

Bond Case Briefs

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BOND FUND - NEW YORK

In Re Easterly Rocmuni High Income Municipal Bond Fund

United States District Court, S.D. New York - August 17, 2026 - Slip Copy - 2026 WL 2392343

A putative class action arose from the collapse of the Easterly ROCMuni High Income Municipal Bond Fund (the "Fund"), an open-end mutual fund invested in tax-exempt debt securities, the majority of which were colloquially termed junk bonds.

The lead Plaintiff alleged that the Fund and the other defendants violated strict liability and control person provisions in the Securities Act of 1933 ("Securities Act") and the Exchange Act of 1934 ("Exchange Act") by misrepresenting or omitting material facts in registration statements and other SEC filings. The statements at issue concerned the Fund's liquidity, valuation practices, investments in defaulted securities, and concentration in related businesses.

The Fund was registered as an open-end mutual fund. The Fund's primary objective was to generate tax-exempt income by investing at least eighty percent (80%) of its net assets in municipal securities. The Fund's portfolio included high-yield, below-investment-grade, unrated debt or junk bonds.

An open-end mutual fund calculates a net asset value ("NAV") for its shares each business day and must be able to satisfy shareholder redemption requests. To guarantee that a fund has sufficient liquidity to do so, SEC Rule 22e-4 prohibits a fund from acquiring an illiquid investment if, "immediately after the acquisition," more than 15% of its net assets would consist of illiquid investments. The Rule defines an "illiquid investment" as an investment that a fund "reasonably expects cannot be sold or disposed of in current market conditions in seven calendar days or less without the sale or disposition significantly changing the market value of the investment." If a fund holds more than 15% of its net assets in illiquid investments then the fund is required to take steps that include developing a program "to bring its illiquid investments that are assets to or below 15% of its net assets within a reasonable period of time."

On December 29, 2025 the Fund was liquidated and dissolved. Litigation ensued. Plaintiff filed a Second Amended Complaint ("SAC") and Defendants moved to dismiss.

On Defendant's Motion to Dismiss, the United States District Court, S.D. New York, held that:

Liquidity: The SAC plausibly alleged that the Fund's representations in its SEC filings regarding illiquid investments were false. It identified securities which put the Fund's portfolio over the 15% limit throughout the Class Period, securities which exhibited numerous characteristics that it alleged are indicative of illiquidity. Among other things, many of the securities traded infrequently, lacked active secondary markets, were privately placed, were concentrated among relatively few holders, were valued using significant unobservable inputs, and, where contemporaneous market transactions occurred, traded at prices materially below the Fund's reported values.

Drawing all reasonable inferences in Plaintiff's favor, the SAC plausibly alleged that the challenged

securities met the Fund's definition of an illiquid investment throughout the Class Period.

Valuation: The registration statements and prospectuses represented that the Fund's assets were "generally valued at their market price on the valuation date and are based on valuations provided by independent pricing services consistent with the Trust's valuation procedures." When "market prices are not readily available," the fair value is "determined under fair value pricing procedures approved by the Board."

The SAC alleged that those representations were misleading in two respects. First, they failed to inform investors that pricing services disregarded odd-lot transactions, even though odd-lot transactions may be the only indicator of market sentiment for distressed issuers or bonds. Second, they also failed to explain that the Board's procedures were materially defective, as shown by its overvaluation of a particular holding.

The court granted Defendants' motion to dismiss this theory of liability. The court found that the SAC did not plead that the Fund misidentified the two sources from which it took its valuations — either pricing services or the Fund's own valuation procedures — or that it failed to apply the valuations given by those two sources. While the SAC complained that the valuation methodologies applied by the pricing services and by the Fund were deficient, that complaint did not allege a false statement in the SEC filings.

Defaulted Securities: The SAC alleged that, having undertaken to identify defaulted portfolio holdings in the incorporated financial statements, Defendants omitted other securities that were likewise in default. Accepting those allegations as true, Plaintiff plausibly alleged that the Fund's descriptions of its defaulted holdings were materially misleading.

Timeliness of the Securities Act Claims: The court held that the Class Period began on July 29, 2022, less than three years before this action was filed on July 24, 2025. Defendants relied instead on the one-year limitations period.

In putative class action brought by investors in a is denied to the extent those Securities Act claims rest on alleged misrepresentations that the Fund will not hold more than 15% of its net assets in illiquid investments and its understatement of its exposure to distressed assets.