is customary, the firm secures the right to several positions on the company's board of directors. Through directorship positions, these individuals help to improve the financial standing of the company, which permits the firm to receive certain payments from the company. But due to some unforeseen events and circumstances, the company is forced to file for bankruptcy protection. The bankruptcy trustee of the portfolio company brings action against the board of directors for breach of fiduciary duty related to decisions that resulted in bankruptcy. The bankruptcy trustee sues the private equity insured directly on various fraud and misappropriation claims related to revenues paid to the firm prior to the bankruptcy. The alleged damages are over $30MM, primarily for defaulted debt. |
| Outcome | The firm incurs substantial defense costs from lengthy and complex litigation in bankruptcy court. The settlement includes a percentage of the defaulted debt and defense and indemnity costs of over $10MM. |

| SCENARIO 3 | |
|---|---|
| Type of claim | Breach of contract and fiduciary duty |
| Scenario | A private equity fund invests in a company that loses substantial value. The sponsoring private equity firm chalks it up to economic factors. But the limited partners of the fund feel the loss was due to poor decisions by the general partners. They allege that the investment isn't permitted according to the fund's investment guidelines. The partners begin litigation against the general partner for the losses, alleging breach of contract and fiduciary duties in the management of their investment. |
| Outcome | After initial litigation, the limited partnership agreement terms are restructured to more clearly outline investment guidelines. The allocated covered defense costs total $500K. |

| SCENARIO 4 | |
|---|---|
| Type of claim | Misappropriation of fund assets |
| Scenario | Limited partners of a real estate fund allege improper fee disbursements to the fund manager and violation of Section 206 of the Investment Advisers Act (which prohibits fraud). This leads to civil litigation and restitution of the fees. |
| Outcome | SEC investigation results in a fraud determination and a large civil penalty. Total defense costs exceed $2.5MM. |

## INVEST YOUR TRUST IN A LEADER

The Hartford is a leader and innovator in the private equity space. Count on our insurance experts to craft a solution for specific exposures private equity and venture capital firms face.

Contact a member of our team today.

**CAPITALIZE ON OUR EXPERTISE.** Contact your agent from The Hartford today or visit us at **TheHartford.com/privateequity**

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