

02 CV 8855

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JUDGE KAPLAN

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

SECURITIES AND EXCHANGE COMMISSION,

Plaintiff,

NOV - 7 2002

U.S.D.C. S.D. N.Y.

Civ. ____ () ()

v.

COMPLAINT

BEACON HILL ASSET MANAGEMENT LLC,
A Delaware limited liability company,

Defendant,

and

BEACON HILL MASTER, LTD., a Cayman Islands
entity; **BRISTOL FUND, LTD.,** a Cayman Islands
entity; **SAFE HARBOR FUND L.P.,** a New Jersey
limited partnership and its general partner, **SAFE**
HARBOR ASSET MANAGEMENT LLC, a New
Jersey limited liability company; **MILESTONE**
PLUS PARTNERS L.P., a Delaware limited partnership,
and its general partner, **MILESTONE GLOBAL**
ADVISORS, L.P., a Delaware limited partnership,

Relief Defendants

Plaintiff Securities and Exchange Commission ("Commission"), for its Complaint
against Beacon Hill Asset Management LLC ("Defendant"), Beacon Hill Master, Ltd.,
Bristol Fund, Ltd., Safe Harbor Fund L.P. and its general partner, Safe Harbor Asset

Management LLC, and Milestone Plus Partners L.P. and its general partner, Milestone Global Advisors, L.P. (collectively “Relief Defendants”), alleges the following:

NATURE OF THE ACTION

1. The Commission brings this action against the Defendant, which provided false or misleading information to investors about the value and performance of certain investment funds that it managed, in violation of the federal securities laws. The Defendant, a hedge fund manager, failed to disclose that its published values for its hedge funds materially overstated the values of its funds. This occurred in the summer and fall of 2002 as the master fund in which the hedge funds invested all their assets suffered massive portfolio losses.

2. By engaging in such conduct, Beacon Hill has violated, and unless enjoined, will continue to violate, Section 206(2) of the Investment Advisers Act of 1940 (“Advisers Act”), 15 U.S.C. § 80b-6.

3. The Commission brings this action pursuant to Sections 209(d) and (e) of the Advisers Act, 15 U.S.C. § 80b-9(d) and (e), to preliminarily and permanently enjoin the Defendant from engaging in the conduct alleged in this Complaint. The Commission also seeks a final judgment ordering the Defendant to disgorge ill-gotten gains, if any, including management fees or payments earned as a result of any conduct alleged herein, and civil money penalties pursuant to Section 209(e) of the Advisers Act.

4. The Commission also seeks other interim and equitable relief during the pendency of this action, including an order

a. requiring the Defendant and the Relief Defendants to report to the Court

and the Commission within 10 days that the management of the funds and their assets have been transferred to a new investment manager independent of the Defendant;

b. prohibiting (i) extraordinary payments, (ii) distributions, withdrawals or redemptions from the funds, or (iii) payments to the Defendant, the Defendant's principals, or the Defendant's current or former members without further order of the court;

c. requiring regular reporting to the Court, investors and the Commission on the status of the funds and efforts to wind them down, if any; and

d. prohibiting the destruction of documents.

JURISDICTION

5. This Court has jurisdiction over this action pursuant to Section 214 of the Advisers Act, 15 U.S.C. § 80b-14.

6. The Defendant, directly and indirectly, singly and in concert, has made use of the means and instrumentalities of transportation or communication in, or the instrumentalities of, interstate commerce, or of the mails in connection with the transactions, acts, practices and courses of business alleged in this Complaint.

7. Certain of the transactions, acts, practices and courses of business occurred within the Southern District of New York, including the purchase or sale of investments and the use of the mails or wires in connection with investments in this district. In addition, the funds managed by the Defendant are currently maintained by a custodian in this district.

8. Unless it is enjoined, the Defendant will continue to engage in the transactions, acts, practices and courses of business alleged herein, and in transactions, acts, practices, and courses of business of a similar type and object.

THE DEFENDANT AND THE RELIEF DEFENDANTS

9. **DEFENDANT BEACON HILL ASSET MANAGEMENT LLC** is a limited liability company organized under the laws of Delaware. During the relevant period, the Defendant was the investment manager for the hedge funds, Bristol Fund, Ltd., Safe Harbor Fund L.P. and Milestone Plus Partners L.P., in addition to a “master fund” described below, in which the foregoing funds invest all their assets. The Defendant is not registered with the Commission as an investment adviser.

10. **BRISTOL FUND, LTD.** (“Bristol”), is an exempted company with limited liability incorporated under the laws of the Cayman Islands.

11. **SAFE HARBOR FUND L.P.** (“Safe Harbor”) is a New Jersey limited partnership. Its general partner is Safe Harbor Asset Management LLC, a New Jersey limited liability company owned 99% by Beacon Hill Asset Management LLC.

18. **MILESTONE PLUS PARTNERS L.P.** (“Milestone”) is a Delaware limited partnership. Its general partner is Milestone Global Advisors L.P., a Delaware limited partnership. The general partner of Milestone Global Advisors L.P. is Milestone Fund Manager, Inc., a Delaware corporation.

13. **BEACON HILL MASTER, LTD.** (“Beacon Hill Master”) is an exempted company incorporated under the laws of the Cayman Islands. Beacon Hill Master is a “master fund” that conducts the trading activities of three “feeder funds,” Bristol, Safe Harbor and Milestone.

FACTS

Defendant Controlled the Hedge Funds

14. During the relevant period, the Defendant was the investment manager of

three hedge funds, Bristol, Safe Harbor and Milestone. The Defendant conducted the trading activities of these funds through a “master fund” known as Beacon Hill Master (collectively, the “Funds”). The Defendant had sole authority and discretion to effect securities transactions for the Funds. The Funds’ declared primary investment objective is to invest in a portfolio of fixed-income securities (including variable rate securities) on a leveraged basis in a manner that is intended to emphasize the preservation of capital and that attempts to yield high investment returns. The Funds used hedging strategies to mitigate the effects of interest rate movements on the value of the portfolio, and used substantial leverage to increase returns.

15. The Defendant invested principally in mortgage-backed securities on a leveraged basis. The value of mortgage-backed securities depends critically on movements in interest rates as well as the speed at which the individual mortgages underlying the securities are prepaid due to re-financing or other causes. While mortgage-backed securities paying investors a fixed rate of interest generally increase in value as interest rates decline, this effect may be partly or fully offset by an increase in prepayments.

16. In addition, the Defendant transacted in Treasury securities, establishing, *inter alia*, “short” positions that offset the interest rate exposure associated with long positions in mortgage-backed securities paying a fixed coupon.

17. During the period June 1, 2002 through September 30, 2002, Treasury securities increased in price as interest rates fell to their lowest point in almost 40 years. As a result, investors who sold Treasury securities short during this period lost money on these transactions. In addition, mortgage re-financings

increased with falling interest rates, which depressed the prices of many mortgage-backed securities. The rate of re-financings increased to a record high in September 2002.

**Defendant Failed to Disclose That Its Published Values
Materially Misrepresented the Value and Performance Of the Funds**

18. Defendant failed to disclose that its published values for its hedge funds materially misrepresented the Funds' net asset values ("NAVs") and corresponding returns to investors and potential investors for at least the periods ending July 31, August 31 and September 30, 2002, in the following manner:

a. The Defendant represented to investors via e-mail that as of July 31, 2002, the year-to-date net returns for the Bristol and Safe Harbor funds were 8.78% and 8.76%, respectively.

b. The Defendant represented to investors via e-mail that as of August 31, 2002, the year-to-date net returns for the Bristol and Safe Harbor funds were 9.5% and 9.48%, respectively.

c. The Defendant represented to TASS Research, a hedge fund database utilized by hedge fund investors and potential investors, that the estimated value of the assets managed in the Bristol fund, the Safe Harbor fund and the Milestone fund as of July 31, 2002 were \$587 million, \$137 million and \$24.1 million, respectively.

d. The Defendant represented to TASS Research that the estimated value of the assets managed in the Bristol fund and the Safe Harbor fund, as of August 31, 2002, were \$594 million and \$138.8 million, respectively.

e. On or about October 8, 2002, the Defendant represented to its

investors via e-mail that the NAVs of the Bristol and Safe Harbor funds declined by an estimated 25% in September.

19. During September 2002, the Defendant met with its prime securities broker, Bear, Stearns & Co., Inc. (“Bear, Stearns”), to discuss extended financing and to complete Bear, Stearns’ annual credit review of the Defendant. As part of those discussions, the Defendant advised Bear, Stearns that the NAVs of the Funds were approximately \$756 million.

20. On October 1, 2002, Bear, Stearns provided the Defendant via e-mail its calculation of the net exposure of the Funds’ assets it held, pursuant to their negotiations regarding extended financing. This represented Bear, Stearns’ estimate that the Funds’ assets it held had a total net equity value of \$256.9 million. Bear, Stearns advised the Defendant that the Defendant’s NAV was larger than Bear, Stearns’ calculations. At the time, Bear, Stearns was the prime broker and custodian of most, but not all, of the Funds’ assets.

21. It was not until October 17, 2002 that the Defendant disclosed much greater losses than it had previously reported. On that day, the Defendant disclosed to investors that, as of September 30, 2002, the NAVs for the Bristol and Safe Harbor funds had declined by 54% from the reported NAVs as of August 31, 2002. The larger decline was based on an analysis using a combination of prices from an independent pricing service, valuations from Bear, Stearns, and dealer quotations. The Defendant informed investors that a portion of the Funds’ losses occurred prior to August 31, 2002.

22. In fact, the initially reported NAVs and corresponding net returns for the periods ending July 31, 2002, August 31, 2002 and September 30, 2002 were overstated in material amounts.

23. The Defendant knew or should have known that its previously reported NAVs and corresponding returns were materially overstated, and losses in the Funds were materially understated.

24. From July through September 2002, investors made numerous subscriptions to and redemptions from the Funds.

25. The Relief Defendants either possess or have some control over assets or proceeds related to the underlying violations of the federal securities laws alleged in this complaint against the Defendant.

FIRST CLAIM

Violations of Section 206(2) of the Investment Advisors Act

26. Paragraphs 1 through 25 are re-alleged and incorporated as if fully set forth herein.

27. The Defendant acted as investment adviser to the Funds. For compensation, it engaged in the business of advising the Funds, directly and through publications and writings, as to the value of securities and as to the advisability of investing in, purchasing, or selling securities.

28. The Defendant, by the use of the mails or any means or instrumentality of interstate commerce, directly or indirectly, engaged in transactions, practices or courses of business which operated as a fraud or deceit upon the Funds and investors in the Funds.

29. By reason of the foregoing, the Defendant violated Sections 206(2) of the Advisers Act.

30. The Relief Defendants are sued in this action to enable the Court to provide complete interim and final relief on the Commission's claim against the defendant.

PRAYER FOR RELIEF

WHEREFORE, the Plaintiff respectfully requests that this Court enter a Final Judgment:

1. Finding that the Defendant has violated Section 206(2) of the Advisers Act, 15 U.S.C. § 80b-6;

2. Permanently enjoining the Defendant from violating Section 206(2) of the Advisers Act, 15 U.S.C. § 80b-6;

3. Ordering the Defendant to disgorge ill-gotten gains, if any;

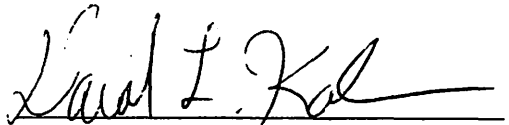
4. Ordering the Defendant to pay a civil money penalty, pursuant to Section 209(e) of the Advisers Act, for its violations of the federal securities laws as alleged herein; and

5. (a) Ordering Defendant and the Relief Defendants to report to the Court and the Commission within 10 days that the management of the funds and their assets have been transferred to a new investment manager independent of the Defendant; (b) prohibiting Defendant or Relief Defendants from making (i) extraordinary payments, (ii) distributions, withdrawals or redemptions from the funds, or (iii) payments to the Defendant, the Defendant's principals, or the Defendant's current or former members without further order of the court; (c) requiring Defendant and Relief Defendants to make regular reports to the Court, investors and the Commission on the status of the funds and

efforts to wind them down, if any; and (d) prohibiting Defendant from destroying any document or record relevant to this action throughout the pendency of this action.

5. Granting such further and other relief as the Court may deem just and equitable.

Dated: November 7, 2002



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