

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 69090 / March 8, 2013**

**INVESTMENT COMPANY ACT OF 1940**  
**Release No. 30417 / March 8, 2013**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-15233**

<p><b>In the Matter of</b></p> <p><b>William M. Stephens,</b></p> <p><b>Respondent.</b></p>
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**ORDER INSTITUTING ADMINISTRATIVE  
AND CEASE-AND-DESIST PROCEEDINGS  
PURSUANT TO SECTIONS 15(b) AND 21C OF  
THE SECURITIES EXCHANGE ACT OF 1934,  
AND SECTION 9(b) OF THE INVESTMENT  
COMPANY ACT OF 1940, MAKING FINDINGS,  
AND IMPOSING REMEDIAL SANCTIONS  
AND A CEASE-AND-DESIST ORDER**

**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 Sections 15(b) and 21C of the Securities Exchange Act of 1934 (“Exchange Act”), and Section 9(b) of the Investment Company Act of 1940 (“Investment Company Act”) against William M. Stephens (“Stephens” or “Respondent”).

**II.**

In anticipation of the institution of these proceedings, Respondent has 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 him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 15(b) and 21C of the Securities Exchange Act of 1934, and Section 9(b) of the Investment Company Act of 1940, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order (“Order”), as set forth below.

### III.

On the basis of this Order and the Respondent's Offer, the Commission finds<sup>1</sup> that:

#### **Summary**

From February 2008 through March 2011, William M. Stephens operated as an unregistered broker in violation of Section 15(a) of the Exchange Act. While working as an independent consultant for Ranieri Partners LLC, Stephens actively solicited investors on behalf of private funds managed by Ranieri Partners' affiliates and, in return, received transaction-based compensation totaling approximately \$2.4 million. Stephens' solicitation efforts included: (1) sending private placement memoranda, subscription documents, and due diligence materials to potential investors; (2) urging at least one investor to consider adjusting its portfolio allocations to accommodate an investment with Ranieri Partners; (3) providing potential investors with his analysis of Ranieri Partners' funds' strategy and performance track record; and (4) providing potential investors with confidential information relating to the identity of other investors and their capital commitments. By these actions, Stephens engaged in the business of effecting transactions in securities without first being registered as a broker or dealer or associated with a registered broker or dealer. Ranieri Partners and Donald W. Phillips ("Phillips"), its then Senior Managing Partner, provided Stephens with key documents and information related to Ranieri Partners' private equity funds and did not take adequate steps to prevent Stephens from having substantive contacts with potential investors.

#### **Respondent**

1. William M. Stephens, age 60, resides in Hinsdale, Illinois. From 1986 to 1998, Stephens was an asset manager for various public and private pension funds. From 1998 to 2000, Stephens was the Chief Investment Strategist at a San Francisco-based registered investment adviser. In June 2000, the Commission instituted public administrative and cease-and-desist proceedings against Stephens and, in November 2002, the Commission entered an order, based on an offer of settlement by Stephens, finding that Stephens violated certain provisions of the federal securities laws in connection with the investment of pension fund assets. Stephens agreed to the entry of an order requiring him to cease and desist from violating Section 17(a) of the Securities Act of 1933, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and Sections 206(1) and 206(2) of the Investment Advisers Act of 1940. The Commission also barred Stephens from association with any investment adviser, with the right to reapply after two years, and imposed a \$25,000 civil penalty. Stephens never reapplied for permission to become associated with an investment adviser. Since 2002, Stephens has not been registered with the Commission in any capacity, including as a broker or dealer.

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

## **Other Relevant Entities and Individuals**

2. Ranieri Partners is a holding company located in New York, New York. It controls Selene Investment Partners LLC and Selene Investment Partners II LLC, which managed the investments of Selene Residential Mortgage Opportunity Fund L.P. (“Selene I”) and Selene Residential Mortgage Opportunity Fund II L.P. (“Selene II”) (collectively the “Selene Funds”). On March 26, 2012, Ranieri Residential Investment Advisors, LLC (“RRIA”), another entity controlled by Ranieri Partners, registered with the Commission as an investment adviser and now is the investment adviser to the Selene Funds.

3. Donald W. Phillips, age 63, resides in Barrington, Illinois. Phillips was a Senior Managing Partner of Ranieri Partners before resigning in December 2012. At the time of the conduct at issue, Phillips also was a managing member of a Chicago-based registered investment adviser.

## **Background**

4. In January 2008, Ranieri Partners established the Selene I private investment fund. Selene I’s investment strategy was to use investor capital to purchase underperforming or nonperforming residential mortgages, or loan portfolios, at a discount, rehabilitate the mortgages, and then resell them to traditional mortgage companies at a premium. The Private Placement Memorandum (“PPM”) for Selene I also permitted the fund to purchase mortgage-backed securities. In 2010, Ranieri Partners formed Selene II. Selene II’s investment strategy focused on generating returns from the rehabilitation of distressed residential mortgages.

5. Phillips, a Senior Managing Partner of Ranieri Partners, was in charge of raising capital for the Selene Funds. Phillips was a long-time friend of Stephens. In February 2008, Phillips caused an affiliate of Ranieri Partners to retain Stephens as an independent consultant to find potential investors for Selene I. At the time, Phillips was generally aware of Stephens’ prior disciplinary history with the Commission. In 2010, Phillips again caused an affiliate of Ranieri Partners to retain Stephens to find potential investors, this time for Selene II.<sup>2</sup>

6. Ranieri Partners agreed to pay Stephens a fee equal to 1% of all capital commitments made to the Selene Funds by investors introduced by Stephens.

7. Phillips was responsible for coordinating the activities of Stephens and others engaged by Ranieri Partners to find potential investors for the Selene Funds. According to Phillips, he informed Stephens that Stephens’ activities on behalf of Ranieri Partners were limited to contacting potential investors to arrange meetings for the principals of Ranieri Partners and that he specifically informed Stephens that he was not permitted to provide PPMs directly to potential investors. Ranieri Partners controlled the distribution of PPMs for the Selene Funds. According to Phillips, he also informed Stephens that Stephens was not permitted to contact investors directly to discuss his views of the merits and strategies of the Selene Funds.

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<sup>2</sup> In both instances, the terms of Stephens’ engagement were reflected in consulting services agreements prepared by outside counsel to Ranieri Partners.

8. Phillips and other Ranieri Partners personnel provided Stephens with materials relating to the Selene Funds. On February 29, 2008, Phillips sent Stephens several copies of a Selene I Executive Summary, which summarized the fund's investment strategy and provided Ranieri Partners' view of the distressed mortgage market and the firm's competitive advantages in the distressed real estate space. On March 1, 2008, Ranieri Partners personnel provided Stephens with a copy of the Selene I PPM and, subsequently, provided Stephens with supplemental PPMs, subscription documents, and presentation materials. Ranieri Partners personnel also provided Stephens with marketing materials for Selene II, including an Executive Summary and PPM, as well as Ranieri Partners' overall business plan.

### **Stephens Solicited Investors for Selene I**

9. Beginning in February 2008, Stephens contacted certain of his acquaintances and former colleagues in the pension fund investment community concerning a possible investment in Selene I.

10. In February 2008, Stephens contacted a former colleague who was the Director of Retirement Investments (hereinafter referred to as "Executive X") for a private corporation (hereinafter referred to as "Company X"). On February 26, 2008, Stephens contacted Executive X to set up a meeting among himself, Executive X, and Phillips. On February 28<sup>th</sup>, Stephens and Phillips met with Executive X. During the meeting, Phillips described a possible investment in Selene I. After the meeting, Stephens continued to communicate with Executive X directly via email. On March 4<sup>th</sup>, Stephens provided Executive X with details about Selene I's investment strategy. On April 29<sup>th</sup>, Stephens emailed Executive X to inform her that he provided due diligence materials regarding Selene I to a consultant that advises Company X on money manager selection and retention. In the same email, Stephens described the Selene I investment as "a rare opportunity to earn above market returns," and encouraged Executive X to consider adjusting Company X's asset allocation plan to take advantage of the Selene I opportunity. Also, Stephens traveled to various cities on four separate occasions in 2008 to meet with Company X's consultant, who was a friend and former consultant to pension funds managed by Stephens. Stephens continued to call upon Company X for an investment in Selene I until at least April 2009, when he again flew to the company's headquarters to meet with Executive X. Despite Stephens' efforts, Company X did not invest in Selene I.

11. In March 2008, Stephens contacted the Chief Investment Officer ("CIO") of an endowment fund of a Midwestern university ("Endowment X") regarding a possible investment in Selene I. Stephens had a close connection to the CIO, who worked for Stephens in the late 1990s when Stephens was the CIO of a large corporate pension fund. Stephens set up a meeting with the CIO to discuss Selene I. At the meeting, Stephens and Phillips met with the CIO and other members of his staff. During the meeting, Phillips made a presentation concerning a possible investment in Selene I. Shortly after the meeting, Stephens sent a copy of the Selene I PPM and other subscription materials to an Endowment X staff member. On April 21<sup>st</sup>, Stephens sent an email to the same staff member that contained a list of current and prospective investors for Selene I. In the email, Stephens listed the expected dates and amounts of the investors' respective capital commitments and then explained that there was a cap on the amount of investments that would be allowed in Selene I. On April 23<sup>rd</sup>, Stephens sent another email to the staff attaching

additional due diligence materials on Selene I. On June 30, 2008, Endowment X committed \$65 million in capital to Selene I. Pursuant to his agreement with Ranieri Partners, Stephens was to be paid \$650,000 on the investment.

12. In April 2008, Stephens used a subagent to reach out to the retirement system for a Southern state (“State Retirement System X”) concerning a possible investment in Selene I. Stephens’ subagent arranged a meeting for Phillips to meet with the CIO of State Retirement System X and his staff. Stephens’ subagent accompanied Phillips to the meeting, which took place in April 2008. On June 30, 2008, State Retirement System X invested \$200 million in Selene I. As a result, Ranieri Partners owed Stephens a fee equal to 1% (\$2 million) of the total capital commitment. Pursuant to a side agreement between Stephens and his subagent, 80% of Stephens’ fee was to be paid to the subagent.

### **Stephens Solicited Investors for Selene II**

13. Between August 2010 and March 2011, Stephens contacted Executive X about a possible investment by Company X in Selene II. Stephens traveled to Company X’s headquarters to discuss Selene II with Executive X and then traveled to meet with Company X’s consultant. Stephens also drafted correspondence, for Phillips’ signature, that addressed key questions about the potential investment that were raised by Executive X. Stephens continued to contact Executive X until at least March 2, 2011. Once again, despite Stephens’ efforts, Company X did not invest in Selene II.

14. In August 2010, Stephens contacted the CIO of Endowment X about a possible investment in Selene II. In an email dated August 4th, Stephens told the CIO and another staff member of Endowment X that the “returns to [Selene I] have been strong and the outlook for [Selene II] looks real positive with Ranieri Partners taking on the role of market leader in this space.” In the same email, Stephens told the CIO that Endowment X would pay a lower management fee if it made a commitment before the first closing date for the fund. Stephens also traveled on two occasions to discuss Selene II with the CIO. On October 15th, Endowment X invested \$30 million in Selene II. Pursuant to Stephens’ agreement with Ranieri Partners, he was to receive 1% of the funds invested by Endowment X, or approximately \$300,000.

15. In 2009, Stephens’ subagent contacted State Retirement System X regarding an investment in Selene II. Stephens and his subagent traveled to meet with the CIO of State Retirement System X on two occasions in 2009. In addition, after State Retirement System X invested in Selene I, its investment office staff stayed in direct contact with Ranieri Partners. After these meetings and contacts, State Retirement System X invested \$150 million in Selene II and an additional \$124 million in a special purpose investment vehicle established by Ranieri Partners specifically for State Retirement System X. Pursuant to a new agreement negotiated between Stephens and Phillips, Ranieri Partners was to pay Stephens a fee equal to 0.3% of State Retirement System X’s capital commitments, or approximately \$822,000.

16. In total, investors introduced to Ranieri Partners by Stephens and/or his subagent committed \$569 million to funds managed by Ranieri Partners, earning Stephens \$3.772 million in fees. Ranieri Partners paid Stephens \$2.4 million of the fees he earned. Ranieri Partners also

reimbursed Stephens for travel and entertainment expenses he incurred in connection with raising capital for the Selene Funds. The expenses claimed by Stephens include trips to meet potential investors that Stephens took both with and without Phillips or any other Ranieri Partners personnel. Stephens' expense reports show that he met with representatives of Company X, Endowment X, and State Retirement System X several times after initially introducing them to Ranieri Partners.

17. Stephens was not registered as a broker or dealer or associated with a registered broker or dealer at any time while he was soliciting investors on behalf of Ranieri Partners.

### **Violations**

18. As a result of the conduct described above, Stephens willfully violated Section 15(a) of the Exchange Act, which requires persons engaged in the business of effecting transactions in securities to be registered as a broker or dealer or associated with a registered broker or dealer.

### **Disgorgement and Civil Penalties**

19. Respondent has submitted a sworn Statement of Financial Condition dated January 28, 2013 and other evidence and has asserted his inability to pay disgorgement plus prejudgment interest or a civil penalty.

## **IV.**

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent's Offer.

Accordingly, pursuant to Sections 15(b) and 21C of the Exchange Act, and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent Stephens shall cease and desist from committing or causing any violations and any future violations of Section 15(a) of the Exchange Act.

B. Respondent Stephens be, and hereby is:

barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization;

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter; and

barred from participating in any offering of a penny stock, including: acting as a promoter, finder, consultant, agent or other person who engages in activities with a broker, dealer or issuer for purposes of the issuance or trading in any penny stock, or inducing or attempting to induce the purchase or sale of any penny stock.

C. Any reapplication for association by the Respondent will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against the Respondent, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

D. Respondent shall pay disgorgement of \$2,418,379.20 and prejudgment interest of \$410,248.75, but that payment of such amount is waived based upon Respondent's sworn representations in his Statement of Financial Condition dated January 28, 2013 and other documents submitted to the Commission. Further, based upon Respondent's sworn representations in his Statement of Financial Condition dated January 28, 2013 and other documents submitted to the Commission, the Commission is not imposing a penalty against Respondent.

E. The Division of Enforcement ("Division") may, at any time following the entry of this Order, petition the Commission to: (1) reopen this matter to consider whether Respondent provided accurate and complete financial information at the time such representations were made; and (2) seek an order directing payment of disgorgement, pre-judgment interest, and a civil penalty. No other issue shall be considered in connection with this petition other than whether the financial information provided by Respondent was fraudulent, misleading, inaccurate, or incomplete in any material respect. Respondent may not, by way of defense to any such petition: (1) contest the findings in this Order; (2) assert that payment of disgorgement, interest, or penalties should not be ordered; (3) contest the amount of disgorgement, interest, or penalties to be ordered; or (4) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

By the Commission.

Elizabeth M. Murphy  
Secretary