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Crocus investors take off the gloves

Class action could seek $100-million

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Shareholders of Manitoba's embattled Crocus Investment Fund plan to launch a class-action lawsuit next week that is expected to seek more than $100-million in damages.

Crocus was put into receivership last month by the Manitoba Securities Commission amid a flurry of investigations, including a criminal probe by the RCMP. The 15-year-old fund, once one of the largest labour-sponsored investment funds in Canada, had about 34,000 shareholders.

The lawsuit is expected to name a dozen former Crocus officers and directors as well as PricewaterhouseCoopers LLP, Crocus's auditor, and Wellington West Capital Inc., the fund's lead broker. They have all denied any wrongdoing.

"The lawsuit is huge," said Bernie Bellan, a Winnipeg mailman who leads a shareholders' group. "I expect the figure to be well over $100-million."

Harvin Pitch, a Toronto lawyer heading the class action, said the lawsuit will raise issues that could affect other labour-sponsored funds. "The issues involve the management and operation of a labour investment fund," he said yesterday. He declined to provide details on the suit but said the role of the Crocus board will be one of the key issues.

Crocus was created by the Manitoba government and the Manitoba Federation of Labour (MFL) to invest in small and medium-size businesses. In return for buying shares, investors received hefty provincial and federal tax credits.

The fund prided itself on having "multiple bottom lines," which included job creation and community development in addition to generating returns for shareholders. At its peak, Crocus had $174-million in assets and investments in 60 businesses, including the Manitoba Moose hockey team and the Winnipeg Goldeyes baseball club.

In December, Crocus suspended the sale of its shares amid concerns about the value of its portfolio. The value has since been slashed to $66.6-million. The fund's share price, set by Crocus managers, reached a high of $15.39 in 2000, and stood at $10.45 in December when the fund suspended trading. It is not clear how much the shares are worth now.

Al Rosen, a Toronto-based forensic accountant who is working on the class action, said the accounting issues in the Crocus case are significant.

"People should watch the Crocus case evolve very carefully because of the implications," he said yesterday.

The lawsuit will likely incorporate many of the allegations made in a 245-page report filed in May by Manitoba's Auditor-General, Jon Singleton.

That report included allegations of improper accounting, lax valuation, exorbitant personal expenses and virtually no oversight by Crocus directors.

The fund "did not have in place the necessary leadership, the necessary structure, the necessary culture and the necessary processes to handle the planning, growth, monitoring and exiting of the investment portfolio," the report said.

Crocus's former chief executive officer Sherman Kreiner has strongly rejected the Auditor-General's allegations. Mr. Kreiner, 52, ran the fund from its inception until just before it stopped trading.

"I guess I think that this fund, from the day that I started until the day that I left, had a series of objectives that it was trying to achieve, and I think it did a very good job in achieving those multiple objectives," he said in an interview.

He added that the Auditor-General had an obligation to conduct his review fairly and with proper due diligence, "and I'm very disappointed because I just don't think that occurred here."