

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 6120 / September 12, 2022

ADMINISTRATIVE PROCEEDING
File No. 3-21062

In the Matter of

**Hudson Advisors L.P. and
Lone Star Global Acquisitions,
Ltd.**

Respondents.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 203(k) OF THE INVESTMENT
ADVISERS ACT OF 1940, MAKING
FINDINGS, AND IMPOSING A CEASE-
AND-DESIST ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against Hudson Advisors L.P. (“Hudson”) and Lone Star Global Acquisitions, Ltd. (“Lone Star Global” together with Hudson, “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing a Cease-And-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondents’ Offer, the Commission finds¹ that:

¹ The findings herein are made pursuant to Respondents’ Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

A. SUMMARY

1. From at least 2005 through 2017, registered investment advisers Hudson and Lone Star Global failed to fully disclose Hudson's practice for calculating and charging certain fees. Hudson charged \$54.6 million in incremental and undisclosed fees to at least fourteen private equity funds that Hudson and Lone Star Global advised (the "Lone Star Funds").

2. Hudson and Lone Star Global provided investment advisory services to the Lone Star Funds in exchange for certain fees. Hudson also provided certain services, including ancillary and underwriting services, for which it charged fees to the Lone Star Funds on a cost plus margin basis. As a limited partnership, U.S. tax liability on Hudson's income was payable by its founder rather than by Hudson. Hudson was owned by its founder or trusts for his family. Between at least 2005 and 2017, Hudson included as a cost component of its ancillary and underwriting fees the anticipated U.S. income tax liability of its founder attributed to Hudson's income from those fees. During that time period, Hudson and Lone Star Global never disclosed the inclusion of this cost component, or the basis for it, to the Lone Star Funds or to investors in the Lone Star Funds. Hudson and Lone Star Global also failed to implement policies and procedures reasonably designed to prevent violations of the Advisers Act in connection with conflicts of interest and disclosure of fees charged to advisory clients.

3. Through this conduct, Hudson and Lone Star Global violated Sections 206(2) and 206(4) of the Advisers Act and Rules 206(4)-7 and 206(4)-8 thereunder.

B. RESPONDENTS

4. **Hudson Advisors** is a Delaware limited partnership with its principal place of business in Dallas, Texas. Hudson Advisors is a registered investment adviser, relying on Hudson Americas L.P.'s registration with the Commission as an investment adviser. Hudson Advisors is the parent of Hudson Americas. Hudson has been registered with the Commission since January 6, 2011. Hudson, in exchange for a fee negotiated with Lone Star Global on behalf of the Lone Star Funds, provides asset management, ancillary, and underwriting services to the Lone Star Funds.

5. **Lone Star Global** is a Bermuda exempted limited company with its principal office located in Bermuda and executive officers located in Dallas, Texas. Lone Star Global is a registered investment adviser, relying on Lone Star Americas Acquisitions, Inc.'s registration with the Commission as an investment adviser. Lone Star Americas Acquisitions, Inc. is an affiliate of Lone Star Global. Lone Star Global is a private equity firm that advises and services the Lone Star Funds, either directly or through affiliate companies.

C. FACTS

Background

6. Each Lone Star Fund is generally structured as a limited partnership organized in the U.S. under state law and a corresponding exempted limited partnership formed in Bermuda, and is a “pooled investment vehicle” as defined in Rule 206(4)-8 under the Advisers Act. The Lone Star Funds’ limited partnership agreements (“LPAs”) granted Lone Star Global the authority to provide services to the Lone Star Funds. Lone Star Global, either directly or through affiliate companies, provided investment advisory and other services to the Lone Star Funds. Hudson, a related entity to Lone Star Global,² provided services to the Lone Star Funds in exchange for certain specified fees. Hudson’s provision of these services was detailed in the Lone Star Funds’ limited partnership agreements with Lone Star Fund investors as well as in services agreements between Hudson and the Lone Star Funds.

7. One segment of services that Hudson provided to the Lone Star Funds was “ancillary and underwriting services.” These services included legal, compliance, audit, accounting, administration and periodic reporting, cash management, hedging, tax, risk management advice, operating company oversight, information technology development, and related services, and underwriting and other in-house diligence services. Hudson charged fees for these services to the Lone Star Funds based on an hourly billing rate and a 10% “cost plus” margin. As a limited a partnership, U.S. tax liability on Hudson’s income was payable by its founder rather than by Hudson..

Hudson and Lone Star Global Charged Certain Undisclosed Fees to the Lone Star Funds and Made Material Omissions Concerning Fees to Fund Investors

8. From at least 2005 through 2017, Hudson’s 10% margin for ancillary and underwriting services fees was applied on an after-tax basis. To achieve this, Hudson included, as a cost component of ancillary and underwriting services fees, its founder’s anticipated U.S. income tax liability attributable to Hudson’s income from those fees. This anticipated tax liability was included in the calculation of the billable rates for ancillary and underwriting services fees charged to the Lone Star Funds. During this period, Hudson charged approximately \$54.6 million to the Lone Star Funds attributable to its founder’s anticipated U.S. income tax liability payable on Hudson income from the ancillary and underwriting fees. As Hudson’s founder’s anticipated tax liability on the income from ancillary and underwriting fees changed, that change was reflected in the amount of ancillary and underwriting services fees charged.

9. The Lone Star Fund’s LPAs, Hudson’s services agreements, and Lone Star Fund disclosure documents did not disclose that Hudson charged, as a component of its ancillary and underwriting fees, its founder’s anticipated U.S. income taxes on Hudson’s income from those fees. Hudson and Lone Star Global failed to disclose to the Funds’ Limited Partnership Advisory

² The Chairman of Lone Star Global owned, at the time of the conduct herein, 100% of Lone Star Global’s common shares. He is also the founder of Hudson, and at the time of the conduct described herein, Hudson was owned by him or by vehicles for his family’s benefit.

Committees (“LPACs”) the practice of charging, as a component of its ancillary and underwriting fees, Hudson’s founder’s anticipated U.S. income taxes on Hudson’s income from those fees, which was a conflict of interest. As investment advisers, Hudson and Lone Star Global were not authorized to charge this fee component without fair and full disclosure to the Lone Star Funds.

10. Hudson and Lone Star Global disclosed, in the Lone Star Funds’ annual audited financial statements, the total amount of ancillary and underwriting fees charged to the Funds, but did not disclose the cost component relating to Hudson’s founder’s anticipated U.S. income tax liability related to those fees in the audited financial statements, due diligence questionnaires, in LPAC meetings, or in other disclosures to Lone Star Fund investors during at least 2005 through 2017. Disclosures made during this period by Hudson and Lone Star Global regarding the calculation of ancillary and underwriting fees omitted the material information that Hudson included, as a cost component in the fees, Hudson’s founder’s anticipated U.S. income tax liability attributed to those fees. Hudson and Lone Star Global were negligent in failing to disclose this cost component in Hudson’s ancillary and underwriting fees to the Lone Star Fund investors.

Hudson and Lone Star Global Stopped the Undisclosed Fee Practice in 2018

11. In July 2018, Hudson and Lone Star Global undertook an internal review of fee practices and related disclosures. In December 2018, Hudson and Lone Star Global informed Hudson’s founder about the practice at issue, and he directed Hudson to end the practice, effective January 1, 2018. There is no indication that Hudson’s founder was aware of the practice prior to this review.

12. In fall 2020, Hudson’s founder reimbursed the affected Lone Star Funds for the portion of the ancillary and underwriting fees attributable to the tax component. This reimbursement, totaling \$64.7 million, included \$54.6 million of the tax component with 10% margin and \$10.1 million in interest. Lone Star Global disclosed the reimbursement in a LPAC meeting in December 2020 and again in audited financial statements for the applicable Lone Star Funds in March 2021.

13. Hudson and Lone Star Global’s internal review, the decision to end the practice, and the reimbursement occurred prior to any contact with the Commission’s staff in this investigation. In August 2022, Hudson and Lone Star Global made additional disclosures to investors and Hudson’s founder paid an additional \$3.8 million of interest to the affected Lone Star Funds.

Hudson and Lone Star Global Failed To Implement Policies and Procedures Reasonably Designed to Prevent Violations of the Advisers Act and Rules Thereunder

14. Despite the practice of including Hudson’s founder’s anticipated U.S. income tax liability on ancillary and underwriting fee income as a cost component included in those fees, Hudson and Lone Star Global did not implement written policies or procedures reasonably designed to prevent violations of the Advisers Act or its rules arising from the conflict of interest associated with the undisclosed fee practice.

15. In 2019 and in 2020, Hudson and Lone Star Global undertook voluntary efforts to enhance their compliance policies by: (a) revising and enhancing their fees and expenses policies; (b) conducting an internal compliance assessment to confirm allocation of fee and expense-related responsibilities prescribed by the new policies; (c) establishing a formal fees and expenses working group; (d) establishing a formal fees and expenses monitoring program within the compliance department; (e) conducting a compliance review of historical Hudson fee agreements; and (f) instituting recurring reviews of new Hudson fee agreements.

D. VIOLATIONS

16. As a result of the conduct described above, Hudson and Lone Star Global violated Sections 206(2) and 206(4) of the Advisers Act and Rules 206(4)-7 and 206(4)-8 thereunder.

E. HUDSON AND LONE STAR GLOBAL'S REMEDIAL EFFORTS

17. In determining to accept the Offer, the Commission considered the remedial measures and reimbursements undertaken by Respondents described above.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondents' Offer.

Accordingly, pursuant to Section 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondents Hudson and Lone Star Global cease and desist from committing or causing any violations and any future violations of Sections 206(2) and 206(4) of the Advisers Act and Rules 206(4)-7 and 206(4)-8 thereunder.

B. Respondents shall within ten (10) days of the entry of this Order, pay, jointly and severally, a civil money penalty in the amount of \$11,200,000 to the Securities and Exchange Commission. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Hudson and Lone Star Global as Respondents and the file number in this proceeding. A copy of the cover letter and confirmation of the check or money order must also be sent to Eric Werner, Division of Enforcement, Securities and Exchange Commission, 801 Cherry Street, Suite 1900, Fort Worth, TX 76102.

C. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary