

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 75340 / July 1, 2015

INVESTMENT ADVISERS ACT OF 1940
Release No. 4136 / July 1, 2015

INVESTMENT COMPANY ACT OF 1940
Release No. 31701 / July 1, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16671

In the Matter of

**RICHARD LAWRENCE
EVANS,**

Respondent.

**ORDER INSTITUTING
ADMINISTRATIVE AND CEASE-AND-
DESIST PROCEEDINGS, PURSUANT TO
SECTION 15(b) OF THE SECURITIES
EXCHANGE ACT OF 1934, SECTION
203(k) OF THE INVESTMENT ADVISERS
ACT OF 1940 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 Section 15(b) of the Securities Exchange Act of 1934 (“Exchange Act”), Section 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 Richard Lawrence Evans (“Evans” or “Respondent”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (“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 Respondent and the subject matter of these proceedings,

which are admitted, and except as provided herein in Section V, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Section 15(b) of the Securities Exchange Act of 1934, Section 203(k) of the Investment Advisers Act of 1940 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 Respondent’s Offer, the Commission finds¹ that:

SUMMARY

These proceedings arise out of Respondent’s role in a scheme orchestrated by a registered investment adviser to inflate the valuations of certain mortgage-backed securities held in the portfolio of private investment funds managed by the adviser.

1. Since the funds’ inception in 2001, the adviser purported to obtain independent market-based price quotes for the securities at issue from two registered representatives of registered broker-dealers, one of whom was Respondent. However, as time went on, the process of providing monthly price quotes to the adviser became increasingly time-consuming and complex. By 2010, the adviser offered to abbreviate the process by providing its valuations to Respondent, which Respondent cursorily reviewed and then passed on to the funds’ administrator and auditor as if they were Respondent’s own price quotes. Respondent also played a role in responding to certain inquiries from the funds’ auditor in connection with year-end audits for 2011 and 2012 without informing the auditor that the adviser had crafted the responses. The adviser’s scheme boosted the funds’ net asset values and thus increased the management and performance fees that the adviser collected from the funds. Based on the foregoing, Respondent aided and abetted and caused the adviser’s violations of various antifraud provisions of the Advisers Act.

RESPONDENT

2. Richard Lawrence Evans (“Evans”) is 62 years old and resides in Houston, Texas. Between at least 2000 and 2013, Evans was a registered representative of a succession of Commission-registered broker-dealers. In May 2013, Evans was terminated from his employment at a broker-dealer for violating its policy. Since his termination, Evans has not worked in the securities industry. Evans previously held Series 7, 24, 63, and 65 licenses. Evans obtained a real estate license from the State of Texas in July 2013 and has since been working as a real estate agent.

RELATED ENTITIES AND INDIVIDUALS

3. AlphaBridge Capital Management, LLC (“AlphaBridge”) is a Delaware limited liability company with its principal place of business in Greenwich, Connecticut. Since November 2000, AlphaBridge has been registered with the Commission as an investment adviser (File No. 801-58162). Since February 2001, AlphaBridge has provided investment advisory services to three

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

unregistered private funds, the AlphaBridge Fixed Income Master Fund, Ltd. and its onshore and offshore feeder funds, the AlphaBridge Fixed Income Fund, Ltd. and AlphaBridge Fixed Income Partners, LP (collectively, “AlphaBridge Funds” or “Funds”).

4. Thomas T. Kutzen (“Kutzen”) is AlphaBridge’s founder, majority owner, managing member, president, chief executive officer, and chief investment officer. Kutzen is 61 years old and resides in Riverside, Connecticut.

5. Michael J. Carino (“Carino”) is AlphaBridge’s chief compliance officer and minority owner. Carino is 43 years old and resides in Greenwich, Connecticut.

FACTS

Evans’ Background and Experience

6. Between 2000 and 2013, Evans was a registered representative (typically in a salesperson role) at several different Commission-registered broker-dealers in succession.

7. AlphaBridge first became Evans’ customer in 2000. Beginning in at least 2001, Evans arranged for the execution of the purchases and sales of various securities by AlphaBridge and the AlphaBridge Funds. Other than his brokerage commissions, Evans did not receive any compensation or remuneration from AlphaBridge.

8. Between 2000 and 2013, AlphaBridge was consistently one of Evans’ largest customers. Commissions from trades for AlphaBridge accounted for at least 10% of Evans’ commissions in most years, more than 30% in some years, and nearly 60% in 2011.

9. Evans had experience with, among other things, a range of fixed income securities, including mortgage-backed securities and U.S. Treasury securities. Specifically, Evans had familiarity and experience with securities known as interest-only (“IO”) and inverse, interest-only (“IIO”) floaters. The AlphaBridge Funds held IOs and IIOs in its portfolio.

10. IOs and IIOs are strips or tranches of collateralized mortgage obligations (“CMOs”). CMOs are pools of mortgage loans that receive cash flows from the underlying mortgages and are organized into different payment classes based on the varying characteristics of the underlying mortgages. The IO and IIO classes of a CMO receive a coupon payment that fluctuates based on changes in prevailing interest rates.

11. IOs and IIOs are unlisted, thinly-traded securities and are commonly valued based on discounted future cash flows. Determining future cash flows for IOs and IIOs depends heavily on the conditional prepayment rate (“CPR”), which is the percentage of a CMO pool that is or is expected to be prepaid within a given period. Lower interest rates tend to correlate with higher prepayment rates (because more borrowers tend to refinance in a lower interest rate environment), and higher interest rates tend to correlate with lower prepayment rates. Historical CPR is an actual past prepayment percentage. Projected CPR is an estimate of a future prepayment percentage.

12. The projected CPR is an important factor for valuing IOs and IIOs. All other factors being equal, the greater the number of loans in a CMO pool that have been prepaid, the lower the overall income stream, and the lower the payment to the IO and IIO holder. Thus, all other factors being equal, higher projected CPRs (or faster prepayment rates) tend to correlate with lower projected cash flows and lower IO and IIO values, while lower projected CPRs (or slower prepayment rates) tend to correlate with higher projected cash flows and higher IO and IIO values.

Evans' Role in Fund Pricing

13. From at least 2001 through at least April 2013, AlphaBridge represented to the Funds' investors, administrator ("Administrator"), and auditor ("Auditor") that its process for valuing the IOs and IIOs in the Funds' portfolio was to obtain monthly price quotes from two registered representatives at independent and reputable broker-dealers and to use the arithmetic average of these quotes as AlphaBridge's price for these securities.

14. Since the Funds' inception in 2001, AlphaBridge purported to obtain price quotes from the same two registered representatives, one of whom was Evans, whose written price quotes were provided monthly to the Administrator and annually to the Auditor.

15. From approximately 2001 to 2008, each month Evans received a list of the securities in the Funds' portfolio from Carino. Evans asked the traders at his respective broker-dealers for price quotes for these securities. Evans in turn provided these quotes to Carino and, at Carino's request, thereafter sent them to the Administrator and/or Auditor.

16. Between 2008 and 2010, as the number of IOs and IIOs in the Funds' portfolio grew to over 100 securities, Evans encountered resistance from the traders at his respective broker-dealers because the pricing process for AlphaBridge was becoming increasingly time-consuming and subjective. Evans told Carino of the traders' resistance.

17. Sometime during this period between 2008 and 2010, to expedite the monthly pricing process, Carino suggested to Evans that he share AlphaBridge's prices for the IO and IIO securities in the Funds' portfolio with Evans. Carino told Evans that he generated AlphaBridge's prices by using his own valuation model.

18. After Carino began sharing AlphaBridge's prices with Evans, he did so strictly orally. Carino would email a spreadsheet listing the Funds' holdings to Evans and then would read aloud AlphaBridge's prices to Evans over the telephone. At Carino's direction, Evans wrote down the prices, then typed them into the spreadsheet, and later sent them on to the Administrator and/or Auditor.

19. After Carino began sharing AlphaBridge's prices with Evans, Carino told Evans to review the prices and, if Evans agreed, to pass along those prices to the Administrator and the Auditor. Evans raised few objections with Carino concerning the prices, and any questions Evans raised were generally resolved in AlphaBridge's favor. As time went on, Evans took minimal steps to review or check the validity of AlphaBridge's prices, which Carino knew or was reckless in not knowing.

20. In approximately mid-2010, Evans told Carino that AlphaBridge's prices were not in line with prices that Evans was seeing in actual or potential transactions in the same or comparable securities. Carino told Evans that AlphaBridge was switching to a long-term valuation model for the Funds' portfolio, as opposed to a fair value standard, and that the Auditor had approved this change. Evans accepted Carino's explanation and agreed to continue to pass along Carino's prices, as if they were Evans' prices, to the Administrator and the Auditor until April 2013.

21. Evans never told the Administrator or Auditor that Carino was sharing his prices with Evans or that the prices that Evans transmitted to the Administrator and Auditor, as if they were Evans' own prices, in fact were generated by Carino.

22. In May 2013, Evans was terminated for providing price quotes for the AlphaBridge Funds in contravention of the policies and procedures of Evans' employer. Evans informed both Carino and Kutzen of his termination in telephone calls.

Evans' Role in Fund Audits

23. From at least 2006 through 2013, the Auditor conducted an annual audit of the Funds' financial statements, and the Auditor requested and received a list of year-end prices from Evans.

24. Beginning with the 2008 year-end audit of the AlphaBridge Funds, the Auditor requested and received the assistance of a team of valuation professionals ("Valuation Group") to assess the validity of AlphaBridge's methodology for pricing the IIOs in the Funds' portfolio.

25. In connection with the 2011 year-end audit of the AlphaBridge Funds, the Auditor noted a greater disparity than in past years between AlphaBridge's IIO prices and the prices reflected in the Auditor's internal pricing database (which contained inputs from various industry pricing vendors). The Auditor requested that AlphaBridge allow the Auditor and Valuation Group to speak to AlphaBridge's pricing sources. Carino arranged a telephone call with Evans.

26. Carino spent a significant amount of time preparing Evans for the call and coaching Evans on what Evans should say on particular topics, including Evans' view on CPRs. Evans did not tell the Auditor about this preparation.

27. After the telephone call with Evans, the Valuation Group posed a series of questions for Carino to pass on to Evans. These questions included requests for trade data (including bids) on securities in the Funds' portfolio or, alternatively, trade data for purportedly comparable securities and the reasoning as to why such securities were comparable to those in the Funds' portfolio.

28. Carino emailed the Auditor's questions to Evans along with Carino's proposed responses. Evans made slight edits to the responses that Carino drafted. Evans ultimately sent the responses, largely as Carino had drafted them, to the Auditor and Valuation Group. Evans did not tell the Auditor about Carino's role in drafting the responses.

29. The responses included CPR projections for a sample of securities in the Funds' portfolio and information on trades, bids and offers for IIOs that were purportedly comparable to those in the Funds' portfolio. Some of the transaction data provided by Carino for two purportedly comparable securities contained certain inaccuracies. Evans did not tell the Auditor that the CPR projections and other data were derived from Carino and not from Evans.

30. After receiving the responses from Evans, the Auditor and Valuation Group posed more questions for Carino to pass along to Evans, including asking why CPR forecasts from various industry sources were substantially higher than AlphaBridge's CPR assumptions. Carino again emailed the Auditor's questions to Evans, along with Carino's suggested responses. Carino copied Kutzen on this email. As with the prior round of questions, Carino and Evans exchanged drafts of the responses. Ultimately, Carino indicated by email that Evans' revision "looks fine to send," after which Evans sent the responses—again, largely drafted by Carino—to the Auditor and Valuation Group. In substance, the responses urged the Auditor to rely on the previously submitted data for the purportedly comparable securities and expressed the opinion that dealer CPR forecasts were not reliable. Evans did not tell the Auditor about Carino's role in drafting the responses.

31. Only after speaking with and receiving the written responses from Evans, the Valuation Group accepted AlphaBridge's prices, and the Auditor completed the 2011 year-end audit.

32. As the Valuation Group began its work on the 2012 year-end audit, it observed that AlphaBridge's IIO prices had diverged even further from the prices in the Auditor's internal pricing database. Of particular concern to the Auditor and the Valuation Group was the fact that, although actual historical CPRs remained relatively-high (at least in part because of sustained low interest rates) during the course of 2012, AlphaBridge continued to use the same lower CPR assumptions that it had used the year before.

33. The Auditor and Valuation Group again posed a series of questions for, and asked to speak to, AlphaBridge's pricing sources. Similar to what occurred in connection with the 2011 audit, AlphaBridge made Evans available, and Carino formulated Evans' oral and written responses to the Auditor's and Valuation Group's questions. However, the responses were not sufficient to address the Auditor's concerns. Evans did not tell the Auditor about Carino's role in formulating the responses.

VIOLATIONS

34. Based on the conduct described above, Evans willfully² aided and abetted and caused AlphaBridge's violations of Section 206(2) of the Advisers Act, which prohibits an

² A willful violation of the securities laws means merely "that the person charged with the duty knows what he is doing." *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Id.* (quoting *Gearhart & Otis, Inc. v. SEC*, 348 F.2d 798, 803 (D.C. Cir. 1965)).

investment adviser from engaging in any transaction, practice, or course of business which operates as a fraud upon any client or prospective client.

35. Based on the conduct described above, Evans willfully aided and abetted and caused AlphaBridge's violations of Section 206(4) of the Advisers Act, which prohibits an investment adviser from engaging in any act, practice, or course of business which is fraudulent, deceptive, or manipulative, and Rule 206(4)-8 promulgated thereunder, which makes it unlawful for any investment adviser to a pooled investment vehicle to make any untrue statement of a material fact or to omit to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading to any investor or potential investor in the pooled investment vehicle, or otherwise to engage in any act, practice, or course of business that is fraudulent, deceptive, or manipulative with respect to any investor or potential investor in the pooled investment vehicle.

COOPERATION

36. In determining to accept the Offer, the Commission considered the cooperation the Respondent afforded the Commission staff.

IV.

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

Accordingly, pursuant to Section 15(b)(6) of the Exchange Act, Section 203(k) of the Advisers Act and Section 9(b) of the Investment Company Act, it is hereby ORDERED that:

- A. Respondent shall 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 Rule 206(4)-8 thereunder.
- B. Respondent shall be and hereby is:
 - (i) barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization;
 - (ii) 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; and
 - (iii) 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;

with the right to apply for reentry after one (1) year to the appropriate self-regulatory organization, or if there is none, to the Commission.

C. Any reapplication for association by 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 a civil money penalty in the total amount of \$15,000 to the Securities and Exchange Commission. Payment shall be made in the following installments: \$7,500 within ten (10) days of the entry of this Order; and \$7,500 within ninety (90) days of the entry of this Order. If timely payment of either installment 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 Respondent by name as a Respondent in these proceedings, and the file number of these proceedings; and a copy of the cover letter and check or money order must be sent to Robert B. Baker, Assistant Regional Director, Asset Management Unit, Division of Enforcement, Securities and Exchange Commission, Boston Regional Office, 33 Arch Street, 23rd Floor, Boston, MA 02110.

E. Such civil money penalty may be distributed pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended ("Fair Fund distribution"). Regardless of whether any such Fair Fund distribution is made, 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, Respondent agrees that in any Related Investor Action, Respondent shall not argue that Respondent is entitled to, nor shall Respondent benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that Respondent 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, "Related Investor Action" means a private damages action brought against Respondent 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.

F. Respondent acknowledges that the Commission is not imposing a civil penalty in excess of \$15,000 based upon Respondent's cooperation in a Commission investigation and/or related enforcement action. If at any time following the entry of this Order, the Division of Enforcement ("Division") obtains information indicating that Respondent knowingly provided materially false or misleading information or materials to the Commission or in a related proceeding, the Division may, at its sole discretion and with prior notice to the Respondent, petition the Commission to reopen this matter and seek an order directing that the Respondent pay an additional civil penalty. Respondent may contest by way of defense in any resulting administrative proceeding whether Respondent knowingly provided materially false or misleading information, but may not: (1) contest the findings in this Order; or (2) assert any defense to liability or remedy, including, but not limited to, any statute of limitations defense.

V.

It is further ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. § 523, the findings in this Order are true and admitted by Respondent, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondent of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. § 523(a)(19).

By the Commission.

Brent J. Fields
Secretary