

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 9481 / November 20, 2013

SECURITIES EXCHANGE ACT OF 1934
Release No. 70908 / November 20, 2013

INVESTMENT ADVISERS ACT OF 1940
Release No. 3720 / November 20, 2013

INVESTMENT COMPANY ACT OF 1940
Release No. 30802 / November 20, 2013

ADMINISTRATIVE PROCEEDING
File No. 3-15617

In the Matter of

LARRY C. GROSSMAN
and GREGORY J.
ADAMS,

Respondents.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-
AND-DESIST PROCEEDINGS
PURSUANT TO SECTION 8A OF THE
SECURITIES ACT OF 1933,
SECTIONS 15(b) AND 21C OF THE
SECURITIES EXCHANGE ACT OF
1934, SECTIONS 203(f) AND 203(k) OF
THE INVESTMENT ADVISERS ACT
OF 1940, AND SECTION 9(b) OF THE
INVESTMENT COMPANY ACT OF
1940**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”), Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), and Section 9(b) of the Investment Company Act of 1940 (“the Company Act”) against Larry C. Grossman (“Grossman”) and Gregory J. Adams (“Adams”) (collectively “Respondents”).

II.

After an investigation, the Division of Enforcement alleges that:

A. RESPONDENTS

1. Grossman, age 58, resides in Tarpon Springs, Florida, and was the founder, managing partner, and sole owner of Sovereign International Asset Management, Inc. (“Sovereign”) until October 2008, when he sold Sovereign, along with related entities, to Adams. Grossman previously held a number of securities licenses, all of which lapsed prior to the conduct at issue. Grossman is currently the principal manager of Sovereign International Pension Services, Inc., an IRA administrator (“SIPS”).

2. Adams, age 58, resides in Palm Harbor, Florida and was Sovereign’s managing partner and owner from October 2008 to its dissolution. Adams bought Sovereign, along with other related entities, from Grossman in October 2008. He currently owns and manages Sovereign Private Wealth, Inc., an investment adviser that was registered with the Commission until December 17, 2012 (at which point it had approximately \$15 million in assets under management). Adams is the managing director of Weybridge Capital, which manages the Sheffield family of funds registered and licensed in the British Virgin Islands. On May 15, 2013, Adams filed a Chapter 7 bankruptcy petition.

B. OTHER RELEVANT ENTITIES AND INDIVIDUALS

3. Sovereign International Asset Management, Inc. (“Sovereign”), a Florida corporation with its principal place of business in Clearwater, Florida, was incorporated by Grossman in 2001. Sovereign registered with the Commission as an investment adviser on June 21, 2002. In October 2008, Grossman sold Sovereign to Adams. At all relevant times, Sovereign was owned, managed, and controlled solely by either Grossman or Adams. On June 28, 2012, Sovereign filed for Chapter 7 bankruptcy in the United States Bankruptcy Court for the Middle District of Florida. Sovereign was administratively dissolved by the State of Florida at the end of September of 2012. Pursuant to Section 203(h) of the Advisers Act, the Commission canceled Sovereign’s registration on February 6, 2013.

4. Sovereign International Asset Management, LLC (“SIAM, LLC”) is a limited liability company Grossman formed in April 1999 and registered in Anguilla. Grossman sold SIAM, LLC to Adams in conjunction with the sale of Sovereign in October 2008.

5. Anchor Holdings, LLC (Florida) (“AH Florida”) is a limited liability company registered in Florida in 2005. Grossman sold AH Florida to Adams in October 2008. It was dissolved in September 2012.

6. Anchor Holdings, LLC (Nevis) (“AH Nevis”) is a company Grossman formed and registered in Nevis in September 2004. Grossman sold AH Nevis to Adams in conjunction with the sale of Sovereign in October 2008.

7. Nikolai Simon Battoo (“Battoo”), age 41, is the principal of BC Capital Group, S.A. (Panama) and BC Capital Group Limited (Hong Kong), collectively referred to herein as “BC Capital.” Through BC Capital, Battoo operates offshore hedge funds. He also offers managed account services through Private International Wealth Management (“PIWM”). Battoo is not registered with the Commission in any capacity. Battoo was named as a defendant in a fraud action the Commission filed on September 6, 2012, SEC v. Nikolai S. Battoo, et al., 12CV7125, N.D. Ill.

8. Anchor Hedge Fund Limited (“Anchor Hedge Fund”) was incorporated in the British Virgin Islands in September 2002. Grossman was a consultant to Anchor Hedge Fund and, along with Battoo, a member of its investment advisory board until at least July 2008.

9. Anchor Hedge Fund Management Limited (“AHF Management”), formed in Hong Kong in 2004, was the investment manager of Anchor Hedge Fund.

C. BACKGROUND

1. Sovereign’s Operations

10. Sovereign was an investment adviser registered with the Commission since June 2002. At its peak in 2008, Sovereign reported it had \$85 million in assets under management. Sovereign was a small organization run by Grossman, Sovereign’s sole control person, until Grossman sold it to Adams in October 2008. Sovereign employed a small staff of less than ten people. No one at Sovereign was a registered representative associated with a broker-dealer during the relevant period.

11. Sovereign and Grossman targeted retirees seeking to invest their money offshore, and most of Sovereign’s clients were retired individuals with self-directed IRAs. In Sovereign’s promotional materials, Grossman represented to clients that Sovereign “use[d] an extensive investment selection process that [was] not only qualitative but incorporate[d] a significant due diligence process as well.” In fact, Sovereign, Grossman, and later Adams advised their clients to invest almost exclusively in funds and accounts managed or controlled by Battoo, regardless of their clients’ investment objectives.

12. Specifically, from August 2003 until at least October 2008, Grossman recommended to Sovereign clients that they invest almost exclusively in several of Battoo’s offshore funds: Anchor Hedge Fund Classes A, B, C and E (the “Anchor Funds”); FuturesOne Diversified Fund Ltd., (“FuturesOne”) a mutual fund formed in the British Virgin Islands (Battoo was the sole member and Chairman of its investment advisory board) (collectively, the “Battoo Funds”); and in PIWM, a managed account.

2. Grossman Forms AH Florida

13. Grossman formed AH Florida in 2005, using the identical name of another entity he had formed in Nevis a year before. Sovereign, through Grossman and later Adams (after he acquired AH Florida), instructed clients seeking to invest in the Battoo Funds and PIWM to transfer their money to AH Florida's account at a bank in Florida. Sovereign gave clients a document called "Anchor Hedge Fund Application for Shares," in which AH Florida was identified as an intermediary, and also included a wire transfer form authorizing a transfer to AH Florida's account. But Grossman and Adams never told clients, either in writing or orally, that Sovereign would pool client funds into a bank account in the name of AH Florida, an entity owned by Grossman (and later Adams). Clients completed an application for the individual shares they wanted to purchase.

14. After pooling client funds in AH Florida's bank account, Grossman (and later Adams) transferred the funds offshore to the Battoo Funds and PIWM in the name of AH Nevis. Because of the similarity in names, clients believed that the AH Florida account was an account belonging to Anchor Hedge Fund. Although Grossman, and later Adams, gave Battoo the names of the clients investing in his funds, the investments were nevertheless made in the name of AH Nevis, which was owned by Grossman (and later Adams).

15. Sovereign's clients never received statements from a qualified custodian or from Sovereign regarding the investment funds deposited in AH Florida's bank account. Although Sovereign sent statements to clients regarding their purported investments in the Battoo Funds, there were no surprise annual exams of Sovereign during the relevant period.

3. Grossman Sells Sovereign to Adams

16. On October 1, 2008, Grossman sold Sovereign to Adams. On October 14, 2008, Adams emailed a letter signed by Grossman to Sovereign clients—most of whom had invested exclusively in the Battoo Funds and PIWM—in which Grossman wrote that he "want[ed] to reiterate that our hedge fund investments are 'Fund of Funds' that are highly diversified with different managers, styles and strategies."

17. The letter introduced Adams and informed clients that Adams had been named Sovereign's President and Chief Investment Officer. The letter stated Grossman would remain Managing Director of SIPS, which was "only a few doors from [Adams'] office." He would also remain on Sovereign's Board of Advisers and was "actively involved in the day-to-day strategy development as needed."

18. Grossman remained listed as an associated person in Sovereign's Form ADV Part II, dated October 30, 2008. After the sale, and until approximately March 2009, Grossman continued to act on behalf of Sovereign as a paid consultant. Moreover, SIPS, the company Grossman controls, continued to serve as an IRA administrator for Sovereign's clients.

D. GROSSMAN AND ADAMS’S MISSTATEMENTS AND OMISSIONS TO INVESTORS

1. Misstatements and Omissions about Compensation

19. Grossman met Battoo in 2002. Not long thereafter, on January 17, 2003, Sovereign sent an email to its clients stating that Sovereign had taken on an active role as an investment adviser to Battoo’s Anchor Hedge Fund. Sovereign represented to its clients that it received no additional compensation but was “privy to and part of many investment decisions that are made.”

20. More so than an investment adviser to Anchor Hedge Fund, Sovereign was a referral source for Battoo and his offshore funds. Grossman, from August 2003 until at least March 2009, when he stopped acting as a paid consultant, and Adams, from October 2008 until August 2010, advised Sovereign’s clients to invest or remain invested almost exclusively in the Battoo Funds and PIWM.

21. Sovereign’s clients invested primarily in Anchor Funds, which was a fund of funds, and PIWM. Thus, Sovereign’s clients paid multiple layers of fees when they invested in Anchor Funds. Sovereign’s clients, however, received little or no additional benefits in exchange for these extra fees. For example, they did not receive any meaningful diversification across different fund manager styles as is typically offered by a fund of funds because many of Anchor Funds’ sub-funds were managed, controlled, or advised by Battoo. Like those clients who invested in Anchor Funds, clients who invested in PIWM also paid fees on fees because PIWM invested in sub-funds that were managed, controlled, or advised by Battoo.

a. The Referral and Consulting Agreements

22. From August to December 2003, Grossman signed three referral and one consulting agreements, on behalf of SIAM, LLC, with funds and entities Battoo owned or controlled: (1) a referral agreement between SIAM, LLC and Anchor Hedge Fund (the “Anchor Referral Agreement”); (2) a referral agreement between SIAM, LLC and FuturesOne (the “FuturesOne Referral Agreement”); (3) a referral agreement between SIAM, LLC and BC Capital Group S.A. (Panama), which managed the PIWM account (the “PIWM Referral Agreement”); and (4) a consulting agreement between Grossman and Anchor Hedge Fund’s investment manager (the “Consulting Agreement”). Under the Consulting Agreement, Grossman’s duties included advising Anchor Hedge Fund’s investment manager, analyzing the performance of Anchor Hedge Fund’s investments, and preparing materials for monthly reports, among other things.

23. The first three of these agreements triggered referral fees to Sovereign, paid to SIAM LLC, while the fourth agreement triggered consulting fees paid directly to Grossman. Grossman and Adams did not disclose this compensation to the Sovereign investors.

24. The four written agreements included: (a) the Anchor Referral Agreement, effective August 1, 2003, pursuant to which Anchor Hedge Fund paid SIAM, LLC a 1% sales load for Anchor Hedge Fund Classes A and B and a 2% sales load for Anchor Hedge Fund Classes E and I; (b) the FuturesOne Referral Agreement, effective September 1, 2003, pursuant to which FuturesOne paid SIAM, LLC for each referred investor a 2% sales load and 50% of fees earned by Innovative Financial Holdings Limited (“Innovative”), the investment manager of FuturesOne; (c) the PIWM Referral Agreement, effective November 1, 2003, pursuant to which BC Capital Group, S.A. (Panama) agreed to pay SIAM, LLC 50% of the 1%-2% annual fee the advisor earned in PIWM; and (d) the Consulting Agreement, effective December 1, 2003, pursuant to which AHF Management paid Grossman a percentage of the management fee charged by Anchor Hedge Fund and a performance fee related to new net profits.

25. A fourth referral agreement, not in writing, between Anchor Hedge Fund and SIAM LLC, provided that SIAM LLC would receive the initial sales load of 4.5% charged to Sovereign’s clients upon their investments in Anchor Hedge Fund and in PIWM. Anchor Hedge Fund made these payments in lump sums.

26. Pursuant to these agreements, beginning at least in 2004, Battoo paid Sovereign through SIAM, LLC’s account in Denmark for referrals of clients to the Battoo Funds and PIWM. After the sale of Sovereign to Adams, and continuing through 2010, Battoo continued to pay Sovereign through SIAM, LLC, now owned by Adams.

b. Grossman and Adam’s Misrepresentations and Omissions Concerning the Referral and Consulting Agreements

27. While they were control persons of Sovereign, Grossman and Adams misrepresented compensation they received from Battoo related entities and thus failed to adequately disclose their conflicts of interest to Sovereign’s clients.

28. For example, Sovereign did not timely provide the Form ADV Part II to all its clients as required under Advisers Act Rule 204-3 and its clients did not otherwise consent to delivery through a website. Further, the Form ADV Part II either omitted, or contained misleading statements regarding additional compensation. More specifically, in one version of Sovereign’s Form ADV Part II (dated March 26, 2008), Sovereign represented in Item 13 (“Additional Compensation”) that neither Sovereign nor a related person, *i.e.*, SIAM, LLC (an entity with common control), received additional compensation. In a later section, Sovereign disclosed that it “may receive incentive or subscription fees from certain investment companies” (emphasis added). This disclosure was misleading because SIAM, LLC and Grossman were actually receiving compensation under the referral and consulting agreements. Sovereign also represented that it would notify clients of any and all fees paid to Sovereign. Yet, Sovereign failed to provide any notice to its clients of the fees paid to Grossman and SIAM, LLC.

29. Sovereign’s Form ADV Part 1 was also misleading, even after Adams purchased Sovereign in October 2008. Although Sovereign for the first time

disclosed in its 2009 Form ADV Part 1, under “Compensation Arrangements,” its referral fees, that disclosure was misleading. For example, the disclosure was made in response to questions on the form about Sovereign’s advisory business as opposed to more specific questions intended to elicit information about Sovereign’s involvement in other business activities which could create potential conflicts of interest.

30. For many years, Sovereign’s investment advisory agreements (“IAA”) were also misleading and failed to contain any disclosures regarding the receipt of transaction-based compensation. Like the Form ADV Part II, the IAA explicitly stated that Sovereign “will notify clients in advance of any investments the nature of any and all fees charged to the client and/or paid to Advisor.” Sovereign gave this IAA to clients at the same time that it received compensation for referring its clients to Battoo. Yet, Sovereign did not disclose these fees to clients.

31. In August 2006, Sovereign revised its IAA and disclosed that Sovereign “may receive performance-based compensation from certain investment companies.” However, this language did not provide adequate notice because it does not cover transaction-based compensation, such as referral fees to Sovereign or SIAM, LLC for recommending that clients invest in certain funds.

Misrepresentations and Omissions about Compensation
During Grossman’s Ownership

32. During Grossman’s ownership of Sovereign, the company made the following misleading disclosures about compensation:

(a) Sovereign’s 2006 IAA stated that “[t]he Advisor [Sovereign] may receive performance-based compensation from certain investment companies.” This disclosure was misleading because (i) it omitted the fact that SIAM, LLC (which was under common control with Sovereign) received referral fees (sales load and management fees) from Anchor Hedge Fund and FuturesOne, and referral fees (management fees) from BC Capital related to PIWM; (ii) it did not disclose that SIAM, LLC received the initial 4.5% sales load Anchor Hedge Fund and PIWM charged to Sovereign’s clients; and (iii) Sovereign did not disclose that Grossman was in fact receiving advisory fees (based upon a percentage of management and performance related fees) from AHF Management, Anchor Hedge Fund’s investment manager;

(b) Sovereign’s 2006 IAA also stated that “Advisor [Sovereign] will notify clients in advance of any investments the nature of any and all fees charged to the client and/or paid to Advisor.” This disclosure was misleading because Sovereign never notified its clients that it was in fact receiving compensation for referring them to Anchor Hedge Fund, FuturesOne, and BC Capital;

(c) Sovereign’s 2006 and 2008 Forms ADV Part II (and brochures) stated that “Sovereign may receive incentive or subscription fees from certain investment companies.” This disclosure was misleading because it omitted the fact that SIAM, LLC

was already receiving referral fees from Anchor Hedge Fund, FuturesOne, and BC Capital;

(d) Sovereign's 2006 and 2008 Forms ADV Part II (and brochures) also stated that "Sovereign may receive performance-based compensation from certain investment companies." This disclosure was misleading because Sovereign did not disclose that Grossman was in fact receiving advisory fees (based upon a percentage of management and performance related fees) from AHF Management;

(e) Sovereign's 2006 and 2008 Forms ADV Part II (and brochures) further stated that "Sovereign will notify clients in advance of any investments the nature of any and all fees charged to the client and/or paid to Sovereign." This disclosure was misleading because Sovereign never notified its clients that SIAM, LLC was in fact receiving compensation for referring them to Anchor Hedge Fund, FuturesOne, and BC Capital;

(f) Sovereign also stated the following in its brochure: (i) in Item 13, that Sovereign (or a related person) did not have an arrangement whereby it is paid cash or received an economic benefit (including commissions, equipment, or non-research services) from a non-client in connection with giving advice to clients; (ii) in Item 8, that Sovereign did not have an arrangement with an investment company that was material to its advisory business or its clients; and (iii) in Item 9, that Sovereign (or a related person) did not recommend to clients that they buy or sell securities or investment products in which the applicant or a related person has some financial interest. These disclosures were misleading because (i) SIAM, LLC received referral fees from Anchor Hedge Fund, FuturesOne and BC Capital when Sovereign recommended investments in these funds and in a managed account to its clients; (ii) the brochure did not disclose that SIAM, LLC received the initial 4.5% sales load Anchor Hedge Fund and PIWM charged to Sovereign's clients; and (iii) Grossman (a related person) was in fact receiving advisory fees (based upon a percentage of management and performance related fees) from AHF Management; and

(g) Sovereign's 2004, 2005, 2006, 2007, and 2008 Forms ADV Part 1 did not contain any compensation disclosure, and stated the following: (i) in Item 6 B. (1), that Sovereign was not actively engaged in any other business not listed in item 6A (other than giving investment advice); (ii) in Item 6 B. (3), that Sovereign did not sell products or provide services other than investment advice to its clients; and (iii) in Item 9, that Sovereign did not have a related person that had custody of its advisory clients' cash or securities. These disclosures were misleading because Sovereign was actively referring its advisory clients to Anchor Hedge Fund, FuturesOne, and BC Capital (since at least November 2003); because Sovereign (acting as an unregistered broker-dealer) received transaction-based compensation for selling securities in Anchor Hedge Fund, FuturesOne, and BC Capital; and because by 2005 AH Florida had custody of Sovereign clients' investments funds or money.

Misrepresentations and Omissions about Compensation
During Adams's Ownership

33. During Adams's ownership of Sovereign, the company made the following misleading disclosures about compensation:

(a) Sovereign's 2009 IAA stated that "[t]he Advisor [Sovereign] may receive performance-based compensation from certain investment companies." This disclosure was misleading because (i) it omitted the fact that SIAM, LLC (which was under common control with Sovereign) received referral fees (sales load and management fees) from Anchor Hedge Fund and FuturesOne, and referral fees (management fees) from BC Capital related to PIWM; and (ii) it did not disclose that SIAM, LLC received the initial 4.5% sales load Anchor Hedge Fund and PIWM charged to Sovereign's clients;

(b) Sovereign's 2009 IAA also stated that Advisor [Sovereign] will notify clients in advance of any investments the nature of any and all fees charged to the client and/or paid to Advisor." This disclosure was misleading because Sovereign never notified its clients that it was in fact receiving compensation, through SIAM, LLC, for referring them to Anchor Hedge Fund, FuturesOne, and BC Capital;

(c) Sovereign's 2009 and 2010 Forms ADV Part II (and brochures) stated that "Sovereign may receive incentive or subscription fees from certain investment companies." This disclosure was misleading because it omitted the fact that SIAM, LLC was already receiving referral fees from Anchor Hedge Fund, FuturesOne, and BC Capital;

(d) Sovereign's 2009 and 2010 Forms ADV Part II (and brochures) further stated that "Sovereign will notify clients in advance of any investments the nature of any and all fees charged to the client and/or paid to Sovereign." The third disclosure was misleading because Sovereign never notified its clients that it was in fact receiving compensation, through SIAM, LLC, for referring them to Anchor Hedge Fund, FuturesOne, and BC Capital;

(e) Sovereign also stated the following in its brochure: (i) in Item 13, that Sovereign (or a related person) did not have an arrangement whereby it is paid cash or received an economic benefit (including commissions, equipment, or non-research services) from a non-client in connection with giving advice to clients; (ii) in Item 8, that Sovereign did not have an arrangement with an investment company that was material to its advisory business or its clients; and (iii) in Item 9, that Sovereign (or a related person) did not recommend to clients that they buy or sell securities or investment products in which the applicant or a related person has some financial interest. These disclosures were misleading because (i) SIAM, LLC received referral fees from Anchor Hedge Fund, FuturesOne and BC Capital when Sovereign recommended investments in these funds and in a managed account to its clients; (ii) Sovereign did not disclose that SIAM, LLC received the initial 4.5% sales load Anchor Hedge Fund and PIWM charged to

Sovereign's clients; and (iii) Grossman (a related person) was in fact receiving advisory fees (based upon a percentage of management and performance related fees) from AHF Management; and

(f) Sovereign's 2009 and 2010 Form ADV Part 1 stated in Item 5 (Information About Your Advisory Business-Compensation Arrangements) that "Sovereign receives referral fees for selection of other advisers." This disclosure was misleading because it did not disclose Sovereign's compensation arrangements with Anchor Hedge Fund, FuturesOne, and BC Capital Group, and because the statement was made in response to questions on the form about Sovereign's advisory business as opposed to more specific questions intended to elicit information about Sovereign's involvement in other business activities which could create potential conflicts of interest, such as Item 6.B.1. (Other Business Activities).

2. Grossman and Adams Misled Clients to Invest In Anchor Hedge Funds

34. Beginning in August 2003, Grossman recommended Anchor Hedge Fund Classes A, B, C, and E to Sovereign's clients. In or around October 2008, Adams advised clients to retain their investments in Anchor Hedge Fund. However, Grossman and Adams both knowingly or recklessly misrepresented the risk and independence of the funds.

a. Cross Portfolio Liability

35. From 2003 until he sold Sovereign in 2008, Grossman recommended the Battoo Funds (and Anchor Hedge Fund in particular) and PIWM, to Sovereign clients, almost exclusively. After purchasing Sovereign, Adams told clients to retain their investments. Written materials, including PPMs, described Anchor Fund Classes A and B to clients as moderately risky investments with goals of long-term capital appreciation and preservation. These classes, however, were subject to high risk. In fact, the assets of each class were available to meet the liabilities of the other classes, something that was not disclosed in the PPM. As a result, the investments in market neutral Anchor Classes A and B could be used to cover liabilities, including claims by investors and third parties, incurred by the higher risk and more volatile Anchor Class C. Sovereign did not disclose the exposure between the classes to clients who sought only moderately risky investments.

b. Anchor Hedge Fund Class A Did Not Invest in Diversified, Independently-Administered, and Audited Funds

36. From at least 2005 until October 2008, Grossman recommended Anchor Class A as a safe fund that invested in a diversified selection of hedge funds and would deliver expected returns in all market conditions. According to its 2005 PPM, Class A invested into "a portfolio of well-established independently administered and audited hedge funds to be used to access the [fund's] investment objectives."

37. The PPM also stated that Class A invested into a portfolio of market neutral equity hedge investing and other alternative investments funds, “including funds investing both long and short in public equity investments and indexes, both in the USA and globally; with underlying holdings generally including but not being limited to bank deposits, fixed income securities, spot and forward foreign exchange contracts, equities, exchange traded funds, options, derivatives, government and corporate debt and other financial instruments.” The PPM also stated that Class A would be administered by Folio Administrators, Ltd., but omitted to disclose that this entity was closely affiliated with Battoo and thus was not independent. For instance, its director was also on BC Capital’s board and on Anchor Hedge Fund’s professional advisory board.

38. Grossman provided other written materials to Sovereign clients, including PowerPoint presentations, which described Class A as a market neutral fund with minimal portfolio volatility and an investment objective to “achieve absolute returns of 10%-12% per annum.”

39. In addition to written misstatements, Grossman orally told Sovereign’s clients in 2006 that Anchor Class A was a very safe fund with an outstanding return and track record over a number of years. Similarly, Adams orally told clients in November 2008 that Anchor A was extremely safe and a “good place” to be.

40. In fact, Anchor Fund Class A did not invest in independently administered and audited hedge funds. Indeed, the asset verification reports came from parties related to Battoo, not from independent third parties. Anchor Hedge Fund’s administrator generated the asset verification reports based on information provided by the custodian for Battoo and BC Capital. The administrator and custodian were controlled and managed by the same individuals who managed and administered Battoo’s funds. They also shared the same post office boxes as Anchor Hedge Fund and signed the referral and consulting agreements with SIAM, LLC and Grossman.

41. Grossman also knew that the last independent auditor report Sovereign received for Anchor Fund Class A was for the year ended December 31, 2007. Battoo did not provide any other audited financial statements and later told Adams he would not because the information was confidential and proprietary. Yet, Grossman continued to promote Anchor even after he became a consultant to Sovereign.

42. The investments in Anchor Fund Class A were also far from diversified. Class A did not invest in what its PPM represented, such as fixed income securities, exchange traded funds, or government and corporate debt. In fact, after Battoo suspended redemptions for investments in Anchor Fund Class A in December 2008, he claimed Anchor Fund Class A had invested substantially all of its assets with Bernard Madoff.

43. During the relevant period, Grossman and Battoo were the sole members of the Anchor Fund Class A Investment Advisory Board. As a member of

Anchor Hedge Fund's Investment Advisory Board and as an investment adviser to Sovereign's clients, Grossman knew that Class A did not invest in funds that were independently administered or audited, or diversified as described in the PPM. Grossman recommended that clients invest (or remain invested) in Anchor A as late as October 22, 2008. Adams continued to advise clients to retain their investments in Anchor A, even after (1) the suspension called into question Battoo's previous representation to Adams that only 2% of the fund had exposure to the Madoff Ponzi scheme and (2) Battoo refused to file a proof of claim or provide Adams with supporting documentation of the fund's investments.

c. Liquidity Issues with and Suspension of Anchor Fund Class C

44. Shortly before the Madoff scandal erupted in the press, Anchor Hedge Fund suspended redemptions of Anchor Fund Class C. On October 13, 2008, Anchor Hedge Fund sent a letter to its Class C shareholders, notifying them that it was suspending redemptions of Anchor Fund Class C because it was switching its portfolio from one bank to another. This supposed change began at the end of 2007 but was delayed because of "deteriorating financial market conditions." The letter also stated that Anchor Hedge Fund would "begin processing redemptions as soon as it is practical."

45. Nevertheless, Grossman continued to advise Sovereign's clients to invest or retain their investments in the Battoo's Funds. However, when Grossman sold Sovereign to Adams in October 2008, Grossman, who was a consultant to Anchor Hedge Fund and a member of its investment advisory board, at a minimum knew that requests for redemptions in Anchor Fund Class C for June 30, 2008 had not yet been honored. In fact, internal Sovereign emails reflect that as of late September 2008 Sovereign was still waiting for redemptions in Class C. Yet, on October 14, 2008, the day after Sovereign was notified of the suspension of redemptions of Anchor C shares, Grossman described Sovereign's investment, which included Anchor Hedge Fund, to Sovereign clients as funds that "will experience an incredible bounce. . . . Patience will be rewarded."

46. After Anchor Hedge Fund suspended redemptions of Anchor C shares, Adams did not question the reason for the suspension. Instead, Adams simply accepted Battoo's assurances and represented to Sovereign's clients in writing that the suspension was due to Société Générale's failure to timely process a transfer of the custodial relationship for Anchor Fund C. A few weeks after the suspension, Battoo met with Adams and proposed exchanging Class C shares for PIWM shares. Shortly thereafter, Adams recommended the swap to Sovereign's clients without conducting sufficient due diligence concerning PIWM.

3. Adams's Misstatements and Omissions Regarding the PIWM Swap

47. Battoo proposed the swap shortly after Anchor Hedge Fund suspended redemptions of Class C shares. On October 28, 2008, Battoo visited Sovereign's offices and met with Adams. At this meeting, Battoo offered to exchange interests in PIWM's "Market Neutral" managed account for Sovereign clients' investments

in shares of Anchor Hedge Fund Classes B, C, and E and in FuturesOne. By October 2008, these funds in Anchor Hedge Fund and FuturesOne had become illiquid or had substantially decreased in value.

48. Under the terms of the swap, Sovereign investors were to receive an interest, or an equivalent value-in-kind participation, in PIWM valued at amounts equal to the pre-impairment values of their hedge fund shares. In exchange, Battoo demanded a lock up period of 18 months. Nevertheless, Adams said the swap was advisable because he believed PIWM “Market Neutral” was similar to Anchor Class A which was a market neutral fund that had supposedly performed well in the past.

49. Although Adams had served on PIWM’s advisory board since October 2008 he failed to conduct any due diligence concerning PIWM’s investments before recommending the swap to Sovereign’s clients. Had he done so, he would have known that PIWM’s investments were almost entirely in funds and accounts managed or controlled by Battoo, including the funds being exchanged in the swap.

50. Rather than conduct independent due diligence about PIWM’s investments, Adams simply requested more information from Battoo, which Battoo refused to provide. Nevertheless, Adams, who received referral fees from PIWM, signed the swap agreement and recommended the swap to Sovereign’s clients. More specifically, Adams recommended that Sovereign clients swap their Anchor Class C shares for PIWM managed account interests using an account value as of August 31, 2008. Furthermore, Adams assured clients who invested in Anchor C that the swap was “a generous offer in light of a situation [Battoo] did not create.”

51. In November, 2008, Adams further represented to Sovereign clients that: (1) the suspension of Anchor C was due to Société Générale’s failure to process the transfer of the custodial relationship for Anchor Class C; (2) PIWM had much better performance than Anchor Class C and, by exchanging the shares, clients would avoid the losses incurred in September and October 2008; and (3) The resulting interests in PIWM were subject to an 18 month lock-up.

52. Before Adams executed the swap agreement on January 30, 2009, Adams failed to disclose to clients that: (1) underlying investments for PIWM were in other funds almost all managed or controlled by Battoo, including Anchor and FuturesOne, and thus there was no diversification of management style and no reason to expect better investment performance; (2) PIWM’s sub-funds were illiquid and suspended purportedly due to the Madoff Ponzi scheme (including Anchor Class A and Galaxy Fund Class C) or had incurred such significant losses that the sub-fund was also being exchanged for PIWM (Anchor Class E).

53. On January 30, 2009, three months after Battoo proposed the swap and almost two months after Battoo suspended redemptions of Anchor Class A purportedly due to the Madoff scandal, Adams executed an agreement in which AH Nevis transferred to PIWM its shares of Anchor Hedge Fund (all classes except for A) and of FuturesOne.

54. Later, in the fall of 2009, a year after the swap was proposed by Battoo, Adams was still receiving vague and conflicting responses from Battoo as to the start date of the lock up period and whether it was 18 months or 24 months. Despite this disagreement, Adams continued to advise clients to retain their investments in the Battoo Funds and PIWM.

55. Beginning in 2010, Battoo refused to permit withdrawals from PIWM, in part because of a dispute over the lock-up period. In November 2011, Battoo publicly claimed to investors that losses incurred in the MF Global bankruptcy triggered the refusal to permit withdrawals from PIWM.

E. GROSSMAN AND ADAMS IGNORED RED FLAGS

56. Before the suspensions of the Battoo Funds and the PIWM swap agreement, Grossman and Adams failed adequately to research or investigate a number of red flags about Battoo and his funds.

57. Grossman knew prior to the October 13, 2008 suspension of Anchor C that Anchor Hedge Fund had not honored redemption requests for Class C shares submitted in the spring of 2008. Instead of questioning and investigating the failures to redeem and even after Sovereign was notified of the suspension, Grossman continued advising clients to invest in Anchor Hedge Fund.

58. According to Anchor Hedge Fund PPMs, shareholders were entitled to receive annual audited financial reports upon request. However, in 2008 Grossman and Adams knew Battoo ceased providing to investors independently-audited financial statements regarding the Battoo Funds. The last independent auditor report Sovereign received from Anchor Hedge Fund for Anchor Class C was for the year ended December 31, 2006 and for Anchor Classes A and B was for the year ended December 31, 2007. Battoo did not provide any other audited financial statements and told Adams he would not because the information was confidential and proprietary. Nevertheless, Sovereign, Grossman, and Adams continued to recommend Battoo's funds to their clients.

59. Anchor Hedge Fund PPMs also entitled investors to receive asset verification reports from independent third parties upon request. However, Grossman and Adams knew asset verification reports came from parties related to Battoo, not from independent third parties. The reports were generated by Anchor Hedge Fund's administrator and based on information provided by the custodian for Battoo and BC Capital. The administrator and custodian were controlled and managed by the same individuals who managed and administered Battoo's funds and shared the same post office boxes as Anchor Hedge Fund and PIWM. In addition, these individuals signed the referral and consulting agreements with SIAM, LLC and Grossman. Despite this lack of independence, undisclosed to investors, Grossman and Adams failed to investigate the figures Battoo provided to them. Instead, they touted the performance of the Battoo Funds to their clients.

60. Finally, Adams failed independently to investigate Anchor Hedge Fund even after Battoo suspended redemptions of Anchor Class A and subsequently refused to file a claim in the Madoff recovery proceedings or provide information regarding its losses.

F. VIOLATIONS

61. As a result of the conduct described above, Grossman and Adams willfully violated Section 17(a) of the Securities Act which prohibits fraudulent conduct in the offer and sale of securities.

62. As a result of the conduct described above, Grossman and Adams willfully violated Section 15(a) of the Exchange Act, which prohibits an unregistered broker-dealer from making use of the mails or any means or instrumentality of interstate commerce to effect any transactions in, or to induce or attempt to induce the purchase or sale of, any security, and willfully aided and abetted and caused violations of Section 15(a) of the Exchange Act.

63. As a result of the conduct described above, Grossman and Adams willfully violated Sections 206(1) and 206(2) of the Advisers Act, which prohibit fraudulent conduct by investment advisers and impose on investment advisers a fiduciary duty to act in “utmost good faith,” to fully and fairly disclose all material facts, and to use reasonable care to avoid misleading clients.

64. As a result of the conduct described above, Grossman and Adams willfully violated Section 206(3) of the Advisers Act, which prohibits an investment adviser from “acting as a broker for a person other than such client, knowingly to effect any sale or purchase of any security for the account of such client . . . without disclosing to such client in writing before the completion of such transaction the capacity in which he is acting and obtaining the consent of the client to such transaction.”

65. As a result of the conduct described above, Grossman and Adams willfully aided and abetted and caused violations of Section 206(4) of the Advisers Act, which prohibits fraudulent, deceptive, or manipulative conduct by an investment adviser, and Rule 206(4)-2 promulgated thereunder, which requires that an investment adviser maintain each client’s funds in bank accounts containing only those client funds, notify its clients as to the name and address of the custodian of client funds and manner in which their funds are maintained, and have client funds and securities verified by an independent public accountant at least once a year without prior notice to the investment adviser.

66. As a result of the conduct described above, Grossman and Adams willfully aided and abetted and caused violations of Rule 204-3 of the Advisers Act, which requires investment advisers to deliver a brochure and one or more brochure supplements to each client or prospective client that contains all information required by Part II of Form ADV.

67. As a result of the conduct described above, Grossman and Adams willfully violated Section 207 of the Advisers Act which makes it unlawful “for any person willfully to make any untrue statements of material fact in any registration application or report filed with the Commission under Section 203 or 204.

III.

In view of the allegations made by the Division of Enforcement, the Commission deems it necessary and appropriate in the public interest that public administrative and cease-and-desist proceedings be instituted to determine:

A. Whether the allegations set forth in Section II hereof are true and, in connection therewith, to afford Respondents an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against Respondents pursuant to Section 8A of the Securities Act including, but not limited to, disgorgement and civil penalties pursuant to Section 8A of the Securities Act;

C. What, if any, remedial action is appropriate in the public interest against Respondents pursuant to Section 15(b) of the Exchange Act including, but not limited to, disgorgement and civil penalties pursuant to Section 21B of the Exchange Act;

D. What, if any, remedial action is appropriate in the public interest against Respondents pursuant to Sections 203(f) and 203(k) of the Advisers Act including, but not limited to, disgorgement and civil penalties pursuant to Section 203 of the Advisers Act;

E. What, if any, remedial action is appropriate in the public interest against Respondents pursuant to Section 9(b) of the Investment Company Act;

F. Whether, pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act, and Section 203(k) of the Advisers Act, Respondents should be ordered to cease and desist from committing or causing violations of and any future violations of Section 17(a) of the Securities Act, Section 15(a) of the Exchange Act, and Sections 206(1), 206(2), 206(3), 206(4), and 207 of the Advisers Act and Rules 204-3 and 206(4)-2 thereunder, whether Respondents should be ordered to pay a civil penalty pursuant to Section 8A(g) of the Securities Act, Section 21B(a) of the Exchange Act, Section 203(i) of the Advisers Act, and whether Respondents should be ordered to pay disgorgement and prejudgment interest pursuant to Section 8A(e) of the Securities Act, Sections 21B(e) and 21C(e) of the Exchange Act, and Section 203(j) of the Advisers Act.

IV.

IT IS ORDERED that a public hearing for the purpose of taking evidence on the questions set forth in Section III hereof shall be convened not earlier than 30 days and not later than 60 days from service of this Order at a time and place to be fixed, and before an

Administrative Law Judge to be designated by further order as provided by Rule 110 of the Commission's Rules of Practice, 17 C.F.R. § 201.110.

IT IS FURTHER ORDERED that Respondents shall file their Answers to the allegations contained in this Order within twenty (20) days after service of this Order, as provided by Rule 220 of the Commission's Rules of Practice, 17 C.F.R. § 201.220.

If Respondents fail to file the directed answers, or fail to appear at a hearing after being duly notified, the Respondents may be deemed in default and the proceedings may be determined against them upon consideration of this Order, the allegations of which may be deemed to be true as provided by Rules 155(a), 220(f), 221(f), and 310 of the Commission's Rules of Practice, 17 C.F.R. §§ 201.155(a), 201.220(f), 201.221(f), and 201.310.

This Order shall be served forthwith upon Respondents personally or by certified mail.

IT IS FURTHER ORDERED that the Administrative Law Judge shall issue an initial decision no later than 300 days from the date of service of this Order, pursuant to Rule 360(a)(2) of the Commission's Rules of Practice.

In the absence of an appropriate waiver, no officer or employee of the Commission engaged in the performance of investigative or prosecuting functions in this or any factually related proceeding will be permitted to participate or advise in the decision of this matter, except as witness or counsel in proceedings held pursuant to notice. Since this proceeding is not "rule making" within the meaning of Section 551 of the Administrative Procedure Act, it is not deemed subject to the provisions of Section 553 delaying the effective date of any final Commission action.

By the Commission.

Elizabeth M. Murphy
Secretary