

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9124 / May 11, 2010

SECURITIES EXCHANGE ACT OF 1934
Release No. 62076 / May 11, 2010

INVESTMENT ADVISERS ACT OF 1940
Release No. 3024 / May 11, 2010

INVESTMENT COMPANY ACT OF 1940
Release No. 29266 / May 11, 2010

ADMINISTRATIVE PROCEEDING
File No. 3-13887

In the Matter of

DAVID W. BALDT

Respondent.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTION 8A OF THE
SECURITIES ACT OF 1933, SECTION 21C OF
THE SECURITIES EXCHANGE ACT OF 1934,
SECTIONS 203(f) AND 203(k) OF THE
INVESTMENT ADVISERS ACT OF 1940 AND
SECTION 9(b) OF THE INVESTMENT
COMPANY ACT OF 1940**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against David W. Baldt (“Respondent” or “Baldt”).

II.

After an investigation, the Division of Enforcement alleges that:

A. SUMMARY

1. These proceedings arise out of a municipal bond fund portfolio manager -- Baldt -- tipping his family members to redeem their shares in a fund he managed while Baldt possessed adverse material non-public information concerning the fund. From 2003 until October 14, 2008, Baldt served as portfolio manager for two municipal bond funds sponsored by Schroder Investment Management North America, Inc. ("Schroders"): Schroder Municipal Bond Fund ("Intermediate Fund") and Schroder Short-Term Municipal Bond Fund ("Short-Term Fund") (together, the "Funds"). Several members of Baldt's family invested the bulk of their life savings in the Short-Term Fund.

2. By mid-September 2008, market conditions were deteriorating and the Funds were experiencing increased redemption requests. On the afternoon of September 17, one of Baldt's family members ("Family Member A") called him for advice about what to do with her investment in the Short-Term Fund. He advised her that if her concerns about the investment were preventing her from sleeping at night, she should sell her investment and invest in U.S. Treasury bills. Baldt also told Family Member A that she should tell a second family member ("Family Member B") to do the same.

3. Subsequently, during the last two weeks of September and the first week of October, Schroders received increasing redemption requests for the Short-Term Fund as well as the Intermediate Fund. Schroders struggled to meet redemption requests, prompting Schroders' management to direct Baldt to sell enough bonds to maintain a cash cushion of 10-12 % in each of the two Funds, so that Schroders would have sufficient liquidity to meet redemption requests to both Funds in a timely manner.

4. Specifically, on September 29, Schroders management learned of a potential \$12 million Short-Term Fund redemption, which represented nearly 8% of that Fund's total assets. Regarding the potential redemption, a member of Baldt's team advised in an email (copying Baldt) that, "[w]e will face the same issues [that the Intermediate Fund has been facing] in terms of liquidity for the short fund." Management reiterated its directive to Baldt that his portfolio team needed to sell securities and raise cash in each of the two Funds so that all redemptions could be met in an orderly fashion. Management warned Baldt that if his team failed to raise the necessary cash, "the alternative may be to close the funds," by which they meant liquidate the funds in an orderly fashion.

5. On September 30, Baldt sent management an email responding to their directive to raise cash. He stated he had received their "mandate to liquidate fund assets at whatever the cost in order to meet redemptions and raise cash reserves" but believed this was an imprudent course of action. He argued that it would cause large unit price declines, which would lead to added redemptions, further sales, and "snowballing poor investment performance" -- which, in turn, would lead to a "rapid complete withdrawal of the remaining assets, forced liquidation into

vulture bids, and massive declines in the principal value of the shares.” He warned that this harm to the shareholders would be “far worse than freezing the funds’ assets and seeking to liquidate them in an orderly fashion.”

6. Notwithstanding Baldt’s denunciation of management’s directive, management reiterated its direction to raise a 10 to 12% cash cushion in each Fund. During the remainder of that week, Baldt’s portfolio team struggled to meet redemption requests and build the required cash cushion. Among other hurdles that week, on that Friday morning, a bond broker inquired whether Schroders was in trouble in light of the broker’s having identified that Schroders was bidding large portions of its portfolio, and that afternoon, the portfolio team learned of an additional redemption from the Short-Term Fund in excess of \$1 million and of another potential large redemption in an unknown amount.

7. During the late afternoon of October 3, 2008, Baldt spoke again with Family Member A. This time, he was the one to bring up the subject of her investment in the Short-Term Fund. He told her that she “really should consider [her] inclination to sell.” Family Member A confirmed she had already started selling subsequent to their September 17 conversation. Baldt emphasized that she should “go the full route.” He also told her to “tell [Family Member B] the same thing.” That same night, Family Member A communicated Baldt’s advice to Family Member B. Family Member B then passed Baldt’s advice to another family member (“Family Member C”). Family Member B later conveyed his advice to yet another family member.

8. Family Member A acted on Baldt’s October 3 tip as early as the first trading day after he tipped her. On October 6 and 7, she redeemed \$50,000 of Short-Term Fund shares each day, the maximum daily amount that could be redeemed telephonically. On October 6, Family Member B and Family Member C each redeemed \$50,000 of Short-Term Fund shares. Subsequently, Baldt’s family unsuccessfully attempted to redeem approximately \$3 million of Short-Term Fund shares.

9. At the time of Baldt’s October 3 conversation with Family Member A, Baldt possessed material non-public information regarding the Short-Term Fund, including knowledge of the rising level of redemption requests the Short-Term Fund had received and the likelihood either that the Short-Term Fund’s net asset value (“NAV”) would fall due to forced sales of large quantities of bonds to meet redemption requests or that the Short-Term Fund would suspend cash redemptions and force shareholders to accept redemptions “in-kind.”

10. By advising his family members to sell their shares while in possession of material non-public information, Baldt willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1) and 206(2) of the Advisers Act.

B. RESPONDENT

11. **Baldt**, age 60, is a resident of Kennett Square, Pennsylvania. Between October 2003 and October 2008, Baldt was the Head of Municipal Bonds for Schroders and served as portfolio manager for the Funds. Baldt, who worked in Schroders Philadelphia office, also managed individual client accounts. On October 14, 2008, Baldt resigned as the Funds' portfolio manager but remained as a Schroders consultant until May 2009.

C. OTHER RELEVANT ENTITIES

12. **Schroders**, a registered investment adviser, is the United States arm of Schroders PLC, a global asset management company that manages approximately \$186.5 billion of assets globally. Schroders' offices are located in New York, New York and Philadelphia, Pennsylvania.

13. **The Funds** are registered open-end investment companies, which commenced operations on December 31, 2003 and entered liquidation on October 14, 2008. The Short-Term Fund had total net assets of \$150,160,255 as of September 30, 2008 and \$138,914,645 as of October 13, 2008.

D. BACKGROUND

14. Baldt joined Schroders in October 2003 to start Schroders' municipal bond business. In addition to serving as portfolio manager for the Funds, Baldt managed separate client accounts.

15. Baldt's family members invested the bulk of their life savings in the Short-Term Fund, and prior to September 2008, they made withdrawals periodically and only in response to particular cash needs.

16. In June 2008, the largest shareholder in the Intermediate Fund advised Schroders that it intended to redeem a significant portion of its investment in stages. In August 2008, the shareholder confirmed that it would redeem \$31.6 million and \$12.7 million on September 22 and 25, 2008, respectively, and that it would redeem substantial additional amounts in November 2008. By September 17, the shareholder informed Schroders that its November redemptions would total approximately \$60 million. Because the shareholder held approximately one third of the Intermediate Fund, its redemption requests concerned Schroders. By the time the shareholder had advised Schroders of these redemptions, the municipal bond market was suffering from limited liquidity. As Schroders and Baldt understood, an attempt to sell a substantial portion of the Intermediate Fund's portfolio of municipal bonds in such a market was likely to depress significantly the market prices of the bonds. The Short-Term Fund and the Intermediate Fund held a substantial number of overlapping bonds and thus a depressed market for the Intermediate Fund's bonds had the potential to affect the market for the Short-Term Fund's bonds as well.

17. In mid-September 2008, around the time of the bankruptcy of Lehman Brothers Holdings, Inc. and near failure of AIG, liquidity concerns severely escalated. Although

Baldt had been working toward meeting the upcoming redemption requests, as of September 17, 2008, the Intermediate Fund still had to raise approximately \$20 million to meet that single investor's September redemptions. In a meeting with Schroders' senior management on September 17, Baldt declared that the market for the Intermediate Fund's portfolio securities was "frozen." Baldt and senior management discussed alternatives for meeting the redemptions in light of market conditions, including the option of closing the Intermediate Fund. Schroders' management rejected the various alternatives on the table and directed Baldt to meet the redemptions by selling securities and raising cash.

E. THE SEPTEMBER 17TH CONVERSATION

18. On September 17, 2008, after his meeting with Schroders management regarding redemptions, Baldt returned a telephone call from Family Member A. During their conversation, Family Member A sought Baldt's advice as to what she should do with her investment in the Short-Term Fund, which constituted most of her life's savings. Family Member A began the conversation by asking Baldt, "So what are we going to do" about her "life savings." She asked whether he thought "we're okay" and whether it was bad for "our fund" that a certain money market fund had "broke[n] the buck." Responding to these questions, Baldt told Family Member A that, "well you should own what you could live with and if owning a Treasury makes you sleep better at night, just temporarily take haven in Treasury Bills."

19. When Family Member A expressed concern about selling her Short-Term Fund shares at a loss, Baldt told her, "[N]ever feel that way... always ignore your cost. It's -- that will keep you from doing what you need to do." He suggested to her that she set up an account and buy municipals backed by Treasuries. She responded, "Yeah. Hmm, that's a good idea. But you don't think I need to; it's just if I want to sleep at all at night?" He confirmed, "Well it sounds like you need to. . . You see you're so much -- you're up in the midst of all this and you can't be objective about it. . . But I -- well I think [Family Member B] feels the same way too, so I think you probably should do it. . . Both of you and [another family member], so that she doesn't worry about her either."

20. Subsequently, between September 17 and October 3, Family Member A relayed Baldt's advice to Family Member B. In addition, between September 17 and October 3, Family Member A made three telephonic redemptions for \$50,000 each, which was the maximum amount a shareholder could redeem by telephone per day.

F. SCHRODERS' RESPONSES TO REDEMPTIONS

21. On September 19, 2008, Schroders' CEO instructed senior management to create a contingency plan in the event that sufficient cash could not be raised in either of the Funds to meet upcoming redemptions. Although Baldt was not a member of this committee, he was involved in repeated high level phone calls as the crisis surrounding the Funds worsened, and the existence of the committee was widespread knowledge at Schroders.

22. At the outset, the committee concluded that if Baldt's portfolio team could not sell enough securities to meet incoming redemptions in either of the two Funds, then Schroders would liquidate both Funds.

23. In late September and early October 2008, liquidity worsened. Baldt led the Funds' portfolio team to increase its efforts to sell securities and raise the needed cash to meet redemptions. By Monday, September 29, Schroders' management was as concerned about sizable redemptions from its Short-Term Fund as it was from its Intermediate Fund.

24. On September 29, a member of the portfolio team told management that, "[w]e will face the same issues in terms of liquidity for the short fund." Management then reiterated its directive to Baldt that Baldt's portfolio team needed to sell securities and raise cash in each of the two Funds so that all redemptions could be met in an orderly fashion. In this email, management warned Baldt and his team that if they failed to raise the necessary cash, "the alternative may be to close the funds."

25. Baldt disagreed with management's directive to create a cash cushion and told them the course of action would force shareholders to "absorb[] large price declines as we sell into the vulture bids that are feasting on distressed sellers, knowing that the dealers cannot bid due to capital constraints." He detailed his view that large unit price declines would lead to added redemptions, further sales, and "snowballing poor investment performance" – which, he believed, would lead to a "rapid complete withdrawal of the remaining assets, forced liquidation into vulture bids, and massive declines in the principal value of the shares." He stated that this harm to the shareholders would be "far worse than freezing the funds' assets and seeking to liquidate them in an orderly fashion."

26. Management responded to Baldt by directing him to continue aggressively raising at least a 10% cash cushion in each of the two Funds in anticipation of known and possible redemption requests and to submit daily broad lists of securities seeking bids. Baldt's portfolio team spent the rest of that week attempting to raise the cash cushion in both Funds as management had directed.

27. On the morning of October 3, Baldt learned that a broker had determined that the Funds were seeking bids on significant portions of their bonds. During the week of September 29, 2008, in order to raise enough money to meet the cash cushion levels required by management, the Funds' portfolio team started soliciting bids from the broker community with respect to large lists of securities held in the portfolios of the two Funds. However, the team received few bids in response. On October 3, Baldt sent an email to Schroders' management to warn of the risks of continuing to put out large lists of securities, stating: "[T]he massive sale lists that we have recently undertaken in an attempt to implement within the week a large liquidity position have been identified by the dealer community as the Schroder portfolio. The assumption on their part now is that we are in trouble. . . If any of our advisors [investors] pick up on this, the result could be damaging." Schroders' management, however, pressed its existing directive to Baldt to sell securities.

28. Also on October 3, the Funds' portfolio team (including Baldt) was notified of an additional redemption from the Short-Term Fund in excess of \$1 million (which was approximately 0.7% of the Short-Term Fund's total assets). Baldt's portfolio team was also notified that day of another potentially large redemption from the Short-Term Fund in an unknown amount (which on October 6, the team learned was \$1.5 million).

G. THE OCTOBER 3 CONVERSATION: BALDT TIPPED FAMILY MEMBER A TO SELL ALL OF HER SHARES

29. After the market closed on October 3, Baldt and Family Member A had a telephone conversation. Family Member A called Baldt to talk about an investment unrelated to the Short-Term Fund. After briefly discussing this unrelated investment, Baldt changed the subject and said: "And, you know, your holdings of municipals that you have [referring to the Short-Term Fund], you really should, you know, consider your inclination to sell that . . . Don't -- don't ever be afraid -- never let taking a loss get into your consideration." After Family Member A told Baldt that she had sold some of her shares, Baldt said, "Well I'd go the full route. And [Family Member B], you know, that's -- I think she's -- the way she worries, she ought to do it as well." Family Member A responded that she had already told Family Member B about Baldt's recommendation to sell. Family Member A then said that she "wanted to diversify a little bit right now" because "even though the bonds behind them are probably really still good, just in case, like there's a run on the fund." Baldt answered her, "Yeah... No. Do what you're -- go with your original thought on it and -- tell her [Family Member B] the same thing."

30. Family Member A understood Baldt's advice to "go the full route" as a recommendation that she should sell all of her shares in the Short-Term Fund. On the evening of October 3, Family Member A conveyed to Family Member B what Baldt had told her. During the October 4-5 weekend, Family Member B told Family Member C about the October 3 conversation between Baldt and Family Member A, and also said that both Family Member A and Family Member B had decided to redeem all of their Short-Term Fund shares. Family Member C then also decided to redeem at least some of her shares. Thus, as a result of Baldt's October 3 call, Family Members A, B and C each redeemed shares from the Short-Term Fund. In addition, within days after the October 3 call, Family Member B told another Baldt family member that she was going to redeem her shares in the Short-Term Fund. Thereafter, the other family member attempted unsuccessfully to redeem all of her and her husband's shares in the Short-Term Fund.

H. BALDT'S FAMILY REDEEMS

31. On October 6 and October 7, the trading days immediately following the October 3 call, Family Member A telephonically redeemed another \$50,000 each day, at \$9.20 and \$9.17 per share, respectively. Also on October 6, Family Members B and C each redeemed \$50,000 of shares telephonically, both at \$9.20 per share. These redemptions, totaling \$200,000, were successfully fulfilled.

32. Subsequently, Baldt's family members attempted, but failed, to redeem \$3,068,117 worth of Short-Term Fund shares.

33. On October 13, 2008, a large Intermediate Fund investor notified Schroders that it would redeem \$33 million in two days. Given that redemption notice and the pre-existing notice of other redemptions, Schroders decided to close both Funds. It announced its decision to shareholders on October 14. On October 13 and 14, the Short-Term Fund's NAV was \$8.91 and \$8.85 per share, respectively.

I. VIOLATIONS

34. Baldt knew or was reckless in not knowing that tipping his Family Members to sell their shares on October 3 constituted a breach of his fiduciary duties to the Short-Term Fund and Schroders in that it entailed misuse of confidential information concerning the Short-Term Fund for the benefit of his family. As of October 3, Baldt was aware that the Funds faced two options: the Funds could either remain open, which Baldt believed would result in a significant drop in the Funds' NAV, or the Funds would be liquidated in an orderly fashion, resulting in near-term illiquidity for shareholders, if redemptions only were to be made "in-kind," on a pro rata basis.

35. At the time of his October 3 conversation with Family Member A, Baldt possessed material non-public information concerning the Short-Term Fund. He knew the Short-Term Fund was receiving mounting and significant redemption requests at a time when sales of portfolio securities were adding downward pressure on municipal bond prices. Not only were market conditions rapidly deteriorating, but brokers had extremely limited capital with which to bid on bonds (meaning that regardless of the type of bond the team was attempting to sell, they were likely to get little, if any, interest to purchase that bond). Baldt also knew that Schroders' management had directed that the Funds sell enough portfolio securities to maintain a 10-12% cash cushion, which put additional pressure on the Fund to sell its most liquid assets into a declining market. Despite his team's attempt to quietly sell a large portion of the Funds' portfolio securities, he knew that very few bids had been received. When Baldt learned that a broker had discovered that Schroders was putting out a large percentage of its municipal bond portfolio to bid and questioned whether Schroders was in trouble, he knew that such information, if it became known by investors, would likely cause redemption requests to increase. Schroders' management had directed him to continue selling Fund securities despite the likelihood that investors would learn of the Fund's liquidity crisis and begin to redeem. Concerned that this course of conduct would cause near-term, detrimental harm to the Fund and its shareholders, Baldt tipped Family Member A to redeem all of her shares in the Fund and told her to advise another family member to do the same.

36. As a result of the conduct described above, Baldt willfully violated Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, which prohibit fraudulent conduct in the offer and sale of securities and in connection with the purchase or sale of securities. Baldt owed Schroders and the Short-Term Fund a fiduciary duty and breached that duty when he advised Family Member A and, through her, Family Member B, to sell their shares in the Short-Term Fund while in possession of material non-public information regarding the Short-Term Fund.

37. As a result of the conduct described above, Baldt also willfully violated Sections 206(1) and 206(2) of the Advisers Act, which prohibit fraudulent conduct by an

investment adviser. By tipping his family members to sell their shares while in possession of material non-public information, Baldt breached his fiduciary duty to the Short-Term Fund and committed a fraud on the Short-Term Fund.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative and cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II are true and, in connection therewith, to afford Respondent an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 203(f) of the Advisers Act including, but not limited to, civil penalties pursuant to Section 203(i) of the Advisers Act;

C. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 9(b) of the Investment Company Act including, but not limited to, civil penalties pursuant to Section 9(d) of the Investment Company Act; and

D. Whether, pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act, and Section 203(k) of the Advisers Act Respondent should be ordered to cease and desist from committing or causing violations of and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, and Sections 206(1) and 206(2) of the Advisers Act, and whether Respondent should be ordered to pay disgorgement pursuant to Section 8A(e) of the Securities Act and Section 21C(e) of the Exchange Act.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondent shall file an Answer to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against him upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f) and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f) and 201.310.

This Order shall be served forthwith upon Respondent personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Elizabeth M. Murphy
Secretary

Service List

Rule 141 of the Commission's Rules of Practice provides that the Secretary, or another duly authorized officer of the Commission, shall serve a copy of the Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, Sections 203(f) and 203(k) of the Investment Advisers Act of 1940, and Section 9(b) of the Investment Company Act of 1940 ("Order"), on the Respondent and his legal agent.

The attached Order has been sent to the following parties and other persons entitled to notice:

Honorable Brenda P. Murray
Chief Administrative Law Judge
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