

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

**SECURITIES EXCHANGE ACT OF 1934**  
**Release No. 74089 / January 16, 2015**

**INVESTMENT ADVISERS ACT OF 1940**  
**Release No. 3999 / January 16, 2015**

**INVESTMENT COMPANY ACT OF 1940**  
**Release No. 31421 / January 16, 2015**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-16344**

**In the Matter of**

**EDGAR LEE**  
**GIOVANNETTI,**

**Respondent.**

**ORDER INSTITUTING  
ADMINISTRATIVE AND CEASE-  
AND-DESIST PROCEEDINGS  
PURSUANT TO SECTION 15(b) 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 15(b) 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 (“Investment Company Act”) against Edgar Lee Giovannetti (“Respondent” or “Giovannetti”).

**II.**

After an investigation, the Division of Enforcement alleges that:

**A.     RESPONDENT**

1.       Giovannetti, 58, is a resident of Memphis, Tennessee. Giovannetti began working in the securities industry and has held securities licenses Series 7 and 63 since 1980.

2. Giovannetti was the co-founder of Consulting Services Group, LLC (“CSG”), a formerly Commission-registered investment adviser based in Memphis, Tennessee. For all relevant time periods herein until December 30, 2011, Giovannetti was the Chief Executive Officer (“CEO”) of CSG, as well as the CEO and Chairman of the Executive Management Committee of CSG’s parent holding company CSG Holdings, LLC (“CSGH”). During those time periods, Giovannetti was also a registered investment adviser representative and registered representative associated with CSG and two other investment advisers wholly owned by CSGH’s subsidiary holding company and its affiliate broker-dealer. At all relevant times, Giovannetti held the second largest equity interest in CSG’s parent entity. He currently holds the largest equity interest.

3. On December 30, 2011, Giovannetti resigned his executive positions with CSG and CSGH and voluntarily terminated his registrations with CSG and CSGH’s affiliate broker-dealer and remained registered with the two investment advisers owned by CSGH’s holding company until December 13, 2013.

4. On July 19, 2012, Giovannetti consented to the Financial Industry Regulatory Authority’s (“FINRA”) imposition upon him of a three-month suspension from association in all capacities with any FINRA member firm, plus a \$15,000 fine, for three separate episodes of alleged misconduct that violated certain NASD and FINRA Rules and By-Laws.

5. Giovannetti is currently associated with LW Partners Capital Group, LLC, a registered broker-dealer with the Commission and based in New York, New York.

B. RELEVANT ENTITY

6. Consulting Services Group, LLC (“CSG” or the “Firm”), is a Tennessee limited liability company with its principal office located in Memphis, Tennessee. CSG was registered with the Commission as an investment adviser from July 6, 1990, until October 4, 2013, when it withdrew its registration and ceased investment advisory activities. During the relevant time period, CSG stated in its ADV that it had certain assets under management ranging from \$21.7 million in one client account on a discretionary basis in 2009 to \$22.5 billion in 74 client accounts on a non-discretionary basis in 2012. CSG’s clients included public and private pension and retirement plans, endowments and high net worth individuals.

C. GIOVANNETTI FAILS TO DISCLOSE HIS PERSONAL LOAN FROM A THIRD-PARTY INVESTMENT ADVISER AND FILES FALSE FORMS ADV

7. From 1990 until his resignation on December 30, 2011, Giovannetti effectively controlled CSG as its CEO, and as the CEO and Chairman of CSG’s parent

entity. Giovannetti held the second largest equity interest in CSG and later CSG's parent entity.

8. Prior to, and after, April 2009, CSG and Giovannetti recommended a particular New York-based third-party investment adviser registered with the Commission (the "New York Investment Adviser") and its funds to several CSG clients. Approximately seven CSG clients, including two public pension funds, followed CSG's and Giovannetti's recommendations by investing in at least one of the New York Investment Adviser's funds. On July 29, 2009, one of those public pension fund clients made a further capital contribution investment of \$10 million into one of the funds of the New York Investment Adviser.

9. In or about April 2009, Giovannetti was undergoing significant personal financial challenges.

10. On April 21, 2009, Giovannetti obtained a personal loan of \$50,000 from the New York Investment Adviser and executed a promissory note in connection therewith (the "Note"). The Note required payment of principal and interest within 90 days, on July 21, 2009. Under the terms of the Note, the rate of interest during its term was 3.10%, but the rate of interest following default (which was defined to include failure to pay by the end of the loan's term) was 8%.

11. Giovannetti failed to disclose the existence of the loan to CSG's Compliance Group ("CSG Compliance") in violation of CSG's policies and procedures.<sup>1</sup>

12. By a memo dated August 5, 2009, CSG Compliance advised Giovannetti that a review of emails by the compliance department had discovered the existence of his loan from the New York Investment Adviser (the "Memo"). The Memo noted that the New York Investment Adviser from whom he had obtained the loan managed the assets of seven CSG clients (including some of his own clients) and created a "potential conflict of interest:"

[w]hile CSG's Code of Ethics does not specifically restrict borrowing Money from investment managers, the borrowing of money by CSG employees from investment managers that manage CSG client assets creates a potential conflict of interest in that such CSG employee may be more inclined to recommend the utilization of such investment manager due to the personal indebtedness to such investment manager.

13. The Memo concluded by asking Giovannetti whether the debt remained outstanding and noting that, "[if] the indebtedness is still in place," then CSG and/or he would need to disclose the loan "to the clients that you work with that invest with [the New York Investment Adviser]."

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<sup>1</sup> Between in or about December 2002 and July 2009, Giovannetti also personally invested in investments offered by the New York Investment Adviser.

14. On August 8, 2009, Giovannetti sent an email to CSG's Chief Compliance Officer, falsely stating, among other things, that he had paid off the loan. As stated in that email:

I am a personal investor in [the New York Investment Adviser's] hedge fund and about six months ago I submitted a redemption request due to serious cash flow issues I am dealing with. The [request] was beyond the standard period stated in the PPM so ... [the New York Investment Adviser] decided the best way to assist me with my personal needs was to make a loan to me...until the window to redeem was open. *I redeemed July 1<sup>st</sup> and paid the loan off.* (emphasis added).

15. In fact, Giovannetti had not repaid the loan and it was still outstanding as of the date of that communication to CSG's Chief Compliance Officer.

16. Contrary to his statements to CSG Compliance, Giovannetti —both directly or indirectly — acknowledged on multiple occasions in 2009 and 2010 to the New York Investment Adviser that he had not paid back the loan. Nevertheless, Giovannetti failed to advise CSG or CSG Compliance that the loan had not been paid back.

17. By Giovannetti's initial concealment of the loan, and his subsequent misstatement and omissions about its status, required disclosure regarding the loan, including information relating to the conflict, were not disclosed in the Firm's Forms ADV Part II, dated August 6, 2009, and July 6, 2010 nor in the Form ADV Part 2A, dated March 31, 2011. As a result, those Forms ADV Parts II and 2A contained material omissions when filed with the Commission.

D. GIOVANNETTI'S CONTINUED FALSE AND MISLEADING STATEMENTS AND FORMS ADV

18. In August 2011, in connection with an examination of CSG conducted by staff from the Commission's National Examination Program, Giovannetti admitted to Commission staff that the debt owed to the New York Investment Adviser was still outstanding.

19. Shortly thereafter, CSG disclosed the existence of that Giovannetti debt in its Form ADV Part 2A, dated August 24, 2011:

Potential Conflict – Loan from [the New York Investment Adviser] to Lee Giovannetti, CEO of CSG holdings, LLC. In 2009, Mr. Giovannetti borrowed \$50,000 at 3.10% interest *as an advance of a redemption related to* his investment in [the New York Investment Adviser]'s long/short hedge fund. *Repayment has not been made and is pending.* This presents a potential conflict in that CSG may

recommend [the New York Investment Adviser] over other money managers as a result of the loan. (emphasis added).

20. No mention was made in that disclosure that, among other things, Giovannetti had already redeemed the monies in his fund but had not paid off the loan from such redemption proceeds, that he had previously falsely stated to CSG Compliance that he had paid off the loan, that the loan was currently in default, and that the interest rate was accruing at 8%, given that the default rate of interest had become applicable.

21. Between at least September 2011 and October 2011, Giovannetti made multiple false statements to CSG Compliance concerning the loan, including that he had “retired the loan” and that he had “communicated [this] to the SEC when [he] was interviewed during the last exam.”

22. CSG repeated the same inaccurate and incomplete disclosures that it had previously made in its Form ADV Part 2A of August 24, 2011, in its subsequent Form ADV Part 2A of March 28, 2012. As a result, this Form ADV Part 2A contained material omissions when filed with the Commission.

23. On or about July 20, 2012, Giovannetti finally repaid the loan and interest (totaling \$63,044) to the New York Investment Adviser.

#### E. VIOLATIONS

24. As a result of the conduct described above, Giovannetti willfully violated Sections 206(1) and 206(2) of the Advisers Act, which prohibit an investment adviser from employing a device, scheme, or artifice to defraud any client or prospective client, and from engaging in conduct which operates as a fraud or deceit upon any client or prospective client.

25. As a result of the conduct described above that occurred between April 21, 2009, and December 30, 2011, Giovannetti violated Section 207 of the Advisers Act which makes it “unlawful for any person willfully to make any untrue statement of a material fact in any registration application or report filed with the Commission . . . or willfully to omit to state in any such application or report any material fact which is required to be stated therein.”

26. As a result of the conduct described above that occurred between April 21, 2009, and December 30, 2011, Giovannetti willfully aided and abetted and caused CSG’s violations of Section 207 of the Advisers Act, which makes it “unlawful for any person willfully to make any untrue statement of a material fact in any registration application or report filed with the Commission . . . or willfully to omit to state in any such application or report any material fact which is required to be stated therein.”

27. As a result of the conduct described above that occurred after December 30, 2011, Giovannetti caused CSG’s violation of Section 207 of the Advisers

Act which makes it “unlawful for any person willfully to make any untrue statement of a material fact in any registration application or report filed with the Commission . . . or willfully to omit to state in any such application or report any material fact which is required to be stated therein.”

### **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 Respondent an opportunity to establish any defenses to such allegations;

B. What, if any, remedial action is appropriate in the public interest against Respondent pursuant to Section 15(b) of the Exchange Act.

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

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

E. Whether, pursuant to Section 203(k) of the Advisers Act, Respondent should be ordered to cease and desist from committing or causing violations of and any future violations of Sections 206(1) and 206(2) and 207 of the Advisers Act, whether Respondent should be ordered to pay a civil penalty pursuant to Section 203(i) of the Advisers Act, and Section 9(d) of the Investment Company Act, and whether Respondent should be ordered to pay disgorgement pursuant to Section 203 of the Advisers Act and Section 9 of the Investment Company 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 Respondent shall file an Answer 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 Respondent fails to file the directed answer, or fails to appear at a hearing after being duly notified, the Respondent may be deemed in default and the proceedings may be determined against him 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 Respondent as provided for in the Commission's Rules of Practice.

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.

Brent J. Fields  
Secretary