UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
RELEASE NO. 2388 / May 19, 2005

INVESTMENT COMPANY ACT OF 1940
RELEASE NO. 26874 / May 19, 2005

ADMINISTRATIVE PROCEEDING
File No. 3-11728

ORDER MAKING FINDINGS AND
IMPOSING REMEDIAL SANCTIONS AND A
CEASE-AND-DESIST ORDER PURSUANT
TO SECTIONS 203(f) AND 203(k) OF THE
INVESTMENT ADVISERS ACT OF 1940
AND SECTIONS 9(b) AND 9(f) OF THE
INVESTMENT COMPANY ACT OF 1940

In the Matter of

LARRY ADAMS,
Respondent.

I.

In these proceedings instituted on November 4, 2004, pursuant to Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Investment Company Act”), Lawrence L. Adams, Jr., named herein as Larry Adams (“Respondent” or “Adams”), has submitted an Offer of Settlement (“Offer”) which the Securities and Exchange Commission (“Commission”) has determined to accept.

II.

Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, Respondent consents to the entry of this Order Making Findings and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 203(f) and 203(k) of the Investment Advisers Act of 1940, and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Order”), as set forth below.
III.

On the basis of this Order and Respondent’s Offer, the Commission finds\(^1\) that

**Summary**

1. This matter involves an improper market timing agreement entered into by Fremont Investment Advisors, Inc. (“Fremont Advisors”), formerly a small San Francisco-based investment adviser that managed the Fremont Mutual Funds (the “Funds”). In late 2001, notwithstanding prospectus language and internal policies barring market timing, Fremont struck a deal with a brokerage firm allowing a large investor to execute frequent exchanges in one of the Funds; in exchange, the investor deposited $3.7 million in long-term (or “sticky”) assets with another Fremont mutual fund. Larry Adams, Fremont Advisors’ then-senior vice president of institutional sales, negotiated the market-timing agreement.

2. The Funds’ prospectus represented that they did not permit short-term trading, market timing, or other abusive trading practices, and defined abusive trading as making six or more complete exchanges—into and out of—one fund within a twelve-month period. In addition, Fremont Advisors had an internal policy of blocking shareholders who attempted to time the Funds. Adams, though aware of these prohibitions, sought and received authorization for this particular investor to time the Fund. The arrangement increased Fremont Advisors’ advisory fees and helped boost the assets under management of one of the newer Funds, while exposing other Fund shareholders to potential costs.

**Respondent**

3. Larry Adams, age 59, was employed by Fremont Investment Advisors, Inc., a registered investment adviser, from around February 2001 through May 2003, when he left the firm. Beginning in around August 2001, he served as vice president of institutional sales for the firm.

**Other Relevant Entity**

4. Fremont Investment Advisors, Inc., which during the relevant time was a Delaware corporation with headquarters in San Francisco, California, became registered with the Commission as an investment adviser effective February 26, 1987. Fremont Advisors was a majority-owned subsidiary of Fremont Investors, Inc. During the relevant time period, Fremont Advisors served as an investment adviser to the Fremont Mutual Funds, which were comprised of 13 portfolios: nine equity funds, three fixed income funds and one money market fund.

\(^1\) The findings herein are made pursuant to Respondent’s Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.
Fremont Advisors has filed a Notice of Withdrawal from Registration as an Investment Adviser, dated January 20, 2005, and is no longer the adviser to the Fremont Funds.

**Background**

5. Market timing includes (a) frequent buying and selling of shares of the same mutual fund, or (b) buying or selling mutual fund shares in order to exploit inefficiencies in mutual fund pricing. Market timing, while not illegal per se, can harm other mutual fund shareholders because it can dilute the value of their shares, if the market timer is exploiting pricing inefficiencies, or disrupt the management of the mutual fund’s investment portfolio and can cause the targeted mutual fund to incur costs borne by other shareholders to accommodate frequent buying and selling or shares by the market timer.

6. From at least 2000 through October 2002, the Fremont Mutual Funds’ prospectus represented that the Funds did not permit “excessive short-term trading, market-timing, or other abusive trading practices in our Funds.” In addition, the Funds reserved the right to reject any purchase order (including exchanges) from any investor who had a history of abusive trading or traded in a disruptive manner in the Fund. Abusive trading was defined as “making six or more complete exchanges – into and out of – one fund within a 12-month period.” Adams knew or was reckless in not knowing and should have known of this prospectus language.

7. Fremont Advisors also employed an individual whose primary responsibility was to identify and block all market timers in the Funds. This individual, referred to as Fremont Advisors’ “timing cop,” blocked timers on a daily basis. Adams knew or was reckless in not knowing and should have known about Fremont Advisors’ practices to prevent market timing.

**Adams Negotiates a Market Timing Agreement**

8. In or about October 2001, Fremont Advisors entered into a written market timing arrangement with brokerage firm Brean Murray & Co., Inc. (the “broker”) that allowed the broker’s client Canary Capital Partners, Ltd. (“Canary Capital” or the “customer”) to time the Fremont U.S. Micro Cap Fund. Adams negotiated the agreement on behalf of Fremont Advisors. The arrangement provided that the customer could make up to three round trip securities trades per month (in contrast with the five per year maximum set forth in the Funds’ prospectus). As part of the arrangement, the customer agreed to invest $10 million in the New Era Value Fund, a Fremont Fund founded a short time before and co-managed by Fremont Advisors’ then-CEO.

9. Shortly thereafter, the customer began timing the U.S. Micro Cap Fund. From October 19, 2001, through October 25, 2002, the customer made twenty complete exchanges between the U.S. Micro Cap Fund and Fremont Funds’ money market fund, well in excess of the five-exchange limitation set forth in the prospectus. The amount of each exchange varied from between $13 million to $17 million. The total amount traded over the course of the year was in excess of $600 million. These investments generated approximately $104,000 in advisory fees for Fremont Advisors.
10. As had been agreed, the customer made a long-term investment (the so-called “sticky” asset) in the New Era Value Fund (though only $3.7 million was ultimately invested, rather than the full $10 million set forth in the written agreement). The customer maintained this investment in the New Era Value Fund from October 15, 2001 until November 19, 2002. The “sticky” asset generated an additional $27,000 in advisory fees for Fremont Advisors.

11. At no time did Fremont Advisors or Adams notify the Funds’ shareholders that Fremont was permitting a favored investor to time the Fund while excluding others from exceeding the five-exchange per year limitation. Nor did Fremont Advisors or Adams disclose Fremont Advisors’ potential conflict of interest as a result of the increased fees and assets under management the deal generated.

**Violations**

12. As a result of the conduct described above, Adams willfully aided and abetted and caused Fremont Advisors’ violation of Sections 206(1) and 206(2) of the Advisers Act in that Fremont Advisors, while acting as investment adviser, employed devices, schemes, or artifices to defraud clients or prospective clients; and engaged in transactions, practices, or courses of business which operated or would operate as a fraud or deceit upon clients or prospective clients. Specifically, Adams negotiated an agreement whereby, in exchange for “sticky” assets, Canary Capital was permitted to engage in market timing notwithstanding a prohibition on market timing in the Funds’ prospectus and an internal policy of barring investors from timing the Funds, and he failed to disclose the special arrangement and Fremont Advisors’ conflict of interest to the Funds’ shareholders.

13. As a result of the conduct described above, Adams willfully aided and abetted and caused Fremont Advisors’ violations of Section 34(b) of the Investment Company Act, in that Fremont Advisors made an untrue statement of material fact in a registration statement, application, report, account, record, or other document filed or transmitted pursuant to the Investment Company Act, or omitted to state therein any fact necessary in order to prevent the statement made herein, in the light of the circumstances under which they were made, from being materially misleading.

14. Respondent has submitted a sworn Statement of Financial Condition dated March 4, 2005, and other evidence, and has asserted his inability to pay a civil penalty greater than $11,000.

**IV.**

In view of the foregoing, the Commission deems it appropriate in the public interest to impose the sanctions agreed to in Respondent Adam’s Offer.

Accordingly, pursuant to Sections 203(f) and 203(k) of the Advisers Act and Section 9(b) and 9(f) of the Investment Company Act, it is hereby ORDERED that:
A. Respondent Adams cease and desist from committing or causing any violations and any future violations of Sections 206(1) and 206(2) of the Advisers Act and Section 34(b) of the Investment Company Act;

B. Pursuant to Section 203(f) of the Advisers Act, Respondent Adams shall be, and hereby is, suspended from association with any investment adviser for a period of six (6) months from the second Monday after the date of this Order.

C. Pursuant to Section 9(b) of the Investment Company Act, Respondent Adams shall be, and hereby is, prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor or principal underwriter for a period of six (6) months from the second Monday after the date of this Order.

D. IT IS FURTHERED ORDERED that Respondent shall, within thirty (30) days of the entry of this Order, pay disgorgement in the total amount of $1 (one dollar). Respondent shall further pay a civil money penalty in the amount of $11,000 (eleven thousand dollars) to the United States Treasury on the following schedule: $5,000 due within 30 days of the entry of this Order; and the remaining $6,000 due within 270 days of the entry of this Order.

Payment of disgorgement and payment of a civil monetary penalty shall be: (A) made by United States postal money order, certified check, bank cashier’s check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Alexandria, Stop 0-3, VA 22312; and (D) submitted under cover letter that identifies Lawrence L. Adams, Jr. as a Respondent in these proceedings, the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Helane L. Morrison, District Administrator of the San Francisco District Office, Securities and Exchange Commission, 44 Montgomery Street, Suite 2600, San Francisco, CA 94104.

Such civil money penalty may be distributed pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002 (“Fair Fund distribution”). Regardless of whether any such Fair Fund distribution is made, amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that he shall not, after offset or reduction in any Related Investor Action based on Respondent’s payment of disgorgement in this action, argue that he is entitled to, nor shall he further benefit by offset or reduction of any part of Respondent’s payment of a civil penalty in this action (“Penalty Offset”). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that he shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission’s counsel in this action and pay the amount of the Penalty Offset to the United States Treasury or to a Fair Fund, as the Commission directs. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a “Related Investor Action” means a private damages action brought
against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

E. Based upon Respondent’s sworn representations in his Statement of Financial Condition dated March 4, 2005, and other documents submitted to the Commission, the Commission is not imposing a penalty against Respondent greater than $11,000 (eleven thousand dollars).

F. The Division of Enforcement (“Division”) may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Respondent provided accurate and complete financial information at the time such representations were made; and (2) seek an order directing payment of the maximum civil penalty allowable under the law. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondent was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondent may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of a penalty should not be ordered; (3) contest the imposition of the maximum penalty allowable under the law; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Jonathan G. Katz
Secretary