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Common Triggers for Limited Partner Claims

The grievances that most often turn into litigation against fund managers

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Why Limited Partners (LP) Litigate

Disputes rarely start with one event. They build over reporting cycles, then crystallise into a claim.

- Performance and valuation disputes
- Conflicts of interest and self-dealing
- Fee and expense allocation challenges
- Disclosure and reporting failures

The trigger is rarely just performance. It is the sense that the manager stopped acting in the fund's interest.

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Performance and Valuation Disputes

Valuation is where trust is tested first. When marks and outcomes diverge, LPs start asking why.

- **Optimistic marks: holdings carried above realistic exit value**
- **Shifting methods: the valuation approach changes between quarters**
- **Selective benchmarks: comparisons chosen to flatter results**
- **Opaque Net Asset Value: marks LPs cannot independently verify**

A markdown is disappointing. A markdown that looks concealed is litigation.

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Conflicts of Interest and Self-Dealing

When a manager sits on both sides of a decision, every outcome looks self-serving in hindsight. This is the category that turns a loss into an allegation of bad faith.

- **Related-party transactions that quietly benefit the GP or its affiliates**
- **Deal and expense allocation across funds that LPs cannot see or test**
- **Co-investment rights where the best opportunities went elsewhere**
- **Personnel, resources, or time diverted to the manager's other ventures**

Self-dealing rarely has to be proven. It only has to look plausible to become a claim.

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Disclosure and Reporting Failures

What a manager chose not to say often matters more than what they did. Disclosure gaps are where hindsight becomes a lawsuit.

? **Were material risks disclosed in time, or only after the loss landed?**

? **Could an LP reconcile the reports, or were they late and inconsistent?**

? **Did every LP know about the side letters and terms others received?**

Silence is rarely read as neutral. After a loss, it reads as concealment.

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Fee and Expense Allocation Challenges

No single charge sinks a relationship. It is the accumulation of small, unexplained costs that erodes LP trust.

- Operating costs charged to the fund that look like the General Partner's overhead
- Management fee calculations LPs cannot independently verify
- Transaction, monitoring, or broken-deal fees not offset as promised
- Expenses shifted between funds or vehicles without clear disclosure

Fee disputes are rarely about the money. They are about what the money implies.

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What These Policies Actually Cover

The Investment Management Insurance bundles the cover that answers an LP claim.

Directors and Officers Liability

Protects Partners and Officers personally

Professional Indemnity

Covers Negligence in the Investment Service

Crime Insurance

Protects the firm and funds from theft, fraud, forgery, and embezzlement

Cyber Insurance

Covers losses from cyber-attacks and data breaches, usually optional

One policy, several triggers.

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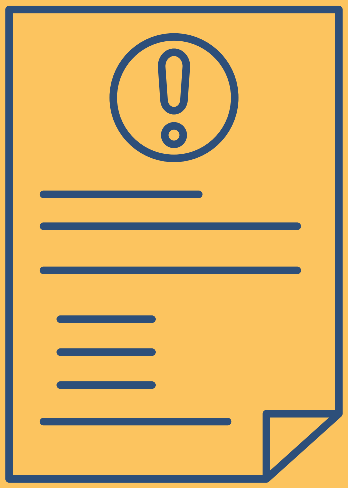
Manage the Triggers Before They Become Claims

Most LP claims are not a surprise to everyone. They are a surprise to the manager who stopped listening.



The funds that get sued least are not always the ones that perform best. They are the ones that document and disclose before there is a problem.

If you manage outside capital and have not stress-tested your exposure to these triggers, talk to us before a grievance becomes a claim.

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