UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

RETIREMENT PROGRAM FOR EMPLOYEES OF THE TOWN OF FAIRFIELD; RETIREMENT PROGRAM FOR FAIRFIELD POLICE AND FIREMEN'S RETIREMENT SYSTEM; BOARD OF TRUSTEES OF THE NEW ENGLAND HEALTH CARE EMPLOYEES PENSION FUND; and NEW ENGLAND HEALTH CARE EMPLOYEES PENSION FUND, on behalf of themselves and all others similarly situated, *Plaintiffs,* v. ALLIANZ GLOBAL INVESTORS U.S. LLC, *Defendant.*	Case No. 20-cv-5817-KPF SECOND AMENDED CLASS ACTION COMPLAINT DEMAND FOR JURY TRIAL

Plaintiffs Retirement Program for Employees of the Town of Fairfield, Retirement Program for Fairfield Police and Firemen's Retirement System (collectively "Fairfield"), Board of Trustees of the New England Health Care Employees Pension Fund ("NEHCE BOT"), and the New England Health Care Employees Pension Fund ("New England Health Care Employees Fund" or "NEHCE Fund," and collectively with NEHCE BOT, the "New England Health Care Employees" or "NEHCE") (collectively, Fairfield and NEHCE are the "Plaintiffs"), on behalf of themselves and the classes of all others similarly situated, for their complaint against defendant Allianz Global Investors U.S. LLC ("AllianzGI", "Defendant", or "Allianz"), allege the following based on (a) personal knowledge, (b) the investigation of counsel, and (c) information and belief.

INTRODUCTION

1. Plaintiffs bring this action on behalf of themselves and a proposed class and subclasses of investors in nine hedge funds as defined below (collectively, the "Classes") to recover damages based on AllianzGI's negligence, breach of fiduciary duty, breach of contract, breach of duty of good faith and fair dealing, and violations of the Employee Retirement Income Security Act of 1974, 29 U.S.C. 18 § 1001 *et seq*. ("ERISA"), which led to the hedge funds – and their investors – suffering severe, catastrophic financial losses.

2. AllianzGI's "market neutral" Structured Alpha hedge funds had the stated goal of achieving returns "uncorrelated" to the performance of selected benchmarks and/or indices through an options-based trading strategy, and marketed the Structured Alpha funds as designed to outperform the equity markets "irrespective of the market environment." AllianzGI grew the Structured Alpha portfolio from $2 million to more than $13 billion assets under management across several Structured Alpha funds, including (but not limited to) the Structured Alpha US Equity 250 (the "SA US Equity 250"), Structured Alpha Global Equity 350 (the "SA Global Equity 350"), Structured Alpha US Equity 500 (the "SA US Equity 500"), Structured Alpha Global Equity 500 (the "SA Global Equity 500"), Structured Alpha US Fixed Income 125, (US) (the "SA US Fixed Income 125"), Structured Alpha US Fixed Income 250 (the "SA Fixed Income 250"), Structured Alpha 500 (the "SA 500"), Structured Alpha 1000 (the "SA 1000"), and Structured Alpha 1000 Plus (the "SA 1000 Plus") (collectively, the "Structured Alpha Funds").

3. A core component of AllianzGI's Structured Alpha investment strategy was to provide protection against catastrophic tail events or market crashes, guarding against sudden extreme market downturns such as the selloff that occurred on Monday, October 19, 1987

("Black Monday"), the biggest single day market selloff in history. Yet, the market downturn which occurred during February and March of 2020 revealed that AllianzGI, in breach of its duties and obligations as the investment manager and managing member of the Structured Alpha Funds, had abandoned its investment strategy and mandate – as well as its risk protection and controls, leaving the Structured Alpha Funds positioned to incur significant losses. Acting in further derogation of its duties, rather than mitigating the losses incurred, AllianzGI restructured the Structured Alpha Funds in late February and early March in an effort to reverse the losses incurred, selling protection to *other* investors seeking protection against increased market volatility and the declining market conditions, exposing the Structured Alpha funds to even greater losses, despite the fact that the Allianz's chief economist had been warning of these volatile and declining market conditions since January 2020.

4. AllianzGI engaged in this conduct for its own economic self-interest, and to the detriment of the Structured Alpha Funds and investors, in an effort to salvage its own substantial performance-based fees, which, given the Structured Alpha Funds' performance and the potential fallout that could result from AllianzGI's failures, were in jeopardy for quarter-end March 31, 2020 and the foreseeable future. Rather than protecting against the severe market downturn, AllianzGI abandoned this pillar of its investment strategy, along with the risk management and controls that were supposed to be in place at both the portfolio and firm-wide levels to protect investors against such outcomes.

5. As a result of AllianzGI's conduct, the Structured Alpha Funds suffered massive losses, resulting in billions of dollars in losses for investors, including Fairfield, New England Health Care Employees, and the proposed Classes.

PARTIES

6. Plaintiff Retirement Program for Employees of the Town of Fairfield (the "Employee Fund") is a citizen of the State of Connecticut.

7. Plaintiff Retirement Program for Fairfield Police and Firemen's Retirement System (the "Police and Firemen Fund") is a citizen of the State of Connecticut.

8. Plaintiff Board of Trustees of The New England Health Care Employees Pension Fund ("NEHCE BOT") is the fund administrator of the New England Health Care Employees Pension Fund ("NEHCE Fund"). NEHCE BOT is the named fiduciary of NEHCE under ERISA §§ 3(16) (A), 402(a)(2) (29 U.S.C. §§ 1002(16)(A), 1102(a)(2)). The NEHCE BOT oversees the administration of NEHCE and is responsible for designing, modifying and interpreting the NEHCE's plan and fund policy, and is authorized and empowered to bring suit on behalf of the NEHCE Fund.

9. Plaintiff New England Health Care Employees Pension Fund is a self-administered defined benefit pension fund and is a citizen of the State of Connecticut.

10. Defendant Allianz Global Investors U.S. LLC is a limited liability company formed and existing under the laws of, and is a citizen of, the State of Delaware. Allianz Global Investors U.S. LLC is a registered investment adviser under the Investment Advisers Act of 1940 with its principal office in New York, New York. At all material times, Allianz Global U.S. LLC was the managing member, and the investment manager, of the Structured Alpha Funds.[1]

[1] Allianz Global Investors U.S. LLC was at all material times a subsidiary of Allianz SE, a German corporation headquartered in Munich, which exerted control over AllianzGI in connection with the Structured Alpha Funds. Pursuant to the Court-ordered Case Management Plan ("CMP") applicable to this action dated December 7, 2020 (ECF No. 36), on December 10, 2020, Plaintiffs voluntarily dismissed Allianz SE, subject to certain tolling arrangements (ECF Nos. 38 and 39). But for the tolling arrangements, Allianz SE would be named herein as a defendant, and the fact that no claims are asserted against Allianz SE in this Second Amended Complaint should not be construed in any way so as to waive, limit or otherwise reduce in any respect the rights of the Plaintiffs or any members of the Classes under

JURISDICTION AND VENUE

11. This Court has subject matter jurisdiction over this action pursuant to 28 U.S.C. § 1332(d)(2)(A), because this case is a class action where the aggregate claims of all members of the proposed Classes exceed $5,000,000.00, exclusive of interest and costs, and the Plaintiffs and most members of the proposed Classes are citizens of a state different from Defendant.

12. This court also has jurisdiction over this action under 28 U.S.C. §§ 1331, 1367 and under ERISA § 502(e)(1) (29 U.S.C. § 1132(e)(1)).

13. Venue is proper in this judicial District pursuant to 28 U.S.C. § 1391(b) and (c) and 18 U.S.C. § 1965, because Defendant transacts business in, is found in, and/or has agents in this District, and because some of the actions giving rise to this complaint took place within this District.

14. Venue is also proper in this judicial district is proper under ERISA § 502(e)(2) (29 U.S.C. § 1132(e)(2)) and 28 U.S.C. § 1391(b).

15. The Court has personal jurisdiction over the Defendant. Defendant has transacted business, maintained substantial contacts, and/or committed overt acts in furtherance of the illegal scheme and conspiracy throughout the United States, including in this District. The scheme and conspiracy have been directed at, and have had the intended effect of, causing injury to persons residing in, located in, or doing business throughout the United States, including in this District.

16. In addition, pursuant to the applicable agreement(s) between Plaintiffs and Defendant, the parties consented to the jurisdiction of this Court and this District as the venue for purposes of this action.

---

the tolling arrangements reflected in the CMP or in the stipulation of voluntary dismissal or otherwise.

FACTUAL BACKGROUND

I. ALLIANZGI STRUCTURED ALPHA FUNDS

17. The AllianzGI Structured Alpha Funds were designed to provide investors with passive exposure to equity and fixed income markets (the "beta" component) while outperforming defined benchmark indices by providing "consistent, uncorrelated returns" (the "alpha" component) "regardless of the direction of equities and volatility." Specifically, AllianzGI represented that the Structured Alpha Funds "pursue[d] risk-managed returns via the options market" and were "[d]esigned to perform whether equity markets are up or down, smooth or volatile."

18. Each of the funds in the AllianzGI Structured Alpha portfolio was managed by the same "[e]xperienced investment team" of portfolio managers, traders, analysts, product specialists, and risk managers. Although there was some variation in the beta component (for example, the benchmark for SA US Equity 250 was the S&P 500, and the benchmark for the SA 1000 was the Merrill Lynch/BofA 3-Month U.S. Treasury Bill Index),[2] each of the funds employed the same core trading strategies to achieve the alpha returns to outperform the referenced benchmarks, and assumed similar risk profiles across the entire Structured Alpha portfolio.

19. AllianzGI promotional materials shown to Plaintiffs and the Classes described the Structured Alpha approach as a "three-pronged investment objective," which included

[2] The other Structured Alpha Funds' referenced benchmarks were as follows: SA Global Equity 350 (the MSCI ACWI Investable Market Index ("MSCI ACWI IMI" or "IMI")); the SA US Equity 500 (S&P 500); the SA Global Equity 500 (MSCI ACWI IMI); the Structured Alpha US Fixed Income 125, (US) (BC US Agg); the Structured Alpha US Fixed Income 250 (BC US Agg); the SA 500 (BofA Merrill Lynch 3-Month U.S. Treasury Bill Index; and the SA 1000 Plus (BofA ML 90-Day T-Bills).

"protecting against a tail event or market crash."[3] AllianzGI touted the Structured Alpha strategy as "proprietary and very robust," seeking "risk controlled returns" pursuing a "combination of long and short volatility positions via selling and buying options."[4] Greg Tournant, Allianz's Head of Structured Products Group and the portfolio manager for the Structured Alpha Funds, characterized this proprietary strategy as follows: "Generally, there's an excess demand on puts and an excess supply of call options in the market. We quantify those options going against the decision-making process most options market participants use."[5]

20. AllianzGI consistently and repeatedly promoted its Structured Alpha Funds to investors, including Fairfield, New England Health Care Employees, and to members of the Classes as "constructed in anticipation of any type of market environment" and stated that "some [options positions] are designed to profit when equity markets are behaving normally; others are meant to benefit only in the event of a large index moves; and still others whose purpose *is to provide protection in the event of a market crash*."[6] AllianzGI outlined its "Investment Philosophy and Objective" to Plaintiffs and the Classes as follows:

---

[3] AllianzGI Fairfield Presentation, at at 11.

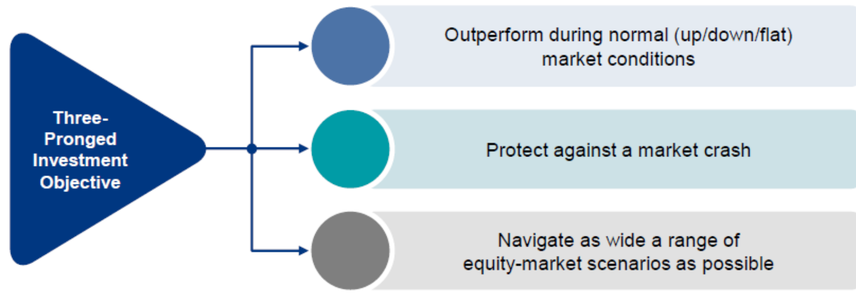
[4] *Id.*

[5] *Id.*

[6] *Structured Alpha US 250 Fund*, ALLIANZGI (Oct. 2018), https://nordic.allianzgi.com/-/media/allianzgi/eu/nordic/products/az-structured-alpha-us-equity-250/181870-allianzgi-beyond-active-vs-passive-sr2509.pdf (accessed July 27, 2020).

Allianz Global Investors

Investment philosophy and objective



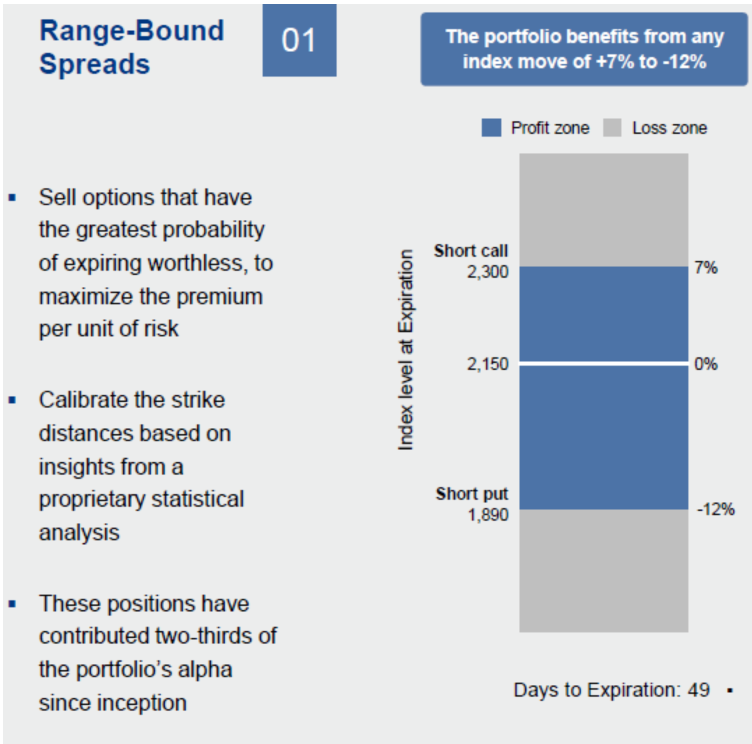
Long and short volatility at the same time, at all times	▪ Pursue outperformance, but do not presume that the market will behave normally or that history will repeat itself
Designed to outperform irrespective of the market environment	▪ Never make a forecast on the direction of equities or volatility
Protect in adverse market environments	▪ Always be a net buyer of put options, providing protection against a tail event or market crash ▪ Prepare for the unexpected; pre-develop plans in anticipation of scenarios in which the portfolio could be at risk for losses

Upon information and belief, AllianzGI used substantively identical graphics to illustrate the investment philosophy and objective of the Structured Alpha Fund portfolio in its presentations to other Structured Alpha Fund investors.

21. AllianzGI stated that it would enter into three types of trades to achieve the Structured Alpha Fund's investment objectives. First, AllianzGI would sell options based on "Range-Bound Spread" analysis, meaning that AllianzGI would use its proprietary statistical analysis to determine levels of resistance and support and sell options with strike prices AllianzGI's analysis concluded were most likely to expire worthless.[7] Range-Bound Spread trades profit when the market remains stable: in other words, if the referenced asset stays within a particular range. If the price of the asset falls outside of the range, however, AllianzGI would

[7] AllianzGI Fairfield Presentation, at 14.

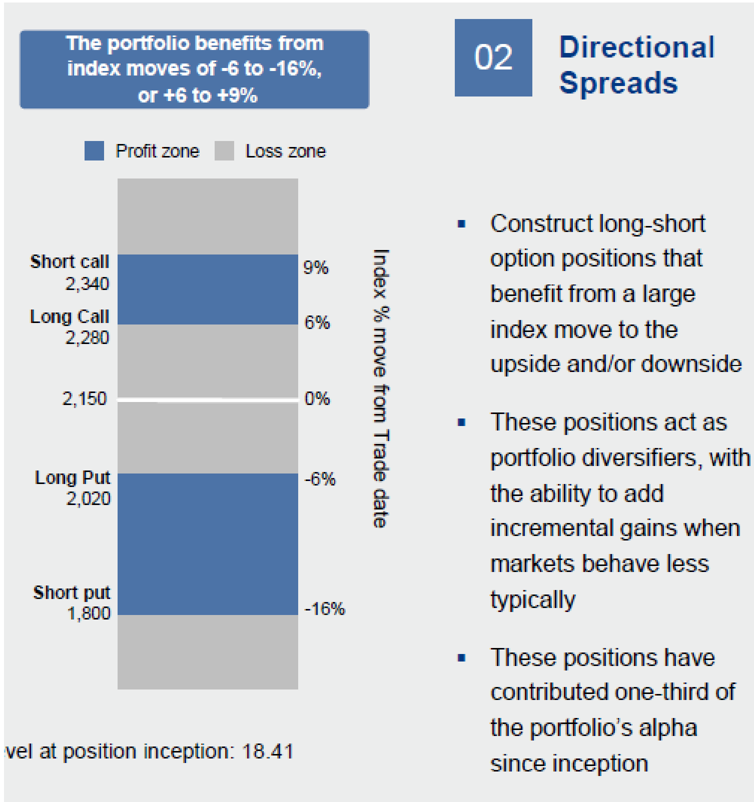
be required to pay out on that trade and would lose money. AllianzGI represented that selling calls with carefully calibrated strike prices had "contributed two-thirds the Structured Alpha Fund portfolio's alpha" since the portfolio's inception:



22. Second, Allianz would enter into "Directional Spread" positions, or "long-short option positions that benefit from a large index move to the upside and/or downside."[8] According to Allianz, these positions, which were the opposite of the Range-Bound positions, would enable the fund to "add incremental gains when markets behave less typically."[9] AllianzGI represented to investors, including Plaintiffs, that directional spread trades had contributed one-third of the Structured Alpha portfolio's alpha since inception:

[8] *Id.*

[9] *Id.*



23. Third, Allianz represented that SA US Equity 250 would buy puts options "in a greater quantity than sold" with strike distances calculated to account for a 10-25% short-term market crash. While these options would typically expire worthless (because crashes are rare), the "primary objective of the hedging positions [was] to protect the strategy from a short-term equity-market crash," which Allianz defined as "a decline of 10% to 15% in less than 5 days."[10] AllianzGI (as in the graphic below) represented it would "always be a net buyer of put options," providing the Structured Alpha Funds with "protection against a [catastrophic] tail event or market crash"[11]:

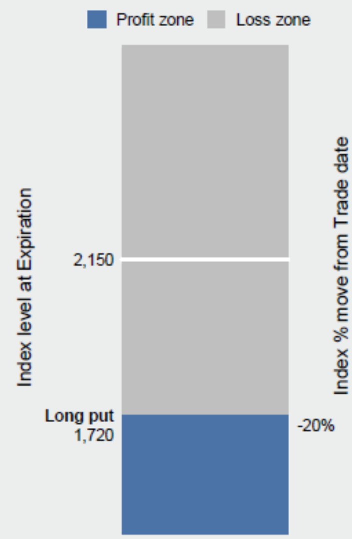
[10] *Id.* at 15.

[11] *Id.* at 11.

03 **Hedging**

The portfolio is protected from an overnight crash

- Buy put options
  - In a greater quantity than sold
  - Approximately 30% to 50% more long puts than short at all times
- Puts are laddered for various market outcomes to the downside
  - Strike distances from -10% to -25%
- Amount typically spent on hedging annually:
  - Low volatility (VIX <18): **100 bps**
  - Mid volatility (VIX 18-25): **130-150 bps**
  - High volatility (VIX 25+): **170-200 bps**
- The primary objective of the hedging positions is to protect the strategy from a short-term equity-market crash
  - Defined as a decline of 10% to 15% in less than 5 days



24. Greg Tournant, the Structured Alpha Funds' portfolio manager, likened the Structured Alpha trading strategy to the functioning of an insurance company that would have to pay out only when there is a "catastrophic event," Tournant said: "I would also add the fact that given the positions that we buy to protect ourselves against those catastrophic shocks, those kinds of risk insurance positions, that you could label those as reinsurance."

25. The Structured Alpha Funds' strategy is based on the notion that option values are directly related to the expected volatility of the underlying asset. The more volatile an underlying asset, the more expensive an option on that asset becomes. According to AllianzGI's presentation materials and Structured Alpha Fund Agreements, AllianzGI would likely lose some money on the short-term puts it sold in the event of a sharp market downturn, but those losses would be offset by "out of the money" put options purchased by Allianz rising in value.

26. According to AllianzGI, this strategy would enable the Structured Alpha Funds to weather a rapid market downturn and while "[t]he portfolio could underperform for a few

weeks" in such an environment, in the end "[h]igher volatility levels should enable greater outperformance in subsequent months."[12] Upon information and belief, the foregoing strategies and investment objectives employed by AllianzGI applied across all of the Structured Alpha Funds.

27. Further, AllianzGI heavily promoted Structured Alpha's "risk management," consisting of "proprietary "scenario and stress testing" and portfolio and risk "monitoring," which strengthened Structured Alpha's execution. AllianzGI's "Two pillars of risk management" ensured that "[r]isk is continuously managed and monitored at both the portfolio level by the investment team and the firm level." "Real-time risk management and monitoring" and "scenario and stress testing" at the portfolio level was supported and enhanced by firm level evaluation and monitoring of portfolio risk, which included "independent" oversight and monitoring of "daily trade activity and weekly risk profiles," "stress tests" and full performance analyses of statistical and risk metrics:[13]

[12] *Id.* at 19.

[13] *Id.* at 13, 21.

Allianz Global Investors

Two pillars of risk management

- Risk is continuously managed and monitored at both the portfolio level by the investment team and the firm level

Firm-level

- Evaluates and monitors **portfolio and counterparty risk, business risk, operational risk,** and **reputational risk**
- **Independent Enterprise Risk Management function** responsible for independent portfolio risk oversight monitors daily trade activity and weekly risk profiles
- **Supported by IDS GmbH - Analysis and Reporting Services (IDS),** an independent service provider
- **Evaluates:**
  - VaR and expected shortfall
  - 31 stress tests, contribution to risk by index product
  - GARCH estimates of risk
  - Delta, Gamma, and Vega analysis
  - Analysis of performance statistics

Portfolio-level

- **Real-time risk management and monitoring** based on statistical equity index behavior
- **Proprietary scenario and stress testing** models
- **Monitoring of bid-ask spreads** for options to ensure that our restructuring discipline is executable

28. As shown above, AllianzGI also emphasized firm-level risk management, including by IDS GmbH – Analysis and Reporting Services ("IDS"), a subsidiary of AllianzGI's corporate parent Allianz SE, to monitor the risk of the Structured Alpha portfolio's holdings. According to AllianzGI, IDS would, *inter alia*, conduct stress tests of the Structured Alpha portfolio's holdings, and monitor the Delta, Gamma, and Vega's (the "Greeks") of the Structured Alpha portfolio.

II. ALLIANZGI STRUCTURED ALPHA FUND AGREEMENTS

29. Investors in AllianzGI's Structured Alpha Funds, including Fairfield, New England Health Care Employees, and members of the Classes, executed agreements with AllianzGI pursuant to offering documents and materials, including a Subscription Agreement, a Limited Liability Company Agreement (the "LLC Agreement"); and a Confidential Private Placement Memorandum (the "PPM") (collectively the "Structured Alpha Agreements").

30. Upon information and belief, the Structured Alpha Agreements were substantively identical in terms of the power vested in AllianzGI and the nature of the relationship between investors and AllianzGI. For example, The LLC Agreements uniformly established AllianzGI as the Managing Member of the Structured Alpha Funds with responsibility for the general management of the Structured Alpha Funds.

> 2.01 Management Generally. Allianz Global Investors U.S. LLC shall be the managing member (the "Managing Member") of the Company. The management of the Company shall be vested exclusively in the Managing Member.[14]

31. The LLC Agreements appointed AllianzGI attorney-in-fact for Structured Alpha Fund investors:

> 8.02 Power of Attorney. Each of the Members hereby appoints the Managing Member as its true and lawful representative and attorney-in-fact[.][15]

32. AllianzGI also agreed in the LLC Agreement that AllianzGI "to the extent that the underlying assets of the Company constitute 'plan assets' within the meaning of ERISA . . . [AllianzGI], in its capacity as 'investment manager' of the Company . . . shall at all times discharge its duties consistent with the standard of care imposed on fiduciaries under ERISA and/or Section 4975 of the [Internal Revenue] Code."[16] Further, AllianzGI represented that "[t]o the extent that the underlying assets of the Company do not constitute Plan Assets, [AllianzGI] . . . shall at all times use its reasonable best efforts to discharge its duties consistent with the standard of care imposed on fiduciaries under ERISA[.]"[17]

---

[14] *AllianzGI Structured Alpha U.S. Equity 250 LLC Confidential Private Placement Memorandum*, AllianzGI (Sept. 1, 2017), at 6 (hereinafter "SA 250 PPM"); *AllianzGI Structured Alpha 1000 LLC Confidential Private Placement Memorandum*, AllianzGI (Jan. 1, 2015), at 6 (hereinafter "SA 1000 PPM").

[15] SA 250 PPM at 27; SA 1000 PPM at 27.

[16] SA 250 LLC at 11.

[17] *Id.*

33. Structured Alpha Fund investors all signed PPMs which identically describe the funds' investment objectives, with the only difference being (1) the number of basis points of targeted outperformance; and (2) the Relevant Benchmark to be outperformed (*i.e.* The SA US Equity 250 sought to outperform the SA US Equity 250's relevant benchmark by 250 basis points net of AllianzGI's fees and the SA 1000 sought to outperform its relevant benchmark by 1000 basis points net of AllianzGI's fees). For example, the SA US Equity 250 PPM describes the SA US Equity 250's investment objective as follows:

> The investment objective of the Fund is to outperform the Standard and Poor's 500 Composite Stock Index (the "<u>Index</u>").[] [AllianzGI] seeks to outperform the Index by approximately 375 basis points (3.75%), gross of fees and expenses. Any actual net return to investors will be reduced by [AllianzGI's fees] (as defined herein) and the expenses borne by the Fund. Taking into consideration the anticipated effect of [AllianzGI's fees], [AllianzGI] seeks to outperform the Index by approximately 250 basis points (2.5%).[18]

The SA 1000 PPM describes the SA 1000's investment objective as follows:

> The investment objective of the Fund is to outperform the BofA Merrill Lynch 3-Month U.S. Treasury Bill Index (the "<u>Index</u>"). [AllianzGI] seeks to outperform the Index by approximately 1400 to 1600 basis points (14% - 16%), gross of fees and expenses. Any actual net return to investors will be reduced by [AllianzGI's fees] (as defined herein) and the expenses borne by the Fund. Taking into consideration the anticipated effect of [AllianzGI's fees], [AllianzGI] seeks to outperform the Index by approximately 1000 basis points (10%).[19]

34. Further, as set forth in the PPMs, each fund had the same principal investment strategy. The "Beta Component" consisted of "a futures trading program, cash investment, exchange traded funds, equity swaps or securities to achieve exposure to the [relevant benchmark or index]."[20] The "Alpha Component" was described by AllianzGI as "utilize[ing] a proprietary model to construct option spreads, typically buying and selling puts and calls on equity indices"

---

[18] SA 250 PPM at 19.

[19] SA 1000 PPM at 19.

[20] *See, e.g. id*. at 1.

with the objective of creating "option based profit zones that upon expiration of the options will capture positive payoffs if the level of the underlying index (or other instrument) ends up within the profit zone."[21]

35. The PPMs signed by each Structured Alpha Fund investor and member of the Classes also established AllianzGI as a fiduciary, as the term is defined by ERISA, "for so long as the assets of the Fund are treated as 'plan assets' for purposes of ERISA[.]"[22] Further, the PPMs provided that the ERISA-mandated standard of care shall apply even if a Structured Alpha Fund's assets are not "Plan Assets" as defined under ERISA:

> During any such time that the assets of the Fund are not treated as "plan assets" for purposes of ERISA and Section 4975 of the Code, [AllianzGI] nevertheless will use its best efforts to discharge its duties consistent with the standard of care imposed on plan fiduciaries under Section 404(a)(1)(B) of ERISA. Under that standard, [AllianzGI] will be required to exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims.[23]

36. Finally, the PPM provided that AllianzGI would be compensated pursuant to an "Incentive Allocation" which would be taken out of the returns, if any, of the Structured Alpha Funds. The PPMs signed by each Structured Alpha Fund investor defined the Incentive Allocation as follows:

> At the end of each calendar quarter, 30% of the excess of the Net Capital Appreciation (as defined below) allocated to the Capital Account of a Member for such calendar quarter over the amount which such Member's Capital Account would have earned had it generated a return equal to the [relevant benchmark and/or index] for such calendar quarter shall be reallocated to the Capital Account of [AllianzGI] (the "Incentive Allocation"); provided however, that the Net Capital Appreciation upon which the calculation of the Incentive Allocation is based will be reduced to the extent of any

[21] *See, e.g. id.*

[22] *See, e.g. id.* at 56.

[23] *See, e.g. id.* at 50.

> unrecovered balance remaining in the Recovery Account . . . as maintained on the books and records of the Fund for such Capital Account of such Member.[24]

SUBSTANTIVE ALLEGATIONS

37. Despite the representations AllianzGI made to Structured Alpha Fund investors, including Plaintiffs and the Classes, regarding the Structured Alpha Fund investment strategy and risk management practices, AllianzGI had completely abandoned both as of September 30, 2019 (if not earlier). 2019's unprecedented market stability and profitability[25] made it difficult for AllianzGI to outperform the defined benchmarks its Structured Alpha Funds were pegged to, which meant AllianzGI would receive only modest management fees via its incentive allocation mechanism. As a result, AllianzGI took several steps in 2019 designed to boost its Structured Alpha Fund portfolio's returns.

38. Specifically, and without the knowledge of Plaintiffs and the Classes, AllianzGI made directional bets on both equities (long) and volatility (short) by, *inter alia*, failing to purchase *any* out-of-the-money puts that would provide protection against a 10-15% market crash over the course of 5 days as mandated by the Structured Alpha investment strategy and instead opting to *sell* protection against short-term tail events to *other* investors. Allianz, as a corporate family, failed to adhere to the risk control and oversight at the both the portfolio and firm level. The impact of these decisions was catastrophic.

39. In late January 2020, global financial markets began to experience increased volatility based on fears that the COVID-19 pandemic would paralyze the global economy. On February 3, 2020, Mohamed El-Erian, chief economist of Allianz SE (AllianzGI's parent

---

[24] SA 1000 PPM at 5-6.

[25] Ksenia Galouchko, *Records Set, Billions Minted: It Will Be Hard to Top 2019 Stocks*, BLOOMBERG (Nov. 29, 2019), https://www.bloomberg.com/news/articles/2019-11-29/records-set-billions-minted-it-will-be-hard-to-top-2019-stocks (accessed Nov. 23, 2020).

company) appeared on CNBC and voiced concerns that the COVID-19 pandemic would cause a prolonged economic downturn, stating:

> For a long time I thought the market sentiment was so strong that we could overcome a mounting list of economic uncertainty . . . But the coronavirus is different. It is big. It's going to paralyze China. It's going to cascade throughout the global economy . . . Importantly, it cannot be countered by central bank policy . . . We should pay more attention to this. And we should try and resist our inclination to buy the dip.[26]

40. Consistent with El-Erian's forecast, COVID-19 continued to cause an uptick in volatility in financial markets and a sharp sell-off in equity markets towards the end of February 2020 and into early March 2020 as the effects of COVID-19 were felt. This was reflected in, *inter alia,* the movement of the CBOE Volatility Index or "VIX"[27] and the S&P 500 index. For example, the VIX opened on February 3, 2020 at 18.64 and closed on February 28, 2020 at 40.11. Similarly, the S&P 500 suffered some of its worst declines in decades at the end of February and in early March 2020.

I. <u>ALLIANZGI ABANDONED THE STRUCTURED ALPHA INVESTMENT STRATEGY AND ITS COMMITMENT TO RISK MANAGEMENT.</u>

A. ALLIANZGI FAILED TO HEDGE AT ALL AGAINST ITS OWN DEFINITION OF A MARKET CRASH

41. AllianzGI's Structured Alpha Fund marketing materials shown to Fairfield, New England Health Care Employees and members of the Classes consistently represented that Structured Alpha Funds would *always* remain hedged against sharp market downturns, which AllianzGI defined as a drop of 10-15% over 5 days. However, analysis of Structured Alpha

---

[26] *See* Matthew J. Belvedere, *Coronavirus is going to 'paralyze China' — El-Erian warns against buying dips*, CNBC (Feb. 3, 2020), https://www.cnbc.com/2020/02/03/el-erian-says-coronavirus-to-paralyze-china-dont-buy-stock-dips.html (accessed July 22, 2020).

[27] The VIX is a market index that represents the market's expectations for market volatility over the next 30 days and typically moves upward as equity markets experience downturns. Because it reflects investors' level of fear of market stress, it is also commonly referred to as the "fear gauge".

Funds' past holdings confirms AllianzGI stopped buying meaningful tail event protection at least as early as September 2019. For example, Table 1 contains a breakdown of the AllianzGI Structured Alpha US Equity 250's equity index put options as of September 30, 2019:

<u>FIGURE 1</u>

STRUCTURED ALPHA US EQUITY 250 EQUITY INDEX PUT OPTIONS AS OF SEPTEMBER 30, 2019

Notionals ($m) by buckets		Percentage from current spot														
		60%	65%	70%	75%	80%	85%	90%	95%	100%	105%	110%	115%	120%	Total	>=75%
Maturity	18-Oct-19	431	817	0	-4	-18	75	-263	45	-87	-35	0	0	0	963	-285
	15-Nov-19	9	0	0	-22	-28	-71	-26	0	7	-163	-7	0	0	-301	-310
	20-Dec-19	0	0	0	-2	-10	-32	0	0	1	-24	0	0	0	-67	-67
	17-Jan-20	0	0	0	-5	-7	0	0	0	0	0	0	0	0	-13	-13
	21-Feb-20	0	0	0	-7	-1	0	0	0	0	0	0	0	0	-8	-8
	20-Mar-20	0	0	-1	0	-7	0	0	0	0	0	0	0	0	-9	-7
	Total	440	817	-1	-41	-71	-27	-289	46	-80	-222	-7	0	0	565	-691

42. The numbers in green represent the number of put options AllianzGI purchased (*i.e.* options that would generate returns in the event of a market downturn equal to the percentages listed above them). The numbers in red represent the number of put option contracts AllianzGI sold with strike prices corresponding to the percentages listed above. Figure 1 shows that, while AllianzGI did purchase out-of-the-money puts (*i.e.* puts that would generate returns in a market downturn), the majority of these puts (in green) had strike prices below 70% with an expiration date almost three weeks out. This meant that, rather than having protection against a market decline of 10-15% over 5 days, the Structured Alpha Funds out of the money puts would only start to generate positive returns *after markets had dropped by more than 30-40% over the course of almost three weeks* (the options expired on October 18, 2019. Furthermore, because the SA US Equity 250 held no put option contracts with maturities shorter than 18 days, the fund held *no* protection against a market crash occurring over that period. In sum, the SA US Equity 250's put option holdings provided no meaningful tail risk protection and were symbolic

positions with no economic benefit. Upon information and belief, as alleged herein, the same failures and abandonment of investment strategy plagued the SA US Equity 250 in 2020.

43. Analysis of other Structured Alpha Funds holdings in early 2020 reflect that AllianzGI abandoned its hedging strategy across the entire Structured Alpha Fund portfolio and continued to buy meaningless (but cheaper) equity put options for the Structured Alpha Funds into early 2020. For example, analysis of the SA 1000's holdings as of February 28, 2020 show that, consistent with the SA US Equity 250's September 2019 holdings discussed above, over 50% of the SA 1000's out-of-the-money puts were more than 30% out of the money (*i.e.* would only generate returns if the equity markets dropped 30% or more), and nearly 20% of the puts option contracts held were more than 50% out of the money. Moreover, the SA 1000 fund held *no put options between 10-20% out of the* money, meaning that the SA 1000 fund had absolutely no protection from the 10-15% market crash AllianzGI had promised to always guard against.

44. In sum, AllianzGI abandoned their investment strategy by failing to purchase any put option contracts that would generate returns and protect the Structured Alpha Funds in the event of a market crash of 10-15% over a period of 5 days to the to the detriment of Plaintiffs and members of the Classes.

B. ALLIANZGI MADE AN UNREASONABLE AND IMPRUDENT BET ON THE DIRECTION OF EQUITIES AND VOLATILITY AND SOLD CRASH RISK INSURANCE TO OTHER MARKET PARTICIPANTS.

45. AllianzGI not only failed to effectively hedge against a market downturn, but actively bet against such an occurrence. Starting in 2019, in contravention of its investment strategy, AllianzGI began betting against a market downturn across the entire Structured Alpha Fund portfolio in two ways. First, AllianzGI amassed a net-short equity put position across the Structured Alpha Fund portfolio. Second, AllianzGI amassed a net-short volatility position by

selling more VIX and VXX (a VIX short-term futures ETF) call options than it bought. In taking these positions, AllianzGI was generating income by selling short-term equity market crash risk to other investors, or "picking up the small puts."

i. <u>AllianzGI Amassed a Net-Short Equity Put Option Position Across the Entire Structured Alpha Fund Portfolio That Would Only Profit from Continued Equity Market Stability.</u>

46. Analysis of the SA US Equity 250's and SA 1000's holdings, which, upon information and belief, are reflective of the positions across the Structured Alpha portfolio, show that the equity option positions AllianzGI amassed on behalf of the Structured Alpha portfolio that would only generate returns from stable equity markets and low volatility. For example, revisiting Figure 1 shows that if you exclude AllianzGI's symbolic put options that were more than 30% out-of-the-money, the SA US Equity 250 Fund was net short SPX put options (*i.e.* a net seller of SPX puts) across all maturities as of September 30, 2019.

47. Further, as Figure 2 below shows, the structure of the SA US Equity 250's equity option portfolio remained net-short through February and into March 2020:

<u>FIGURE 2</u>

SA US EQUITY 250's EQUITY OPTION POSITIONS
AS OF FEBRUARY 29, 2020

<u>**Position**</u>	<u>**Size of Position**</u>	<u>**Impact of Market Decline on Value**</u>
Long Equity Puts	$67 Million	Increase
Short Equity Puts	**$117 million**	**Decrease**
Long Equity Calls	$18 million	Decrease
Short Equity Calls	$5 million	Increase

48. Review of the SA 1000's positions for January and February 2020 reflect that AllianzGI amassed similar net-short SPX positions across the entire Structured Alpha Fund portfolio, and that between January 31, 2020 and February 28, 2020 AllianzGI actually *increased*

the Structured Alpha Fund portfolio's short SPX put exposure. For example, example, the SA 1000 held a net short SPX put position of 8,400 contracts at the end of January 2020. By February 29, 2020, as COVID-19 caused market turmoil across the globe, AllianzGI had increased the SA 1000's short SPX put position to a net short SPX put position of 31,636 contracts, a 276% increase. Not only was this directional bet in direct contravention of the Structured Alpha investment strategy outlined in multiple Structured Alpha Agreements, but it also was unreasonable and imprudent to increase the Structured Alpha Funds' exposure to downside risk during a worldwide pandemic – the risks of which were warned about by Allianz's chief economist – when common sense *and* the Structured Alpha Funds own investment mandate called for direction-neutrality.

ii. <u>AllianzGI Amassed a Net Net-Short Volatility Position That Would Lose Money if Volatility Spiked.</u>

49. AllianzGI's equity option positions also meant that the portfolio was short volatility. For example, analysis of the Structured Alpha Funds' portfolio on September 30, 2019 shows that the portfolio was short *vega*. An options position that is "long" *vega* is betting on an increase in the volatility of the asset underlying the options contract because the value of the options contract will increase for every percentage point move in volatility. A position that is "short" *vega* conversely wants volatility to fall, as this will result in a decrease in options premiums which will benefit the holder of a short position.

50. As Figure 2 above illustrates, the Structured Alpha Funds' equity option portfolio was net short *vega* for all maturities in late 2019 and remained so into early 2020, meaning that the equity options were guaranteed to lose money when market volatility rose. *This is a directional bet on volatility*, or more specifically, a directional bet on the *lack of* volatility in financial markets. The result of this directional bet was that not only was the fund guaranteed to

lose money if volatility increased, but also that the Structured Alpha Funds' losses would outpace the losses of the market, because the Structured Alpha Funds' option portfolio was extremely sensitive to any changes in market volatility.

<u>FIGURE 3</u>

STRUCTURED ALPHA US EQUITY 250 OPTION PORTFOLIO VEGA AS OF SEPTEMBER 30, 2019

Vega ($/pc) by buckets		Percentage from current spot													
		60%	65%	70%	75%	80%	85%	90%	95%	100%	105%	110%	115%	120%	Total
Maturity	18-Oct-19	1,048	2,580	0	-66	-720	10,128	-56,513	21,037	6,279	-817	0	0	0	-17,045
	15-Nov-19	183	0	0	-2,638	-6,103	-31,448	-17,243	547	12,204	-47,886	-1,092	0	0	-93,476
	20-Dec-19	0	0	0	-820	-5,259	-26,564	0	0	1,376	-9,888	0	0	0	-41,154
	17-Jan-20	0	0	0	-2,638	-5,699	0	0	0	0	0	0	0	0	-8,338
	21-Feb-20	0	0	0	-5,254	-1,208	0	0	0	0	0	0	0	0	-6,462
	20-Mar-20	0	0	-967	0	-8,595	0	0	0	0	0	0	0	0	-9,562
	Total	1,230	2,580	-967	-11,416	-27,584	-47,883	-73,756	21,584	19,859	-58,591	-1,092	0	0	-176,037

51. AllianzGI also shorted volatility as early as September 2019 by selling VIX and VXX call option contracts which would generate returns for the purchaser if volatility spiked. Because VIX and VXX rise as the S&P 500 falls (i.e., they are inversely proportional), this strategy was the equivalent of selling puts on the S&P 500 (which, as described above, AllianzGI also did).

52. For example, analysis of the SA US Equity 250's holdings as of September 30, 2019 show that AllianzGI sold a large number of VIX call options that would generate massive losses for the SA US Equity 250 if VIX were to rise anywhere from 10-110%. This strategy was functionally equivalent to AllianzGI's equity put selling strategy, which incurred losses for the Funds upon counterparties' exercise of put options. These positions are reflected in Figure(s) 4 and 5, below:

FIGURE 4

SA US EQUITY 250 VIX CALL OPTION POSITIONS
AS OF SEPTEMBER 30, 2019

		Percentage change from current & VIX equivalents																	
Notionals ($m) by buckets		100%	110%	120%	130%	140%	150%	160%	170%	180%	190%	200%	210%	220%	230%	240%	250%	260%	
		18.60	20.46	22.33	24.19	26.05	27.91	29.77	31.63	33.49	35.35	37.21	39.07	40.93	42.79	44.65	46.51	48.37	Total
Maturity	16-Oct-19	0.0	-9.2	-49.5	-32.9	-11.5	-6.3	-6.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-115.7
	18-Oct-19	0.0	-1.0	-16.7	-14.6	-1.6	-4.2	-12.7	-2.0	0.0	-6.7	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-59.6
	15-Nov-19	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-2.7	0.0	-5.0	-7.4	0.0	0.0	0.0	0.0	0.0	-15.0
	20-Nov-19	0.0	0.0	-3.0	-17.4	-6.0	-11.8	-13.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-51.5
	18-Dec-19	0.0	0.0	0.0	0.0	0.0	-6.0	-3.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-9.3
	20-Dec-19	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-4.0	0.0	0.0	0.0	0.0	0.0	-4.0
	Total	0.0	-10.2	-69.3	-64.8	-19.0	-28.3	-35.7	-2.0	-2.7	-6.7	-5.0	-11.4	0.0	0.0	0.0	0.0	0.0	-255.1

53. SA US Equity 250's holdings as of February 29, 2020 confirm that AllianzGI maintained the structure of the SA US Equity 250 volatility option portfolio through the end of 2019 and early 2020:

FIGURE 5

SA US EQUITY 250's VOLATILITY CALL OPTION POSITIONS
AS OF FEBRUARY 29, 2020

Position	**Size of Position**	**Impact of Market Decline on Value**
Long Volatility Puts	0	
Short Volatility Puts	$2 million	Increase
Long Volatility Calls	0	
Short Volatility Calls	**$16 million**	**Decrease**
Net position:	Short $55 million	Decrease

54. Further, the SA 1000's volatility call option positions reflect that, as was the case with the equity market put selling strategy, AllianzGI not only applied its volatility call option selling strategy across the Structured Alpha Fund portfolio, but actually increased the position during February 2020. Specifically, AllianzGI increased its short-VIX call exposure by 47% during February 2020, and increased its short-VXX call option exposure by 47.5%.

iii. **<u>AllianzGI Was Effectively Selling Short-Term Tail Risk Protection to Other Investors</u>**

55. AllianzGI's representations that it would utilize range-bound spread combined with directional spread trading strategies reflected that it would be prepared not only to survive, but also to profit in any market condition. For example, AllianzGI's range-bound spread strategy was structured to profit if markets remained relatively stable via the collection of premiums on both call and put options AllianzGI sold that expired worthless. AllianzGI's directional spread strategy was structured to generate returns if the market moved unexpectedly via the long and short "profit zones" that would benefit from a "large index move."

56. AllianzGI's unreasonable and imprudent decisions to (1) bet on equity market stability by taking a short S&P 500 put option position; (2) bet on low volatility by taking short volatility call positions; and (3) to inadequately hedge against a market downturn through the purchase of out of the money equity put options amounted to AllianzGI selling massive amounts of catastrophic crash insurance to other investors from at least September 2019 into early March 2020. Thus, rather than taking both long and short equity and volatility positions as called for under the range bound spread and directional spread strategies, AllianzGI simply bet against a market downturn. What's worse, as market volatility rose during February 2020, rather than restructure the Structured Alpha portfolio to mitigate losses, AllianzGI increased its exposure to these positions, a decision which would lead to catastrophic losses for AllianzGI's investors.

57. In sum, at the end of 2019 and into early 2020, AllianzGI had (1) stopped buying out of the money puts that would provide any meaningful protection in the event of a market crash; (2) taken option positions that would profit only in the event of continued financial market stability; and (3) sold tail risk insurance to other financial market participants. These actions represent a complete abandonment, if not a deviation from, AllianzGI's Structured Alpha

investment mandate in violation of the Structured Alpha Agreements and offering documents with Plaintiffs and members of the Classes, as well as in violation of AllianzGI's fiduciary duty to Plaintiffs and members of the Classes.

C. ALLIANZGI FAILED TO CONDUCT ADEQUATE RISK MANAGEMENT

58. AllianzGI also failed to engage in the risk management practices it had represented were fundamental to its investment strategy. For example, AllianzGI had promised to regularly monitor the delta, gamma, and vega values (the "Greeks") of its Structured Alpha options portfolio. However, the values of Structured Alpha's Greeks would have revealed that AllianzGI had improperly taken directional options positions and had compounded that mistake by taking positions that were unduly sensitivity to volatility of the underlying assets. For example, during 2019 the gamma of the Structured Alpha Funds' options portfolio decreased substantially as a result of AllianzGI's selling of S&P put options (without buying an adequate amount – i.e., being a "net buyer of puts") and volatility call options. Similarly, the vega of the Structured Alpha Funds options portfolio indicated that the portfolio was very sensitive to changes in the volatility of the S&P 500, the VIX, and VXX.

59. Together, the Structured Alpha Funds' gamma and vega alone should have set off alarm bells within AllianzGI's risk management department that the funds had abandoned their investments strategy. Either AllianzGI failed to make these calculations, or it ignored them. Despite AllianzGI's representations that, as part of firm level oversight, IDS would conduct stress tests to model the Structured Alpha portfolio's performance in a variety of market conditions, AllianzGI reportedly did not conduct a single stress test of the Structured Alpha portfolio for anything resembling the 10-15% market decline over a period of less than 5 days. Instead, AllianzGI allegedly only modeled the impact of overnight shocks in the financial

markets on the Structured Alpha portfolio. This left the portfolio exposed to the catastrophic losses it ultimately incurred.

II. ALLIANZGI PRIORITIZED PROFITS OVER INVESTOR CAPITAL.

60. AllianzGI's investment and risk management failure in February and March resulted in losses as volatility climbed and the equity markets declined. At this point, AllianzGI could have restructured the Structured Alpha Funds in a manner consistent with its mandate that would have properly protected the Structured Alpha Funds from incurring more substantial losses should markets continue to experience extreme market volatility. However, in early March 2020 AllianzGI *yet again* wavered from its mandate, locked in losses, and doubled down on its losing bets that market volatility would quickly subside.

61. AllianzGI, chose to (1) buy out the short positions of its counterparties in the short-term equity puts it had sold, which locked in substantial losses; (2) sell additional volatility calls, again positioning the Structured Alpha Funds as short volatility; and (3) failed to take any steps to hedge the Structured Alpha Funds to protect against further severe market sell-offs.

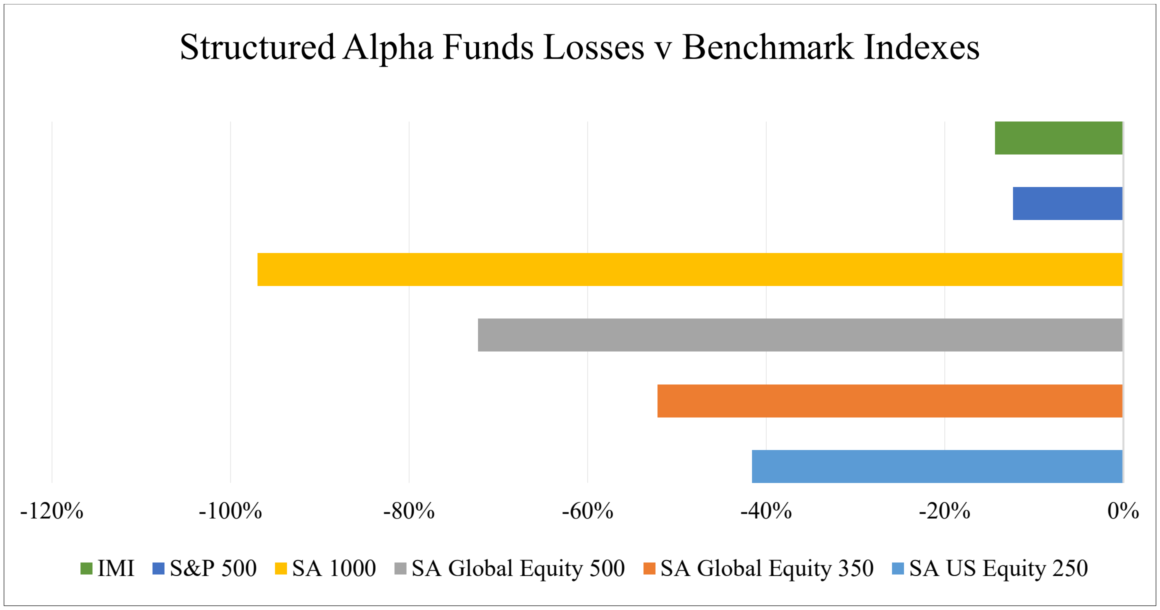
62. Unfortunately for Structured Alpha Fund investors, the steep equity market selloff continued in early March. On March 9, 2020 the S&P 500 fell 7% moments after markets opened and trading was halted on the New York Stock Exchange, causing the Structured Alpha Funds to once again suffer massive losses.

63. That same week, on March 13, 2020 institutional investment consultant Aon, who was privy to the positions of the Alpha US 250, Alpha Global 350, and Alpha Global 500 funds, issued a "flash report," which noted that AllianzGI's Structured Alpha strategies had "experienced a drawdown that significantly exceeds [Aon's] expectations" and downgraded the Structured Alpha Funds to "in review" as it sought explanations. At that point, Aon calculated

the Alpha US 250's year-to-date performance as down 11%; the Alpha Global 350's year-to-date performance as down 15%; and the Alpha Global 500's year-to-date performance as down 22%.

64. On March 16, 2020, the COVID-19 related market turmoil culminated when United States equity markets experienced the second-biggest single day drop in history, behind only Black Monday of 1987. The S&P 500, the index to which the Structured Alpha funds had both passive and options-based exposure, closed the day down approximately 12% from its opening levels.

65. Based on AllianzGI's representations, investors in the Structured Alpha funds – while suffering short term losses – *should have been protected* from massive losses. However, on March 25, 2020 AllianzGI informed Plaintiffs and members of the Classes that instead of "underperform[ing] for a few weeks" before generating "greater excess-returns" in the subsequent months, the Structured Alpha Funds had suffered massive losses. For example, the Alpha US 250 fund declined over $559 million in the month of March, a loss of approximately 41.59%, nearly quadruple the S&P 500's decline of approximately 12.5% during the same time. Similarly, the Alpha Global 350 declined 52.18%, compared to a decline of the MSCI ACWI Investable Market Index (the "IMI") (the Alpha Global 350's benchmark index) of only 14.39%. Further, the Alpha Global 500 (which also uses the IMI as its benchmark index) lost 72.30%:



66. During a public conference call on March 25th, Allianz refused to provide any detail to investors as to what investments led to the massive losses, stating "they were still unsure what exactly went wrong" and not telling investors "how much money they'd get back, or when to expect it."[28] AllianzGI has to date failed to provide any substantive explanation to investors, including Plaintiffs and the members of the Classes. As discussed below, AllianzGI subsequently liquidated two of the funds in the portfolio – SA 1000 and SA 1000 Plus – given the extent of the losses incurred.

[28] Justin Baer, *The Day Coronavirus Nearly Broke the Financial Markets*, WALL ST. JOURNAL (May 20, 2020), https://www.wsj.com/articles/the-day-coronavirus-nearly-broke-the-financial-markets-11589982288 (accessed July 17, 2020).

III. ALLIANZGI'S COMPENSATION STRUCTURE CAUSED IT TO ACT OUT OF SELF-INTEREST RATHER THAN IN THE INTEREST OF PLAINTIFFS AND THE CLASSES.

67. AllianzGI's conduct during the Class Period is explained by how AllianzGI is compensated for its management of the Structured Alpha Funds. Rather than receiving a flat management fee, pursuant to the Structured Alpha Agreements (as discussed above), AllianzGI received an "Incentive Allocation") of 25% or 30% of the "Net Capital Appreciation" for each Structured Alpha Fund during each quarter in which the Structured Alpha Fund exceeded the performance of the relevant benchmark or index such as the S&P 500 or MSCI IMI.

68. This compensation structure meant that AllianzGI would not receive any fees for its management of any Structured Alpha Fund that failed to outperform the applicable benchmark or index. Additionally, AllianzGI would not be entitled to any performance fee at all until it recovered the amount of underperformance through over-performance in the future.

69. Whether AllianzGI was entitled to a performance fee was determined by the balance of a "Recovery Account." If a Structured Alpha Fund underperformed the applicable benchmark index, the amount by which it underperformed would be added to the balance of the "Recovery Account." AllianzGI was only entitled to a performance fee going forward if the balance of the Recovery Account had reached zero. The only way to reduce the balance of the Recovery Account was through a Structured Alpha Fund's outperformance of the applicable benchmark index. For example, if the Alpha US 250 underperformed the S&P 500 by a percentage equal to $100 million of the Structured Alpha Funds assets, $100 million would be added to the Recovery Account balance and the AllianzGI would not be entitled to any performance fees at all going forward until it outperformed the S&P 500 by a percentage

equivalent to $100 million of the Structured Alpha Fund's assets to return the Recovery Account to zero.

70. By the end of February 2020, the SA US Equity 250, SA Global Equity 350, and SA Global Equity 500 funds were underperforming the applicable benchmark indices by 5%, 7%, and 10% respectively. Thus, AllianzGI needed to reverse (and recoup) these losses by March 31, 2020, or it would not receive what were typically hundreds of millions in performance fees. Given the circumstances, AllianzGI faced losing its substantial performance-based fees at quarter-end (March 31, 2020), and for the foreseeable future.

71. AllianzGI thus doubled down on its risky strategy, and, as part of that strategy, sold a significant number of VIX call options with strike prices ranging from $25-30 and an expiration date of March 18, 2020 (without any meaningful hedging). However, as March 18th approached, the VIX had increased substantially, going from 33.42 at the close on March 2, 2020 to 75.91 on March 16, 2020, which significantly *decreased* the value of AllianzGI positions. For example, if the VIX closed at $75 on March 18, 2020, Allianz would have had to pay the difference between the price at expiration ($75) and the strike price on those options multiplied by 100. Under this scenario, if VIX settled at $75 on March 18, 2020, each call option AllianzGI sold cost AllianzGI the difference between $75 and the strike price times 100.

72. As described above, the VIX closed at $75.91 on March 17, 2020. The VIX settlement price is calculated by the opening price of VIX on the date of settlement, and VIX is calculated using a complex mathematical formula that "estimates the expected volatility of the S&P 500 index by aggregating the weighted prices of multiple SPX puts and calls over a wide range of strike prices." Some experts have concluded that VIX is "susceptible to manipulation" after observing "aggressive orders to buy or sell [options used to calculate VIX] prior to market

settlement that do not occur at other times and that they are related to [VIX] price deviations" which is "consistent with one would expect to see in the case of market manipulation of certain settlements."[29]

73. Prior to the settlement of VIX at the March 18, 2020 market open, according to one industry expert, "[s]omebody sold the options used to calculate the VIX. You see that volume of some options — things that never trade — were traded in hundreds of thousands of lots. To do this, you need a lot of capital because you're going to be selling a lot of options. Big banks can't do it. It would have to be an institution."[30] On March 18, 2020 the VIX opened at $69.37, down 8.6% from its March 17, 2020 close. During the day on March 18, 2020 the VIX closed at $76.45, an increase of just 0.7% from the previous days close, indicating that investor sentiment, despite the 8.6% move down at open, had changed very little.

74. Investors that had sold large amount of VIX call options expiring on March 18, 2020, *as AllianzGI did*, would have a substantial motive to lower the VIX settlement price on March 18. AllianzGI's actions described above would have violated both the Structured Alpha Funds' mandate and the Structured Alpha Agreements with Plaintiffs and the Classes.

75. On March 27, 2020 AllianzGI publicly announced that its Structured Alpha Funds had suffered massive losses and that two of the funds—Structured Alpha 1000 and Structured Alpha 1000 Plus— had suffered such massive losses (one lost 97% of its value) that they were being liquidated.

---

[29] John M. Griffin & Amin Sham, *Manipulation in the VIX?* (May 23, 2017), at 35-36, https://ssrn.com/abstract=2972979 (accessed July 27, 2020).

[30] Leanna Orr, *Teachers' Pension Lost $774M in Allianz Volatility Funds: Lawsuit*, INSTITUTIONAL INVESTOR (July 21, 2020), https://www.institutionalinvestor.com/article/b1mlj29jx9wjsy/Teachers-Pension-Lost-774M-in-Allianz-Volatility-Funds-Lawsuit (accessed July 27, 2020).

76. Also on March 27, 2020, Aon issued another "flash report" in which it downgraded the Structured Alpha Funds to "sell" and stated that AllianzGI had been "less than forthcoming with information than we would have hoped in such a critical time for investors" and that Aon was "disappointed that multiple discretionary restructuring efforts exposed the portfolio to further downside risk, rather than accept modest losses and aim to recover in a reasonable time period as Allianz has done in previous volatility episodes."[31] Aon further noted that while AllianzGI had "proposed a new portfolio structure going forward," Aon was "unable to have confidence in Allianz's ability to execute at this time given the poor management of the original restructure."[32] Steve Voss, a senior partner at Aon with personal knowledge of the events that transpired later commented that AllianzGI's actions represented a "failure of risk management, and what struck us most profoundly was the lack of any independent risk assessment or risk controls put into place which we had understood to be a cornerstone of the investment strategy."[33]

77. After learning that the core mandate of the Structured Alpha Funds—to always be hedged against a sharp market downturn—had been abandoned, resulting in catastrophic losses, Fairfield and New England Health Care Employees requested to redeem their respective investments in the in the SA US Equity 250 and SA 1000 funds. By that time, Fairfield had suffered a loss of at least $11.6 million and New England Health Care Employees had suffered a loss in excess of $19 million due to AllianzGI's negligent mismanagement of and conduct in

---

[31] *Flash Report: Allianz Structured Alpha – Rating Downgraded to "Sell"*, AON GLOBAL INVESTMENT MANAGEMENT (Mar. 27, 2020).

[32] *Id.*

[33] Rob Kozlowski, *San Diego City Employees terminates AllianzGI*, PENSIONS & INVESTMENTS (May 12, 2020), https://www.pionline.com/pension-funds/san-diego-city-employees-terminates-allianzgi (accessed July 27, 2020).

connection with the Structured Alpha Funds. Publicly available information to date reflects that investors in the Structured Alpha Funds have lost hundreds of millions, if not billions, of dollars as a result of AllianzGI's conduct.

IV. FAIRFIELD'S INVESTMENTS IN THE STRUCTURED ALPHA US EQUITY 250 FUND.

78. In a meeting with Fairfield's Joint Retirement Investment Board prior to Fairfield's initial investment, AllianzGI representatives, including Jeffrey Sheran, AllianzGI managing director and senior product specialist for Structured Alpha, reinforced the index-based investment approach described above, extolling Structured Alpha's "consistent and on-target returns" through its "three-pronged investment objective," consisting of simultaneous long and short volatility positions, allowing the Fund to be "non-directional." AllianzGI maintained that at all times, Structured Alpha's exposure was covered and therefore, Structured Alpha funds would never sell "naked puts," requiring it to pay out on option without holding a short position on the underlying security.

79. Based on representations made by AllianzGI, including in the AllianzGI presentation materials, and in the various Structured Alpha Agreements presented to Fairfield for execution, Fairfield invested $20 million on November 17, 2017.

80. In connection with Fairfield investment, Fairfield entered into several agreements with AllianzGI, including the Fifth Amended and Restated Limited Liability Company Agreement of AllianzGI Structured Alpha U.S. Equity 250 LLC (the "SA US Equity 250 LLC Agreement"), AllianzGI Structured Alpha U.S. Equity 250 LLC Confidential Private Placement Memorandum dated December 31, 2017 (the "SA US Equity 250 PPM"), and the AllianzGI Structured Alpha U.S. Equity 250 Subscription Agreement (the "SA US Equity 250 Subscription Agreement") which (collectively, the "Fairfield Structured Alpha Agreements"). As discussed

above, upon information and belief, these documents are substantively identical to those entered into by investors across the Structured Alpha Funds portfolio.

81. In September 2019, Fairfield increased its investment in the SA US Equity 250 Fund to 7.5% of Fairfield's total fund.

82. As discussed above, Fairfield redeemed its investment in the SA US Equity 250 Fund in April 2020, suffering a loss of over $11 million.

V. NEW ENGLAND HEALTH CARE EMPLOYEES' INVESTMENT IN THE STRUCTURED ALPHA 1000 FUND.

83. Following a meeting with AllianzGI representatives and based on representations by AllianzGI, including AllianzGI presentation materials and in the Structured Alpha Agreements presented to New England Health Care Employees for execution, New England Health Care Employees invested $20 million in the SA 1000 Fund on February 27, 2017.

84. In connection with its investment in the SA 1000 Fund, New England Health Care Employees entered into several agreements with AllianzGI, including the Second Amended and Restated Limited Liability Company Agreement of AllianzGI Structured Alpha 1000 LLC (the "SA 1000 LLC Agreement"), the AllianzGI Structured Alpha 1000 LLC Confidential Private Placement Memorandum dated January 1, 2015 (the "SA 1000 PPM"), and the AllianzGI Structured Alpha 1000 LLC Subscription Agreement (the "SA 1000 Subscription Agreement") (collectively, the NEHCE Structured Alpha Agreements). As discussed above, upon information and belief, these documents are substantively identical to those entered into by investors across the Structured Alpha Funds portfolio.

85. As discussed above, New England Health Care Employees submitted a Request for Withdrawal of Interests requesting withdrawal of the entire balance of its capital account in

the SA 1000 Fund on March 31, 2020 and incurred a loss of $19,311,993.28 (or approximately 97% of market value of New England Health Care Employees investment).

86. Upon information and belief, additional benefit plan investors, as defined by the Employee Retirement Income Security Act of 1974 ("ERISA"), including some covered by Title I of ERISA, also held equity interests in the SA 1000 Fund.

87. Upon information and belief, benefit plan investors, in the aggregate, held over 25% of the equity interests in the SA 1000 Fund during the relevant time.

CLASS ACTION ALLEGATIONS

88. Plaintiffs bring this action as a class action pursuant to Federal Rules of Civil Procedure 23(a) and 23(b)(3).

89. Plaintiffs seek class certification on behalf of a class defined as follows (the "Structured Alpha Class"):

> All persons or entities who purchased or otherwise acquired an interest in the (1) AllianzGI Structured Alpha US Equity 250 Fund, (2) AllianzGI Structured Alpha Global Equity 350 Fund, (3) AllianzGI Structured Alpha US Equity 500 Fund, (4) AllianzGI Structured Alpha Global Equity 500 Fund, (5) AllianzGI Structured Alpha US Fixed Income 250 Fund, (6) AllianzGI Structured Alpha US Fixed Income 125 Fund, (7) AllianzGI Structured Alpha 500 Fund, (8) AllianzGI Structured Alpha 1000 Fund, and/or (9) AllianzGI Structured Alpha 1000 Plus Fund at any time and held those interests through at least March 1, 2020.

90. In the alternative, Plaintiffs Fairfield and New England Health Care Employees, respectively, seek certification on behalf of two subclasses consisting of investors in the SA US Equity 250 Fund (the "SA US Equity 250 Subclass") and the SA 1000 Fund (the "SA 1000 Subclass"), respectively, defined as follows:

SA US Equity 250 Subclass

All persons or entities who purchased or otherwise acquired an interest in the AllianzGI Structured Alpha US Equity 250 Fund at any time and held those interests through at least March 1, 2020.

SA 1000 Subclass

All persons or entities who purchased or otherwise acquired an interest in the AllianzGI Structured Alpha 1000 Fund at any time and held those interests through at least March 1, 2020.

91. Collectively, the Structured Alpha Class, the SA US Equity 250 Subclass, and the SA 1000 Subclass are the referred to as the "Classes."

92. Plaintiffs reserve the right to expand, narrow or otherwise modify or refine the definition of the Classes based on additional information obtained through further investigation and discovery, and/or in order to address or accommodate any of the Court's manageability concerns.

93. Excluded from the Classes are: (a) any Judge or Magistrate Judge presiding over this action and members of their staff, as well as members of their families; (b) Defendant and Defendant's predecessors, parents, successors, heirs, assigns, subsidiaries, and any entity in which any Defendant or its parents have a controlling interest, as well as Defendant's current or former employees, agents, officers, and directors; (c) entities or persons who properly execute and file a timely request for exclusion from the Class or Subclass; (d) entities or persons whose claims in this matter have been finally adjudicated on the merits or otherwise released; (e) counsel for Plaintiffs and Defendant; and (f) the legal representatives, successors, and assigns of any such excluded persons.

94. **Ascertainability**. The proposed Classes are readily ascertainable because they are defined using objective criteria so as to allow class members to determine if they are part of the

Classes. Further, the members of the Classes can be readily identified through records and information in Defendant's possession, custody or control.

95. **Numerosity**. The Classes are so numerous and geographically dispersed that joinder of individual members is impracticable. The exact number of members of the Classes, as herein identified and described, is not known to Plaintiffs at this time and can only be ascertained through appropriate discovery, but given the billions managed by AllianzGI in the Structured Alpha Funds, Plaintiffs believe that there are hundreds of class members.

96. **Commonality and Predominance**. Common questions of fact and law exist for each cause of action and predominate over questions solely affecting individual members of the Classes, including the following:

a. Whether AllianzGI failed to execute and adhere to the Structured Alpha investment strategy and mandate;

b. Whether AllianzGI and its affiliates/parent implemented and adhered to the Structured Alpha risk management and control;

c. Whether AllianzGI restructured the Structured Alpha Funds during the first quarter of 2020 (and thereafter) to the detriment of investors and the Funds and in contravention of the Funds' investment mandate;

d. Whether AllianzGI made investment decisions and entered into trades out of self-interest, and adverse to the interests of investors in the Structured Alpha Funds;

e. Whether AllianzGI engaged in the course of conduct described herein;

f. Whether AllianzGI's conduct constituted negligence;

g. Whether AllianzGI's conduct constituted a breach of fiduciary duty;

h. Whether AllianzGI's conduct constituted a breach of fiduciary duty under ERISA;

i. Whether AllianzGI engaged in prohibited transactions under ERISA;

j. Whether AllianzGI's conduct constituted a breach of contract;

k. Whether Plaintiffs and the Classes are entitled to monetary damages; and

l. The measure of damages suffered by Plaintiffs and the members of the Classes.

97. **Typicality**. Plaintiffs' claims are typical of the claims of the members of the Classes. Plaintiffs and the members of the Classes sustained damages arising out of Defendant's common course of conduct as described in this Complaint. The injuries of Plaintiffs and each member of the Classes were directly caused by Defendant's wrongful conduct, and Plaintiffs and the members of the Classes assert similar claims for relief.

98. **Adequacy**. Plaintiffs have and will continue to fairly and adequately represent and protect the interests of the Classes. Plaintiffs have retained counsel competent and experienced in complex litigation and class actions. Plaintiffs have no interest that is antagonistic to those of the Classes, and Defendant has no defenses unique to Plaintiffs. Plaintiffs and their counsel are committed to vigorously prosecuting this action on behalf of the members of the Classes, and they have the resources to do so. Neither Plaintiffs nor Plaintiffs' counsel has any interest adverse to those of the other members of the Classes.

99. **Substantial Benefits**. This class action is appropriate for certification because class proceedings are superior to other available methods for the fair and efficient adjudication of this controversy and joinder of all members of the Classes is impracticable. This proposed class action is manageable. Plaintiffs know of no special difficulty to be encountered in the maintenance of the action that would preclude its maintenance as a class action.

CLAIMS FOR RELIEF

FIRST CLAIM FOR RELIEF

NEGLIGENCE

100. Plaintiffs incorporate the foregoing allegations as if fully set forth herein. This claim is asserted on behalf of Plaintiffs and all members of the Classes to the extent that their claims under this cause of action are not pre-empted by ERISA.

101. Based on its position as Managing Manager and Investment Manager of the Structured Alpha Funds, and the privity between AllianzGI and the Plaintiffs and the Classes established by the Subscription Agreements, PPMs, and LLC Agreements, AllianzGI owed a duty to exercise reasonable care in properly protecting the Structured Alpha Funds against severe market downturns, as described herein.

102. AllianzGI breached its duty to Plaintiffs and the Classes when it failed to execute and/or adhere to its stated investment strategy and mandate, including its put spread strategy, to provide structural risk protections to the Structured Alpha Funds to ensure protection from severe losses in any market environment.

103. AllianzGI breached its duty by ignoring or disregarding warning signs of increased market volatility during the first quarter of 2020, and/or the assumptions it had in place or the firm-level guidance from Allianz SE's chief economist.

104. AllianzGI breached it duty by failing to properly conduct stress tests to ensure that the Structured Alpha Funds could endure a rapid market downturn and/or low market liquidity, and/or disregarded the results of those tests.

105. AllianzGI breached its duty by failing to follow or adhere to risk management and controls in place for the Structured Alpha Funds.

106. AllianzGI breached its duty by negligently restructuring the Structured Alpha Funds, which locked in and exacerbated the losses suffered by the Structured Alpha Funds.

107. As a direct and proximate result of AllianzGI's wrongful conduct as described herein, Plaintiffs and the Classes have suffered actual damages in an amount to be proven at trial.

SECOND CLAIM FOR RELIEF

BREACH OF FIDUCIARY DUTY

108. Plaintiffs incorporate the foregoing allegations as if fully set forth herein. This claim is asserted on behalf of Plaintiffs and all members of the Classes to the extent that their claims under this cause of action are not pre-empted by ERISA.

109. AllianzGI was the Investment Manager and Managing Member of the Structured Alpha Funds and therefore owed a fiduciary duty to Plaintiffs and the Classes.

110. Further, based on AllianzGI's appointment as Plaintiffs' and the Classes' representative and attorney-in-fact, AllianzGI owed a fiduciary duty of loyalty and care to Plaintiffs and the Classes. AllianzGI therefore had a duty to act solely for the benefit of Plaintiffs and the Class and not make any decisions based on AllianzGI's self-interest or economic benefit.

111. AllianzGI had a fiduciary duty to Plaintiffs and the Classes to exercise the care, loyalty, skill and judgment that a reasonably prudent investment manager would exercise in a similar position, and under similar circumstances. AllianzGI was therefore obligated, among other things, to conduct stress testing that adequately evaluated whether the Structured Alpha Funds could survive in any market condition, including the market conditions which existed as described herein and respond accordingly, to appropriately restructure the Structured Alpha Funds' positions if the stress tests revealed vulnerabilities, to appropriately respond to market conditions, including those which existed as described herein, to respond appropriately to

weakening or failing Fund positions, to adhere to risk management and controls in place for the Structured Alpha Funds, and to execute the investment objectives and strategy of the Structured Alpha Fund for the benefit of the investors, rather than solely for the economic benefit of AllianzGI – all of which Allianz failed to do.

112. AllianzGI breached its fiduciary duty to Plaintiffs and the Classes by failing to execute and/or adhere to its stated investment strategy and mandate, including its put spread strategy, to provide structural risk protections to the Structured Alpha Funds to ensure protection from severe losses in any market environment.

113. AllianzGI breached its fiduciary duty to Plaintiffs and the Classes by ignoring and/or disregarding warning signs of increased market volatility during the first quarter of 2020, and/or the assumptions it had in place.

114. AllianzGI breached its fiduciary duty to Plaintiffs and the Classes by failing to conduct stress tests to ensure that the Structured Alpha Funds could endure a rapid market downturn and/or low market liquidity, or by disregarding the results of those tests.

115. AllianzGI breached its fiduciary duty to Plaintiffs and the Classes by restructuring the Structured Alpha Funds that locked in and exacerbated the losses suffered by the Structured Alpha Funds.

116. AllianzGI breached its fiduciary duty to Plaintiffs and the Classes by acting out of self-interest in attempting to salvage its own incentive, performance-based fees to the detriment of investors in the Structured Alpha Funds.

117. As a direct and proximate result of AllianzGI's wrongful conduct as described herein, Plaintiffs and the Classes have suffered actual damages in an amount to be proven at trial.

THIRD CLAIM FOR RELIEF

BREACH OF CONTRACT

118. Plaintiffs incorporate the foregoing allegations as if fully set forth herein. This claim is asserted on behalf of Plaintiffs and all members of the Classes to the extent that their claims under this cause of action are not pre-empted by ERISA.

119. Plaintiffs and the Classes entered into contracts with AllianzGI pursuant to the offering documents described above, including the Structured Alpha Agreements consisting of the PPM, Subscription Agreement and LLC Agreement.

120. The PPMs represented that the Structured Alpha Funds managed by AllianzGI, would use the investment strategies outlined above, including risk protection and controls and hedging strategies.

121. The LLC Agreements required AllianzGI, as investment manager and managing member of the Structured Alpha Funds, to invest the assets of the each of the Structured Alpha Funds pursuant to the terms of the PPMs and the investment strategies contained therein.

122. The LLC Agreements further provided that AllianzGI would be liable to the investors in each of the Structured Alpha Funds for "any acts or omissions" which were "made in bad faith" or that "constitute[d] willful misconduct or negligence."

123. The PPM for each of the Structured Alpha Funds provided that AllianzGI would "use its best efforts to discharge its duties consistent with the standard of care imposed on plan fiduciaries under Section 404(a)(1)(B) of ERISA," and thus AllianzGI was "required to exercise the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in like capacity and familiar with such matters would use in the conduct of an enterprise of a like character with like aims."

124. AllianzGI breached the terms of the agreements with Plaintiffs and the Classes by, among other things, and as described above, failing to adhere to and abandoning the investment strategy AllianzGI represented it would pursue, failing to build proper risk protections into the Structured Alpha Funds' portfolios, failing to implement or adhere to the risk management and controls it represented were in place – and which should have been in place, engaging in the actions taken by AllianzGI during the market downturn in the first quarter of 2020 to the detriment of the Structured Alpha Funds and their investors, including the failure to mitigate losses and to properly and imprudently restructuring the Structured Alpha Funds' positions, acting in its self-interests to increase and/or salvage its performance-based fees, and by concealing all of the foregoing from Plaintiffs and the Classes.

125. As a direct result of Defendant's wrongful conduct and breaches described herein, Plaintiffs and the Classes have suffered actual damages in an amount to be proven at trial.

FOURTH CLAIM FOR RELIEF

BREACH OF DUTY OF GOOD FAITH AND FAIR DEALING

126. Plaintiffs incorporate the foregoing allegations as if fully set forth herein. This claim is asserted on behalf of Plaintiffs and all members of the Classes to the extent that their claims under this cause of action are not pre-empted by ERISA.

127. To the extent that AllianzGI's acts and omissions, as alleged above, did not constitute breaches of its substantively identical contractual obligations to Plaintiffs and the members of the Classes under the Structured Alpha Agreements, AllianzGI's acts and omissions breached its implied duties of good faith and fair dealing to Plaintiffs and the other members of the Classes.

128. For example, AllianzGI breached its duties of good faith and fair dealing by, among other things, knowingly and recklessly exposing each Structured Alpha Fund and its investors to significant risk of catastrophic loss, and by abandoning the kind of prudent risk controls and hedging strategies that any reasonable investor (or reasonable fund manager) would have understood to be in place for an options-based fund like the Structured Alpha Funds were represented to be.

129. AllianzGI's culpable acts and omissions in failing to prudently manage the Structured Alpha Funds and adhere to reasonable risk management and hedging strategies were impliedly proscribed by the terms of the Structured Alpha Agreements for each Structured Alpha Fund. Moreover, AllianzGI's culpable acts and omissions, as alleged above, were not taken in good faith, but were instead motivated by AllianzGI's financial interest in trying to maximize its receipt of incentive fees from each Structured Alpha Fund (and, in March 2020, to avoid locking in losses that would trigger "high water mark" fee provisions that were highly adverse to AllianzGI's financial interests).

130. As a direct result of AllianzGI's breaches of its implied duties of good faith and fair dealing, Plaintiffs and the other members of the Class have suffered damages in an amount to be proven at trial.

FIFTH CLAIM FOR RELIEF

VIOLATION OF SECTION 404(a)(1)(B) OF ERISA

131. Plaintiff NEHCE incorporates the foregoing allegations as if fully set forth herein. This claim is asserted on behalf of all members of the Classes (including their named fiduciaries) that are employee benefit plans or otherwise subject to ERISA.

132. Plaintiff NEHCE brings this claim on behalf of all members of the Classes (including their named fiduciaries) that are employee benefit plans or otherwise subject to ERISA under ERISA §§ 502(a)(2), (a)(3), and 409(a) (29 U.S.C. §§ 1132(a), (a)(3), and 1109(a)).

133. Section 404(a)(1)(B) of ERISA states that "a fiduciary shall discharge his[/her] duties with respect to a plan solely in the interest of the participants and beneficiaries and . . . with the care, skill, prudence, and diligence under the circumstances then prevailing that a prudent [person] acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims." 29 U.S.C. § 1104(a)(1)(B).

134. AllianzGI agreed in the PPM that "for so long as the assets of the Fund are treated as 'plan assets' for purposes of ERISA, the Managing Member is a 'fiduciary,' as such term is defined by ERISA."

135. AllianzGI agreed in the LLC Agreement that "to the extent that the underlying assets of the Company constitute 'plan assets' within the meaning of ERISA . . . [AllianzGI], in its capacity as 'investment manager' of the Company . . . shall at all times discharge its duties consistent with the standard of care imposed on fiduciaries under ERISA and/or Section 4975 of the [Internal Revenue] Code."

136. In addition, AllianzGI agreed in the PPM that "[d]uring any such time that the assets of the Fund are not treated as 'plan assets' for purposes of ERISA . . . the Managing Member nevertheless will use its reasonable best efforts to discharge its duties consistent with the standard of care imposed on plan fiduciaries under Section 404(a)(1)(B) of ERISA."51

137. In the LLC Agreement, AllianzGI agreed to "[t]o the extent that the underlying assets of the Company do not constitute Plan Assets [under ERISA], Allianz Global Investors

U.S. LLC, in its capacity as 'investment manager' of the Company . . . shall at all times use its reasonable best efforts to discharge its duties consistent with the standard of care imposed on fiduciaries under Section 404(a)(1)(B) of ERISA."

138. The SA 1000, and upon information and belief, several other Structured Alpha Funds including, without limitation, the SA US Equity 250 and SA US Equity 500, held plan assets at all relevant times, in particular during the months of January, February, and March 2020, because benefit plan investors held more than 25% of the funds' equity interests during that time.

139. The investors' interests in the SA 1000, SA US Equity 250, and SA US Equity 500 Funds (and other Structured Alpha Funds) were not publicly-offered securities or securities issued by an investment company registered under the Investment Company Act of 1940. The SA 1000, SA US Equity 250, and SA US Equity 500 Funds were not operating companies, as defined by ERISA.

140. AllianzGI exercised authority and control respecting the management and disposition of the SA 1000, SA US Equity 250, and SA US Equity 500 Funds' underlying assets (and the assets of other Structured Alpha Funds).

141. As per the terms of the Structured Alpha Agreements, AllianzGI owed Plaintiff New England Heath Care Employees and all members of the Classes (including their named fiduciaries) that are employee benefit plans or otherwise subject to ERISA a duty pursuant to Section 404(a)(1)(B) to, among other things, discharge its duties with the "care, skill, prudence, and diligence under the circumstances then prevailing that a prudent man acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims."

142. AllianzGI violated this duty of prudent care by failing to act as a prudent fiduciary would in like circumstances, as described more fully at length above. In particular, AllianzGI:

a. failed to de-risk the Structured Alpha Funds portfolio by liquidating or reducing risky positions, including its positions in short SPX put options and short VIX and VXX call options;

b. failed to adhere to its explicit strategy whereby the Structured Alpha Funds operates as a "net buyer" of put options rather than selling such contracts;

c. failed to implement and/or abandoned the hedging strategy designed to minimize loss and maximize profits even during sharp market downturns;

d. failed to conduct adequate stress tests, risk assessments, and real-time monitoring of positions, or at least heed the data produced by these activities if they were conducted;

e. sought to maximize its own profits (and acted out of its own self-interest) by unreasonably assuming directional risk and in the process putting Plaintiff New England Health Care Employees and all members of the Classes (including their named fiduciaries) that are employee benefit plans or otherwise subject to ERISA at unreasonable risk of loss; and

f. concealed material information from the Plaintiff New England Health Care Employees and all members of the Classes (including their named fiduciaries) that are employee benefit plans or otherwise subject to ERISA, including the failure to implement and/or abandonment of the Structured Alpha Funds' investment strategy and risk controls, causing the

Structured Alpha Funds to take and/or maintain positions in contravention of the Structured Alpha Funds' investment strategy and risk controls and governance, and that AllianzGI's conduct was self-interested and counter to the best interests of the Structured Alpha Funds, Plaintiff New England Health Care Employees and the members of the Classes (including their named fiduciaries) that are employee benefit plans or otherwise subject to ERISA.

143. As a direct result of AllianzGI's violation of Section 404(a)(1)(B) of ERISA, Plaintiff New England Health Care Employees and all members of the Classes that are employee benefit plans or otherwise subject to ERISA, suffered actual damages in an amount to be determined at trial.

SIXTH CLAIM FOR RELIEF

VIOLATION OF SECTION 406 OF ERISA

144. Plaintiff NEHCE incorporates the foregoing allegations as if fully set forth herein. This claim is asserted, as applicable, on behalf of all members of the Classes (including their named fiduciaries) that are employee benefit plans or otherwise subject to ERISA.

145. Plaintiff NEHCE brings this Claim under ERISA §§ 502(a)(2), (a)(3), and 409(a) (29 U.S.C. §§ 1132(a)(2), (a)(3), and 1109(a)) on behalf of all members of the Class (including their named fiduciaries) that are employee benefit plans or otherwise subject to ERISA.

146. A fiduciary may not engage in certain prohibited transactions under ERISA § 406(b) (29 U.S.C. § 1106(b)). For instance, a fiduciary "shall not deal with the assets of the plan in his own interest or for his own account."

147. AllianzGI violated ERISA § 406(b) (29 U.S.C. § 1106(b)), including by managing NEHCE's assets in its own self-interest and not for the exclusive purpose of providing benefits to NEHCE's participants and beneficiaries. AllianzGI managed the Structured Alpha Funds to maximize its own fees—adding excess and undisclosed risk to the portfolio in the process—rather than for the sole interest of safeguarding NEHCE's investment. AllianzGI did so at least by constructing the portfolio to be largely unhedged in the January and February 2020 timeframe and then, when the market declined in February and March 2020, adding more risk to the portfolio to chase return (and thus fees) rather than safeguarding the Trust's investment.

148. As a direct result of AllianzGI's violations of ERISA § 406(b) (29 U.S.C. § 1106(b)), Plaintiff NEHCE and all members of the Classes that are employee benefit plans or otherwise subject to ERISA, suffered actual damages in an amount to be determined at trial suffered devastating losses, with the exact amount to be proven at trial. AllianzGI's violations also caused it to earn substantial fees and profits.

PRAYER FOR RELIEF

WHEREFORE, Plaintiffs, on behalf of themselves and the proposed Classes and Subclasses, respectfully requests relief as follows:

A. An order certifying this action and the Class and Subclasses requested herein as a class action, designating Plaintiffs as the representatives of the Class and Subclasses, and appointing Plaintiffs' counsel as counsel to the Class and Subclasses;

B. An order declaring that Defendant's actions constitute: (i) negligence; (ii) breach of fiduciary duty; (iii) breach of contract; (iv) breach of duty of good faith and fair dealing; (v) breach of fiduciary duty under ERISA; and (vi) prohibited transactions under ERISA, and that Defendant is liable to Plaintiffs and the Class and Subclasses, as described herein, for damages arising therefrom;

C. A judgment awarding Plaintiffs and members of the Class and Subclasses all appropriate damages, in an amount to be determined at trial;

D. An accounting and disgorgement of fees and profits, in an amount to be proven at trial, together with interest, in connection with Defendant's violation of ERISA's prohibited transaction provisions;

A judgment awarding equitable, injunctive, and/or declaratory relief as may be appropriate;

E. A judgment awarding Plaintiffs and the Class and Subclasses prejudgment and post-judgment interest, as permitted by law;

F. A judgment awarding Plaintiffs and the Class and Subclasses costs and fees, including attorneys' fees and costs under ERISA § 502(g) (29 U.S.C. § 1132(g)) and as otherwise permitted by law; and

G. Grant such other legal, equitable or further relief as the Court may deem just and proper.

DEMAND FOR JURY TRIAL

Plaintiffs demand a trial by jury for all issues so triable.

Dated: December 24, 2020

Respectfully submitted,

SILVER GOLUB & TEITELL LLP

/s/ David S. Golub

David S. Golub
Steven L. Bloch
Ian W. Sloss
SILVER GOLUB & TEITELL LLP
184 Atlantic Street
Stamford, CT 06901
Telephone: (203) 325-4491
Facsimile: (203) 325-3769
dgolub@sgtlaw.com
sbloch@sgtlaw.com
isloss@sgtlaw.com

Attorneys for Plaintiffs