

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 4135 / July 1, 2015

INVESTMENT COMPANY ACT OF 1940
Release No. 31700 / July 1, 2015

ADMINISTRATIVE PROCEEDING
File No. 3-16670

In the Matter of

**ALPHABRIDGE CAPITAL
MANAGEMENT, LLC,
THOMAS T. KUTZEN, AND
MICHAEL J. CARINO,**

Respondents.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS,
PURSUANT TO SECTIONS 203(e), 203(f)
AND 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 Sections 203(e), 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 AlphaBridge Capital Management, LLC, Thomas T. Kutzen, and Michael J. Carino (collectively, “Respondents”).

II.

In anticipation of the institution of these proceedings, Respondents have submitted Offers of Settlement (“Offers”) 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 Respondents and the subject matter of these proceedings, which are admitted, and except as provided herein in Section V, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 203(e), 203(f) and 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 Respondents' Offers, the Commission finds¹ that:

SUMMARY

1. These proceedings arise out of a fraudulent 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. The scheme boosted the funds' net asset values and thus increased the management and performance fees that the adviser collected and eventually disbursed to the advisory firm's principals. The firm and its principals consequently breached their fiduciary duty to their advisory clients.

2. Since the funds' inception in 2001, the adviser told the funds' investors, administrator, and auditor (including a valuation group working for the auditor) that the adviser obtained independent, market-grounded price quotes for the securities at issue from registered representatives of two reputable broker-dealers. However, the process changed over time, and, by 2010, the adviser supplied its valuations to the registered representatives for them to pass off as their own to the funds' administrator and auditor. As the adviser's prices became increasingly divergent from other valuation sources in 2011 and 2012, the auditor asked to speak directly to the registered representatives who supposedly could provide market-based support for the prices. The adviser agreed to make one of the two registered representatives available to the auditor, but, unbeknownst to the auditor, the adviser scripted the registered representative's responses to the auditor's inquiries, thereby further misleading and deceiving the auditor and ultimately the funds' investors.

RESPONDENTS

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).

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.

¹ The findings herein are made pursuant to Respondents' Offers and are not binding on any other person or entity in this or any other proceeding.

FACTS

Background

6. Since February 2001, AlphaBridge has provided investment advisory services to the AlphaBridge Fixed Income Master Fund, Ltd. and its two feeder funds, the AlphaBridge Fixed Income Fund, Ltd. and AlphaBridge Fixed Income Partners, LP, all of which are private investment funds (collectively, “AlphaBridge Funds” or “Funds”).

7. At all times, the AlphaBridge Funds were AlphaBridge’s sole advisory clients, and AlphaBridge was the general partner or manager of the Funds.

8. At all times, Kutzen and Carino were co-portfolio managers of the Funds, and Carino had primary day-to-day responsibility for oversight of the Funds.

9. AlphaBridge collected a management fee equal to 2% per annum of the Funds’ assets, payable on a monthly basis. AlphaBridge also was entitled to collect an annual incentive or performance fee equal to 20% of the net profits of the Funds for achieving positive year-over-year returns.

Securities in the Funds’ Portfolio

10. The primary investment objective of the AlphaBridge Funds, as stated in the Funds’ offering memoranda, was to invest in a broad range of fixed income securities, including mortgage-backed securities and U.S. Treasury securities.

11. At all times, the Funds’ holdings included securities known as interest-only (“IO”) and inverse, interest-only (“IIO”) floaters, which 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.

12. IOs and IIOs are unlisted, thinly-traded securities and are commonly valued based on discounted future cash flows.

13. 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.

14. 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.

Misleading and Fraudulent Conduct Concerning Price Quotes

15. From at least 2001 through at least April 2013, AlphaBridge made various representations to the Funds' investors, the administrator of the Funds ("Administrator"), and the Funds' auditor ("Auditor") concerning AlphaBridge's process for valuing the IOs and IIOs in the Funds' portfolio. In the Funds' financial statements, in responses to due diligence questionnaires and in other oral and written statements to investors and potential investors in the Funds, and (beginning in 2011) in AlphaBridge's written valuation policy, AlphaBridge, through Kutzen and Carino, stated that AlphaBridge obtained monthly price quotes for the IOs and IIOs from two independent and reputable broker-dealers and used the arithmetic average of these quotes as AlphaBridge's price for these securities. Fundamentally, AlphaBridge represented, and the Funds' investors, Administrator and Auditor understood and expected, that the broker-dealers providing price quotes to AlphaBridge were independent of and not controlled or influenced by AlphaBridge. However, by 2010, AlphaBridge was providing its valuations to registered representatives of the broker-dealers to provide to the Administrator without disclosing this practice to the Funds' investors, Administrator, and Auditor.

16. Since the Funds' inception in 2001, AlphaBridge has purported to obtain price quotes for the IIOs in the Funds' portfolio from the same two registered representatives, both of whom had long-term business relationships with AlphaBridge. Other than commissions for transactions executed for AlphaBridge or the Funds, the registered representatives did not receive compensation or remuneration from AlphaBridge for providing the price quotes.

17. One of these individuals ("Person A") was a registered representative (typically in a salesperson role) at several different Commission-registered broker-dealers in succession between 2000 and 2013. During that period, AlphaBridge was consistently one of Person A's largest customers. Commissions from trades for AlphaBridge accounted for at least 10% of Person A's commissions in most years, more than 30% in some years, and nearly 60% in 2011.

18. During the same period, the other individual ("Person B") was a registered representative and salesperson successively at two Commission-registered broker-dealers. Person B conducted significant business with AlphaBridge during this period, but AlphaBridge was a smaller percentage of Person B's business than it was of Person A's business.

19. Between at least 2008 and 2013, AlphaBridge, through Kutzen and Carino, routinely and repeatedly refused requests from investors or potential investors in the Funds (or their consultants) to identify or provide contact information for Person A and Person B.

20. Since the Funds' inception in 2001, Person A and Person B provided written price quotes monthly to the Administrator and annually to the Auditor.

21. From approximately 2001 to 2008, Person A and Person B both received lists from Carino of the securities in the Funds' portfolio, and both of them asked traders at their respective broker-dealers for price quotes for these securities. Person A and Person B in turn provided these prices to Carino and, at Carino's request, thereafter sent them to the Administrator and Auditor.

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

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

24. When Carino began sharing AlphaBridge's prices with Person A and Person B, he initially did so strictly orally. According to Person A, Carino would email a list of the Funds' holdings to Person A and then would read aloud AlphaBridge's prices to Person A over the telephone. At Carino's direction, Person A wrote down the prices, then typed them into the spreadsheet, and later sent them on to the Administrator and/or Auditor. For some period, Carino followed a similar practice with Person B, but, by 2012, Carino was sending spreadsheets to Person B via electronic mail with prices already populated.

25. When Carino began sharing AlphaBridge's prices with Person A and Person B, Carino told them each to review his prices and, if they agreed, to pass along the prices to the Administrator and the Auditor. However, in practice, as Carino knew or was reckless in not knowing, Person A and Person B did little or nothing to review or check the validity of AlphaBridge's prices.

26. By 2010, the prices that Person A and Person B sent to the Administrator and the Auditor—as if they were generated by Person A and Person B—in fact were AlphaBridge's prices as generated by Carino. Person A and Person B had few if any disagreements with Carino concerning the prices, and any questions Person A or Person B raised were generally resolved in AlphaBridge's favor. Also, for monthly pricing, oftentimes there was a very short turnaround time between Carino providing AlphaBridge's prices to Person A and Person B and Person A and Person B transmitting their price quotes to the Administrator, which Carino knew or was reckless in not knowing because Person A and Person B typically copied Carino on their transmittals to the Administrator. By 2012, Person B was sending Carino's price sheets to the Administrator—unaltered—within a few hours, and sometimes within an hour, of receiving the price sheets from Carino.

27. In approximately mid-2010, Person A told Carino that AlphaBridge's prices were not in line with prices that Person A was seeing in actual or potential market transactions in the same or comparable securities. According to Person A, Carino told Person A 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. Carino told the Auditor, in conversations and in a valuation memorandum that Carino prepared, that a longer term view of CPRs was appropriate because CPRs fluctuated significantly on a month-to-month basis, and that Person A, as a market participant, would agree with the longer-term view of CPRs. Person A accepted Carino's explanation and agreed to continue to pass along Carino's prices, as if they were generated by Person A, to the Administrator and the Auditor until April 2013.

28. Person B continued the practice of passing along AlphaBridge's prices, as if they were generated by Person B, to the Funds' Administrator and Auditor through December 31, 2012. In early 2013, Person B told Carino that Person B's employer had a new, centralized process for providing pricing information to customers and that, if Carino wanted to continue to obtain price quotes from Person B, Carino would need to go through the new formalized process. Carino declined and thereafter did not seek further pricing from Person B.

29. Neither Person A nor Person B told the Administrator or Auditor that Carino was sharing his prices with each of them or that the prices they each transmitted to the Administrator and Auditor were generated by Carino.

30. Person A and Person B also did not tell their various respective employers during the relevant period that they were providing price quotes to the AlphaBridge Funds. Carino knew or was reckless in not knowing that the broker-dealers that employed Person A and Person B did not authorize them to provide price quotes for the Funds and therefore institutionally did not stand behind the quotes. Despite his knowledge or reckless disregard, Carino suggested to the Auditor at various times that price quotes from Person A and Person B were trustworthy because their employers were reputable broker-dealers.

31. In May 2013, Person A was terminated for providing price quotes for the AlphaBridge Funds in contravention of the policies and procedures of Person A's employer. According to Person A, Person A informed both Carino and Kutzen of the termination in telephone calls. Neither Carino nor Kutzen relayed this information to the Auditor.

32. In July 2013, Person B was terminated for providing price quotes for the AlphaBridge Funds in contravention of the policies and procedures of Person B's employer.

Fraudulent Conduct During Audits

33. At all times, the Funds' financial statements stated that they were prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). The Funds' financial statements (as well as the Funds' offering documents) stated that the value of fund assets that do not trade on an exchange or for which there is no other ready market would be determined in accordance with principles of fair value. Financial Accounting Standards Board Accounting Standards Codification Topic 820, *Fair Value Measurement* ("ASC 820") defines fair value as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date." The

Funds' financial statements characterized the IOs and IIOs in the Funds' portfolio as "Level 3" assets in the ASC 820 fair value hierarchy.

34. From at least 2006 through 2013, the Auditor conducted an annual audit of the Funds' financial statements. Kutzen, as AlphaBridge's managing member, signed annual management representation letters to the Auditor on AlphaBridge's behalf. These letters included representations about the independence of Person A and Person B.

35. At all relevant times, the Auditor understood and expected that Person A and Person B were independent third parties and not controlled or influenced by AlphaBridge or its principals. The Auditor credited the IIO prices and other information it received from Person A and Person B because the Auditor believed that they were independent third parties and that evidence from independent third parties, as opposed to evidence derived from Firm management, was more inherently reliable. AlphaBridge also represented to the Auditor that Person A and Person B and their respective broker-dealers were market participants trading IOs and IIOs, which carried greater weight with the Auditor in light of the fair value standard in ASC 820.

36. 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.

37. In connection with the 2011 and 2012 year-end audits, Carino drafted and sent to the Auditor memoranda detailing AlphaBridge's valuation process. The memos included representations about the reputability of Person A and Person B and their respective broker-dealers. The memos also stated that, as a check against the prices from Person A and Person B, AlphaBridge undertook its own analysis using a proprietary valuation model. For both years, the memos concluded that quotes from Person A and Person B were reasonable, that AlphaBridge's own analysis corroborated the quotes from Person A and Person B, and that therefore AlphaBridge's prices "reflect a market based view from external brokers in the markets." In light of the fact that, by 2011 and 2012, Carino was sharing AlphaBridge's prices with Person A and Person B for them to pass along to the Administrator as if they were generated by Person A and Person B, AlphaBridge's representations in the memos were false or misleading.

2011 Audit

38. In connection with the 2011 year-end audit, after noting a greater disparity than in past years between AlphaBridge's IIO prices and the prices reflected in the Valuation Group's internal pricing database (which contained inputs from various industry pricing vendors), the Auditor and Valuation Group asked to speak to Person A and Person B. Carino agreed to arrange a telephone call with Person A.

39. Unbeknownst to the Auditor or Valuation Group, Carino spent a significant amount of time preparing Person A for the call, including coaching Person A on what Person A should say on particular topics, including Person A's view on CPRs.

40. After the telephone call with Person A, the Valuation Group posed a series of additional questions for Carino to pass on to Person A. 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 for the use of any data for purportedly comparable securities. When emailing the questions to Carino, the Auditor noted that "it would be good for [sic] an audit corroboration perspective for [Person A] to respond directly to [the Auditor or the Valuation Group]." Carino agreed he would ask Person A to respond directly.

41. Carino emailed the Auditor's questions to Person A along with Carino's proposed responses. Person A made slight edits to the responses that Carino drafted, but Person A ultimately sent the responses, largely as Carino had drafted them, to the Auditor and Valuation Group. The responses included CPR projections on the sample securities in the Funds' portfolio and information on trades, bids and offers for IIOs that were purportedly comparable to those in the Funds' portfolio. Unbeknownst to the Auditor, the CPR projections were not Person A's, but were Carino's. Also, some of the transaction data provided by Carino for two purportedly comparable securities contained certain inaccuracies.

42. After receiving the responses from Person A, the Auditor and Valuation Group posed more questions for Carino to pass along to Person A, 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 Person A, along with Carino's suggested responses. Carino copied Kutzen on this email. As with the prior round of questions, Carino and Person A exchanged drafts of the responses. Ultimately, Carino indicated by email that Person A's revision "looks fine to send," after which Person A 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.

43. Only after speaking with and receiving the written responses from Person A, the Valuation Group accepted AlphaBridge's prices, and the Auditor completed the 2011 year-end audit. Relying specifically on Person A's responses as independent, third-party corroborative evidence, and attaching a copy of the response it received from Person A to a memo to the Auditor summarizing its work and analyses, the Valuation Group narrowly concluded that AlphaBridge's prices were within the range of the prices of the comparable securities that, unknown to the Auditor, Person A had obtained from AlphaBridge to transmit to the Auditor.

44. Neither the Auditor nor the Valuation Group knew that Carino had crafted the responses that they received from Person A or that the supporting data was gathered by Carino and not by Person A.

2012 Audit

45. As the Valuation Group began its work assisting the Auditor on the 2012 year-end audit, it observed that AlphaBridge's IIO prices had diverged even further from the prices in its internal pricing database. Of particular concern to the Auditor and the Valuation Group was the fact that, even though 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.

46. The Auditor and Valuation Group again posed a series of questions for, and asked to speak to, Person A and Person B. Similar to what occurred in connection with the 2011 audit, AlphaBridge made Person A available, and Carino formulated Person A's oral and written responses to the Auditor's and Valuation Group's questions, unbeknownst to them. However, the responses were not sufficient to address the Auditor's concerns.

47. AlphaBridge used the same CPR (which was significantly lower than the historical average CPR) for all the IOs and IIOs in the Funds' portfolio throughout 2011 and 2012. However, market data did not support or justify AlphaBridge's across-the-board use of such a CPR in these years. AlphaBridge's use of an unreasonably low CPR thus resulted in materially inflated valuations for the IOs and IIOs in the Funds' portfolio in these years.

The Audit is Suspended and the Funds' NAV is Reduced

48. In late April 2013, the Auditor suspended the 2012 year-end audit to permit AlphaBridge to propose an alternate methodology for valuing the IOs and IIOs in the Funds' portfolio. Ultimately, AlphaBridge retained an outside consultant and switched to a model-based valuation methodology for these securities.

49. In January 2014, the Funds' NAV for 2012 was written down more than 65%, from approximately \$138 million to approximately \$48 million, and only then did the Auditor complete the 2012 year-end audit of the Funds.

Respondents' Gains From the Fraud

50. During 2011 and 2012, AlphaBridge collected management fees from the Funds that were calculated based on overstated NAVs, causing ill-gotten gains to AlphaBridge and, as AlphaBridge's principals, individually to Kutzen and Carino.

51. As of year-end 2011 and 2012, AlphaBridge also collected performance fees from the Funds based on purported gains in the Funds. However, because the Funds' NAVs were overstated during these periods, AlphaBridge was not entitled to collect a performance fee for either year, and thus the performance fees constitute ill-gotten gains to AlphaBridge and, as AlphaBridge's principals, individually to Kutzen and Carino.

Misstatements in Form ADV

52. At all relevant times, AlphaBridge was required to file and did file Form ADV annual amendments with the Commission, which Carino signed on AlphaBridge's behalf.

53. At all relevant times, in its Form ADV annual amendments filed with the Commission, AlphaBridge reported its total assets under management and the net assets of the feeder Funds. Because the Funds' NAV was inflated as described above, AlphaBridge's Form ADV annual amendments filed with the Commission in 2012 and 2013 overstated the feeder Funds' net assets and AlphaBridge's assets under management.

Inadequate Compliance Procedures

54. At all relevant times, AlphaBridge was required to adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and rules thereunder.

55. AlphaBridge's valuation policy variously provided that the Funds' assets would be valued based on broker-dealer price quotes and/or in accordance with fair value standards. AlphaBridge failed to implement its valuation policy because, as described above, AlphaBridge did not obtain independent price quotes or otherwise comply with fair value standards in valuing the IOs and IIOs in the Funds' portfolio.

56. AlphaBridge's Form ADV stated that Carino, as AlphaBridge's chief compliance officer, would be responsible for developing and enforcing AlphaBridge's compliance policies and procedures. By his conduct as described above, Carino aided and abetted and caused AlphaBridge's failure to implement such policies and procedures.

VIOLATIONS

57. Based on the conduct described above, AlphaBridge willfully violated² Section 206(1) of the Advisers Act, which prohibits an investment adviser from employing any device, scheme, or artifice to defraud any client or prospective client, and Carino willfully aided and abetted and caused AlphaBridge's violation.

58. Based on the conduct described above, AlphaBridge willfully violated Section 206(2) of the Advisers Act, which prohibits an investment adviser from engaging in any transaction, practice, or course of business which operates as a fraud upon any client or prospective client, and Carino and Kutzen willfully aided and abetted and caused AlphaBridge's violation.

59. Based on the conduct described above, AlphaBridge willfully violated Section 206(4) of the Advisers Act, which prohibits an investment adviser from engaging in any fraudulent act, practice, or course of business as may be proscribed by Commission rules, and Rule 206(4)-7 promulgated thereunder, which requires an investment adviser to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act and rules thereunder, and Carino willfully aided and abetted and caused AlphaBridge's violations.

60. Based on the conduct described above, AlphaBridge willfully violated Section 206(4) of the Advisers Act, which prohibits an investment adviser from engaging in any act,

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)).

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, and Carino and Kutzen willfully aided and abetted and caused AlphaBridge's violations.

61. Based on the conduct described above, AlphaBridge and Carino willfully violated Section 207 of the Advisers Act, which makes it unlawful for any person willfully to make any untrue statement of a material fact or omit any material fact in any report filed with the Commission.

UNDERTAKINGS

Respondents have undertaken the following:

62. Independent Monitor.

- a. Before the entry of this Order, Respondents, in conjunction with the Funds' Boards of Directors, had begun winding down the operations of the Funds and shall continue that process. As part of that process, Respondents had discontinued the solicitation or acceptance of any new investments for the Funds from third parties. Respondents shall continue not to solicit or accept any new investments for the Funds from third parties.
- b. Within thirty (30) days of the date of this Order, Respondents Kutzen and Carino shall cause AlphaBridge to engage, at its own expense, an independent monitor ("Monitor") who is not unacceptable to the Commission staff, to:
 - i. oversee Respondents' activities relating to the wind down of the Funds;
 - ii. submit to the Commission staff a quarterly report describing the status of the wind down, all the assets of the Funds, and the operations of AlphaBridge; and
 - iii. report on an ongoing basis to the Commission staff any potential irregularities at AlphaBridge or any misconduct by the Respondents;
- c. Respondents shall fully cooperate with the Monitor and shall provide the Monitor with access to any and all documentation, files and other materials that the Monitor requests for review in the course of its duties, including, but not limited to a quarterly status report on the wind down of the Funds, monthly trial balance reports, monthly balance sheets, monthly cash flow statements, and monthly portfolio holdings reports; and

- d. Respondents Kutzen and Carino shall cause AlphaBridge to retain the Monitor until the wind down of the Funds is complete.

63. Compensation. Respondents shall not receive any fees or other compensation from the Funds for services rendered after the date of this Order.

64. Audit. Respondents Kutzen and Carino shall cause AlphaBridge to have prepared annual audited financial statements for the Funds until the wind down of the Funds is complete.

65. Notices. Within thirty (30) days of the entry of this Order, Respondents Kutzen and Carino shall cause AlphaBridge to provide a copy of this Order to the Funds' Boards of Directors, and to all current and former investors in the Funds between at least January 1, 2011 and the date of the entry of this Order, by mail, electronic mail or such other method not unacceptable to the Commission staff, together with a cover letter in a form not unacceptable to the Commission staff.

66. Withdrawal of Registration. Within thirty (30) days of the wind down of the Funds, Respondents Kutzen and Carino shall cause AlphaBridge to withdraw its registration as an investment adviser registered with the Commission.

67. Certifications of Compliance. Respondents shall certify, in writing, their compliance with the undertakings set forth above. The certifications shall identify the undertakings, provide written evidence of compliance in the form of a narrative, and be supported by exhibits sufficient to demonstrate compliance. The Commission staff may make reasonable requests for further evidence of compliance, and Respondents agree to provide such evidence. The certifications and supporting material shall be submitted 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, with a copy to the Office of Chief Counsel of the Division of Enforcement, no later than thirty (30) days from the completion of the undertakings.

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 Respondents' Offers.

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

A. Respondent AlphaBridge shall cease and desist from committing or causing any violations and any future violations of Sections 206(1), 206(2), 206(4) and 207 of the Advisers Act and Rules 206(4)-7 and 206(4)-8 promulgated thereunder.

B. Respondent Carino shall cease and desist from committing or causing any violations and any future violations of Sections 206(1), 206(2), 206(4) and 207 of the Advisers Act and Rules 206(4)-7 and 206(4)-8 promulgated thereunder.

C. Respondent Kutzen 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 promulgated thereunder.

D. Respondent AlphaBridge shall be and hereby is censured.

E. Respondent Kutzen shall be and hereby is censured.

F. Respondent Carino shall be and hereby is:

- (i) barred from association with any investment adviser, broker, dealer, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization; and
- (ii) 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 three (3) years to the appropriate self-regulatory organization, or if there is none, to the Commission; provided, however, that Respondent Carino, subject to the terms and conditions set forth in this Subsection F, may continue to be associated with AlphaBridge solely for the purposes of (a) engaging in activities and taking actions that are reasonably necessary to wind down the Funds, subject to the oversight of the Monitor, pursuant to the terms and conditions set forth in Paragraphs 62-67 of Section III above, until the completion of the wind down of the Funds, and (b) performing such functions as are reasonably necessary for the administration of the Distribution Fund, as described in Subsection L below. During the foregoing period of continued association, Respondent Carino may receive compensation from AlphaBridge (but not from the Funds), but only until the earlier of the completion of the wind down of the Funds or a period of six (6) months following the date of this Order, and the monthly rate of such compensation shall be commensurate with and shall not exceed the maximum base rate of monthly compensation Respondent Carino received from AlphaBridge at any time prior to the date of the entry of this Order (not including bonuses or other partner draws or capital distributions from the Funds). After the wind down of the Funds and the administration of the Distribution Fund are complete, Respondent Carino immediately shall resign as an officer and/or managing member of AlphaBridge and divest his ownership interest in AlphaBridge. In the event Respondent Carino fails to comply with any of the undertakings set forth in Paragraphs 62-67 of Section III above or the provisions of

this Subsection F or Subsection L below, Respondent Carino shall no longer be permitted to remain associated with or compensated by AlphaBridge and shall be required immediately to resign as an officer and/or managing member of AlphaBridge and divest his ownership interest in AlphaBridge.

G. Any reapplication for association by Respondent Carino 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.

H. Respondents, jointly and severally, shall, within ten (10) days of the entry of this Order, pay \$4,025,000, which amount represents disgorgement of profits gained as a result of the conduct described herein. Payment shall be made in the manner described in Subsection L below. If timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600.

I. Respondent AlphaBridge shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of \$725,000. Payment shall be made in the manner described in Subsection L below. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

J. Respondent Carino shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of \$200,000. Payment shall be made in the manner described in Subsection L below. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

K. Respondent Kutzen shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of \$50,000. Payment shall be made in the manner described in Subsection L below. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

L. With respect to the Respondents' payment of the disgorgement and penalty amounts set forth in Subsections H-K above:

- (1) Within ten (10) days after the date of the entry of this Order, Respondents shall deposit the foregoing amounts, totaling \$5,000,000, into an interest-bearing escrow account not unacceptable to the Commission staff ("Distribution Account") and shall provide the Commission staff with proof of such deposit in a form not unacceptable to the Commission staff. If

timely payment is not made, additional interest shall accrue pursuant to SEC Rule of Practice 600 and/or 31 U.S.C. § 3717.

- (2) Respondents shall distribute the total amount of \$5,000,000 (“Distribution Fund”) to affected current and former investors in the Funds to reimburse them for the overpayment of certain fees by the Funds based on the overstated net asset value of the Funds during 2011 and 2012 as alleged in this Order. No portion of the Distribution Fund shall be paid to any of the Respondents or to any account in which any of the Respondents has a direct or indirect financial interest.
- (3) Respondents shall be responsible for administering the Distribution Fund at their own expense in accordance with the provisions of this Subsection L.
- (4) Respondents shall be responsible for any and all tax compliance responsibilities associated with the Distribution Fund and shall retain, within thirty (30) days of the date of entry of this Order, the services of an accountant or similar professional (“Accountant”) that is not unacceptable to the Commission staff to oversee such tax compliance and to monitor the activity in the Distribution Account, to which the Accountant shall have access. Respondents shall provide to the Accountant such information as the Accountant may reasonably request for the purpose of carrying out the Accountant’s responsibilities under this Subsection L. The costs and expenses of the Accountant shall be borne by Respondents and shall not be paid out of the Distribution Fund. Respondents shall not be responsible for payment of any income taxes investors may owe on the portion of the Distribution Fund they receive.
- (5) Within sixty (60) days of the date of entry of this Order, Respondents shall submit to the Commission staff for its review and approval a plan to distribute the Distribution Fund (“Distribution Plan”). The Distribution Plan at a minimum should identify (i) each current and former investor in the Fund that will receive a portion of the Distribution Fund (“Eligible Investors”); (ii) the exact amount of the payment to each Eligible Investor; and (iii) the methodology used to determine the amount of the payment to each Eligible Investor. Respondents shall also provide to the Commission staff such additional information and supporting documentation as the Commission staff may reasonably request for the purpose of its review. In the event of one or more objections by the Commission staff to Respondents’ proposed Distribution Plan and/or any of the information or supporting documentation, Respondents shall submit a revised Distribution Plan for the review and approval of the Commission staff, and/or additional information or supporting documentation, within ten (10) days of the date that Respondents are notified of the objection, which revised Distribution

Plan shall be subject to all of the provisions of this Subsection, unless such time period is extended as provided in paragraph 11 of this Subsection L.

- (6) Respondents, with the participation and/or oversight of the Accountant, shall arrange for the transmission of all amounts payable to Eligible Investors pursuant to the Distribution Plan, as approved by the Commission staff, within one hundred and twenty (120) days of the date of the entry of the Order, unless such time period is extended as provided in paragraph 11 of this Subsection L.
- (7) If Respondents do not distribute any portion of the Distribution Fund for any reason, including the inability to locate an investor in the Funds, the non-receipt or return of any payment, or any factors beyond Respondents' control, Respondents shall transfer such undistributed funds to the Commission for transmittal to the United States Treasury after the final accounting provided for in paragraph 8 of this Subsection L is approved by the Commission. Respondents shall transfer such undistributed funds to the Commission in the manner described in Subsection M below. Respondents shall make reasonable efforts to locate prospective payees and payees whose payment is returned, including arranging for the Accountant to assist with such efforts.
- (8) Within one hundred and eighty (180) days after the date of entry of this Order, Respondents shall submit to the Commission staff for its approval a final accounting and certification of the disposition of the Distribution Fund. The final accounting shall be on a standardized fund accounting form to be provided by the Commission staff, or other form not unacceptable to the Commission staff, and shall include and identify, but not be limited to, the following information: (i) name of each payee; (ii) amount paid to each payee; (iii) date of each payment; (iv) check number or other identifier of money transferred or proof of payment made; (v) date and amount of any returned payment; (vi) a description of any efforts made to locate a prospective payee or a payee whose payment was returned; and (vii) any amounts to be forwarded to the Commission for transfer to the United States Treasury. In addition, Respondents shall provide to the Commission staff a cover letter certifying that all of the requirements of this Subsection L have been completed, that the information requested has been accurately reported to the Commission, and that the Respondents' proposed methodology for calculating payments to Eligible Investors from the Distribution Fund was fair and reasonable.
- (9) Respondents shall submit proof and supporting documentation of the payments made from the Distribution Fund to Eligible Investors (whether in the form of cancelled checks, wire receipts, or otherwise) in a form not unacceptable to the Commission staff. Respondents also shall provide any

and all supporting documentation for the final accounting and certification to the Commission staff upon its request and shall cooperate with any additional reasonable requests by the Commission staff in connection with the final accounting and certification.

- (10) After Respondents have submitted the final accounting to the Commission staff, the staff shall submit the final accounting to the Commission for approval and shall seek Commission approval to send any remaining amounts in the Distribution Fund to the United States Treasury and to terminate the Distribution Fund.
- (11) The Commission staff may extend any of the procedural dates set forth in this Subsection L for good cause shown.

M. To the extent Respondents do not distribute any portion of the Distribution Fund as provided in Subsection L above, Respondents shall transfer such undistributed funds to the Commission, for eventual transfer to the United States Treasury, in one of the following ways:

- (1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondents 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) Respondents 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 made by check or money order pursuant to this subsection must be accompanied by a cover letter identifying Respondents by name as Respondents in these proceedings, and the file number of these proceedings, and describing the payments; 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.

N. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, a Fair Fund is created for the penalties and disgorgement described above for distribution to affected investors. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that they are entitled to, nor shall they benefit by,

offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondents by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

O. Respondents shall comply with the undertakings set forth in Paragraphs 62-67 of Section III above.

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 Respondents, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondents 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 Respondents 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