

ADMINISTRATIVE PROCEEDING
File No. 3-18060

Private Equity Real Estate Fund Adviser Settles with SEC for Acting Contrary to Client's Consent in Conflicted Transaction

July 6, 2017 – The Securities and Exchange Commission announced today that Paramount Group Real Estate Advisor LLC (Paramount), a New York-based private equity fund adviser registered with the Commission, has settled negligence-based fraud charges stemming from a transaction in which it owed a fiduciary duty to both sides and breached that duty to one side. Specifically, in the transaction, Paramount failed to cause one fund to reimburse the other fund for certain previously incurred expenses totaling \$4.5 million despite Paramount's commitment that a reimbursement would take place.

According to the SEC's order instituting administrative and cease-and-desist proceedings, Paramount served as the investment adviser for Paramount Group Real Estate Fund III, L.P. (Fund III) and Paramount Group Residential Development Fund, L.P. (RDF). In March 2014, Paramount caused Fund III to sell a parking garage the fund owned to RDF. In connection with the transaction, Paramount failed to cause RDF to reimburse Fund III for \$4.5 million in development expenses that Fund III had incurred ahead of the sale. This failure took place despite Paramount's commitment to Fund III's investment advisory committee (IAC), at the time the IAC approved the sale, that a reimbursement would be made. Paramount failed to seek approval from the Fund III IAC, or Fund III limited partners, to eliminate the reimbursement requirement as a condition of the sale. At the time, Paramount and its affiliates owned 3% of Fund III and 26.7% of RDF.

The SEC order finds Paramount willfully violated Sections 206(2) and 206(4) of the Advisers Act, and Rule 206(4)-8 thereunder. Without admitting or denying the findings of the SEC's order, Paramount consented to entry of the cease-and-desist order and a censure, and agreed to pay a civil penalty of \$250,000.

The SEC's investigation was conducted by Philip Moustakis and supervised by Mark D. Salzberg of the Enforcement Division's Asset Management Unit.

See also: [Order](#)