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The Principal Sued Over Snail-Mail Redemption

By Beagan Wilcox Volz December 6, 2010

An investor in **The Principal**'s funds filed a <u>lawsuit</u> last week against the firm alleging that its disclosure regarding procedures for dealing with mailed-in redemption orders is misleading.

The investor, Southfield, Mich., resident Steven Medwed, says he sent a redemption order to a Principal post office box in Boston and that it arrived on Sept. 30, 2009. Yet the order was not picked up and delivered to the processing center until after the market close that day. Thus, it received a trade date of Oct. 1, 2009, resulting in a \$4,680 loss, according to Medwed's complaint.

"[T]he Prospectus misleads shareholders by directing them to mail sale orders to a Boston P.O. Box without disclosing that those redemption orders will not receive a trade date on the date that they arrive at the P.O. Box but instead will receive a trade date on the following day after they are shipped to a processing center in Canton," the complaint states.

In a series of letters attached as exhibits to the complaint, Medwed repeatedly asks The Principal to reimburse him for the financial loss. In one response, Cary Fuchs, VP of mutual fund operations for Principal Shareholder Services, writes that Medwed's redemption order was delivered via courier to the firm's transaction processing center in Canton, Mass., on the Sept. 30, 4:15 p.m. (EST) courier run, after the market close. As a result, the redemptions were processed with the next day's trade date.

Medwed asks, "[I]f the requests have to be at the street address many miles away why are you directing mail to the P.O. Box?"

Medwed also cites a representative of **Boston Financial Data Services**, transfer agent to the funds, as saying that the mail received at the P.O. box is pre-sorted there since BFDS represents numerous other investment companies.

The plaintiff is seeking class action status and, while the exact number of people joining the suit is currently unknown, there are likely "hundreds" of other members, according to the complaint. The plaintiff seeks damages sustained as a result of defendants' alleged wrongdoings and attorney fees. Defendants named in the suit are Principal Funds, The Principal Financial Group and R.C. Eucher, CEO and chairman of the board of the funds.

An attorney at Gelb & Gelb, which represents the plaintiff, declined to comment. Attorneys at Harwood Feffer, which also represents the plaintiff, were not available for comment. Medwed declined to comment as well.

A spokeswoman for The Principal says, "We disagree with the allegations in this suit and will vigorously defend against them."

The complaint appears to be quite unusual in the industry, where it's common for fund firms to instruct investors to mail redemption orders to P.O. boxes.

"I've never seen a case like this," says Donald Mendelsohn, a partner at **Thompson Hine** who has been practicing for more than 30 years in the investment management area. He says the case turns on an interpretation of whether the prospectus disclosure regarding the mechanics of completing redemption transactions was adequate.

Indeed, the complaint quotes the prospectus multiple times. It notes, for example, that the prospectus states, "When an order to buy or sell shares is received, the share price used to fill the order is the next price we calculate after we receive the order at our transaction processing center in Canton, Massachusetts."

According to at least one industry observer, Principal's disclosure is adequate. "I think the fund here has disclosed its system, which is what their obligation is under the prospectus," according to Niels Holch, president of the Coalition of Mutual Fund Investors.

Holch notes that other fund firms offer a street address for courier and/or overnight requests. He believes this option could have addressed the problem raised in the Principal lawsuit.

A spokeswoman at The Principal did not respond by deadline to a subsequent request for comment as to whether such an option is available for its investors.

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