

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT COMPANY ACT OF 1940
Release No. 33087 / April 26, 2018

ADMINISTRATIVE PROCEEDING
File No. 3-18457

In the Matter of

SEI INVESTMENTS
GLOBAL FUNDS SERVICES,

Respondent.

ORDER INSTITUTING CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTION 9(f) OF THE INVESTMENT COMPANY ACT OF 1940, MAKING FINDINGS, AND IMPOSING A CEASE-AND-DESIST ORDER

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 9(f) of the Investment Company Act of 1940 (“Investment Company Act”) against SEI Investments Global Funds Services (“Respondent” or “SEI Global Funds Services”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”), which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings Pursuant to Section 9(f) of the Investment Company Act of 1940, Making Findings, and Imposing a Cease-And-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds that:

Summary

1. This matter involves violations of the Investment Company Act caused by SEI Global Funds Services, relating to the pricing and administration of an affiliated unregistered money market fund (the "Liquidity Fund"). The Liquidity Fund served as the vehicle for re-investing cash collateral obtained in connection with the securities lending activities of certain SEI funds that chose to participate in the securities lending program (the "SEI Funds"). From approximately mid-2008 through the end of 2012, SEI Global Funds Services' actions caused the Liquidity Fund to fail to satisfy the conditions necessary for the SEI Funds to rely upon an exemption under Rule 12d1-1 under the Investment Company Act. Rule 12d1-1 permits a fund, subject to certain conditions, to conduct transactions with an affiliated fund that would be otherwise prohibited under Section 17(a)(1) and (2) of the Investment Company Act. Without the Rule 12d1-1 exemption, the Liquidity Fund violated Section 17(a)(1) and (2) of the Investment Company Act, which generally prohibits transactions between funds and their affiliated persons.

2. Up until July 2008, SEI Global Funds Services priced shares of the Liquidity Fund at a stable \$1.00 NAV in accordance with Rule 2a-7 under the Investment Company Act (thus, in accordance with Rule 12d1-1). However, in July 2008, due to significant decreases in the value of certain of the Liquidity Fund's holdings, the fund's mark-to-market value dropped below \$0.995 per share. In response, SEI Investments Management Corporation ("SIMC"), which serves as the Liquidity Fund's adviser, determined that the Liquidity Fund should switch to using market-based values to price its shares, in compliance with Rule 2a-7. However, the alternative methodology used by SEI Global Funds Services from 2008 to 2012 was flawed and was neither an accurate market value NAV nor a stable NAV.

3. Further, starting in August 2009, five newly-created SEI Funds began participating in the securities lending program and investing collateral in the Liquidity Fund. In an attempt to exclude these new funds from losses or gains related to the impaired securities held by the Liquidity Fund, SEI Global Funds Services elected to separately price shares of the Liquidity Fund held by these funds at a stable \$1.00 NAV until 2012. This segregation, which was implemented through a series of book entries, effectively created a "senior share class" of Liquidity Fund securities, which caused the Liquidity Fund to fail to satisfy Section 18 of the Investment Company Act. Moreover, the use of both a stable \$1.00 NAV for some SEI Funds and a floating NAV for other SEI Funds was inconsistent with Rule 2a-7, further leaving the transactions between the Liquidity Fund and the affiliated SEI funds without Rule 12d1-1's exemption from the prohibitions of Sections 17(a)(1) and (2).

4. In light of the above, SEI Global Funds Services caused the Liquidity Fund to violate Sections 17(a)(1) and (2) from 2008 through 2012.

Respondent

5. **SEI Global Funds Services** is a Delaware statutory trust with its headquarters in Oaks, Pennsylvania. SEI Global Funds Services is not registered with the Commission, and is a wholly-owned subsidiary of SEI Investments Company. SEI Global Funds Services operates as fund administrator.

Other Relevant Entities

6. The **SEI Institutional Managed Trust, SEI Institutional International Trust, and SEI Institutional Investments Trust** (collectively, the “SEI Funds”) are each registered with the Commission as an open-end investment company. Each includes a number of series.

7. **SEI Liquidity Fund, L.P.** (“Liquidity Fund”) is an unregistered fund that purports to operate as an unregistered money market fund consistent with Rule 12d1-1(d)(2)(ii).

Background of the Liquidity Fund

8. These proceedings arise out of SEI Global Funds Services’ actions as administrator for the Liquidity Fund, an unregistered fund that serves as a collateral investment pool for the securities lending program. During the relevant time period, under the securities lending program, SEI funds had the option of loaning out securities to borrowers in exchange for cash collateral covering 102%-105% of the value of the loaned securities. The cash collateral could then be invested in a low-risk investment vehicle, such as the Liquidity Fund, which operates similarly to a money market fund, and the participating SEI Funds could earn a return on that collateral. Not every SEI fund participated in the securities lending program, and the decision to do so was left to the portfolio manager of each fund.

9. In order to facilitate the securities lending program, the SEI Funds contracted with various securities lending agents to find the borrowers for the securities, handle the exchange of the securities and cash collateral, including the reinvestment of the cash collateral on the SEI Funds’ behalf. In March 2007, SIMC launched the Liquidity Fund to serve as a centralized vehicle to reinvest the SEI Funds’ collateral in connection with the securities lending program. The SEI Funds continued to contract with securities lending agents to provide the other services needed for the securities lending program.

10. The Liquidity Fund was structured as a limited partnership, where each SEI Fund participating in the securities lending program had a pro rata partnership interest in the Liquidity Fund based on the amount of collateral invested on its behalf at a given time. Since the Liquidity Fund did not have a board of directors, any statutory duties required of a board were performed by SIMC, in its capacity as the Liquidity Fund’s investment adviser. SEI Global Funds Services served as the administrator for the Liquidity Fund in exchange for a fee.

The Applicable Legal Framework

11. Though the Liquidity Fund was an unregistered fund during the relevant time period, it undertook to operate as a money market fund under Rule 2a-7 in order to rely on an exemption provided by Rule 12d1-1 under the Investment Company Act, which allows registered investment companies to invest in an affiliated unregistered money market fund.

12. Without the exemption provided by Rule 12d1-1, any purchases in and redemptions from the Liquidity Fund by the SEI Funds would have been prohibited under Sections 17(a)(1) and (2) of the Investment Company Act. The Liquidity Fund's original Private Placement Memorandum, the Limited Partnership Agreement signed by each of the participating SEI Funds, and language in the SEC filings of the participating SEI Funds, all reference the Liquidity Fund's reliance on the exemption under Rule 12d1-1 and its intention to operate as a money market fund as required by that rule.

13. The exemption under Rule 12d1-1 only permits investments in affiliated unregistered money market funds so long as certain conditions are met, which include conditions involving the unregistered money market fund operating in compliance with Rule 2a-7 under the Investment Company Act and complying with the prohibition against the issuance of senior securities under Section 18 of the Investment Company Act.

14. During the time at issue, Rule 2a-7 provided, among other things, that the current price per share of a money market fund's securities, for purposes of distribution, redemption and repurchase, notwithstanding the requirements of Section 2(a)(41) of the Investment Company Act and Rules 2a-4 and 22c-1 under the Investment Company Act, could be computed by use of the amortized cost method. For a money market fund relying on the amortized cost method to maintain a stable net asset value ("NAV") per share, Rule 2a-7 requires that if the current NAV per share based on market-based value (the "shadow price") deviates from the stable share price by more than one half of one percent, the money market fund's board of directors (or, in the case of the Liquidity Fund, its adviser (for the reason noted previously)) is required to consider promptly what action, if any, should be taken, which may include whether the fund should discontinue use of the amortized cost method of valuation and reprice its assets using market-based values.

15. Section 18 prohibits registered open-end investment companies from issuing senior securities other than certain borrowings from a bank. Section 18 further defines "senior security," in pertinent part, as "any stock of a class having priority over any other class as to distribution of assets or payments of dividends."

16. Like registered money market funds, prior to July 2008, the Liquidity Fund utilized the amortized cost valuation method and sought to maintain a stable \$1.00 NAV per share. When the shadow price dropped below \$0.995, SIMC, as the Liquidity Fund's adviser, was required to consider promptly what action, if any, should have been taken, including whether the Liquidity Fund should have discontinued use of the amortized cost method of valuation and repriced the Liquidity Fund's securities using market-based values.

SEI Global Funds Services' Improper Valuation Methods

17. In July 2008, due primarily to the significant decline in the value of an impaired security owned by the Liquidity Fund, the Liquidity Fund's shadow price dropped below \$0.995. In response, SIMC chose to discontinue the Liquidity Fund's use of the amortized cost method of valuation and to use market-based values to determine the fund's NAV instead.

18. Shortly thereafter, SIMC informed the SEI Funds' Board that the Liquidity Fund had begun using market-based value to calculate its NAV (a "floating NAV"). The SEI Funds and SIMC later told the same to the Commission in response to a Request for Information from the staff of the Philadelphia Regional Office of Compliance Inspections and Examinations. This stated course of action also was consistent with the procedure laid out in the Liquidity Fund's Limited Partnership Agreement, and would have been in compliance with Rule 2a-7.

19. However, due to the limited partnership structure of the Liquidity Fund, SEI Global Funds Services faced challenges in implementing the floating NAV. Instead of addressing this constraint, SEI Global Funds Services continued to book purchases in and redemptions from the Liquidity Fund at a stable \$1.00 NAV per share. SEI Global Funds Services then used a side-spreadsheet to attempt to accurately calculate and allocate to the various SEI Funds the Liquidity Fund's losses.

20. The allocation methods used by SEI Global Funds Services on this side-spreadsheet did not mimic what would have occurred had the purchases in and redemptions from the Liquidity Fund simply been processed at the daily-calculated floating NAV. Instead, some SEI Funds were allocated more of the losses than would have been the case if the Liquidity Fund's floating NAV had been used, while other SEI Funds were allocated fewer of the losses. In total, SEI Global Funds Services' valuation methods were estimated to have caused a misallocation of approximately \$13.8 million across 31 SEI Funds that had aggregate net assets of over \$40 billion.

21. SEI Global Funds Services continued to use this methodology for over four years to value the SEI Funds' purchases in and redemptions from the Liquidity Fund.

22. In mid-December 2012, in connection with a resolution of the impaired asset, SEI Global Funds Services caused the SEI Funds to "realize" the losses that had been incurred and allocated on a daily basis since July 2008 on the side-spreadsheet. As a result, the impacted SEI Funds "closed-out" their obligations to the Liquidity Fund by making a large cash transfer in the form of capital contributions to the Liquidity Fund. These contributions were in an amount equal to those realized losses as tracked on the side-spreadsheet, thereby restoring the Liquidity Fund's market-based NAV per share to \$1.00.¹

¹ This large transfer in December 2012 did not affect the underlying NAVs of the investing SEI Funds, which had been carrying the losses associated with the Liquidity Fund as unrealized losses on their own books.

23. Once the Liquidity Fund's floating NAV was restored to \$1.00 per share, SEI Global Funds Services resumed valuing the Liquidity Fund at a stable \$1.00 NAV per share using the amortized cost method of valuation, in compliance with Rule 2a-7. SEI Global Funds Services returned to valuing all purchases in and redemptions from the Liquidity Fund by the SEI Funds at a stable \$1.00 NAV as well.

SEI Global Funds Services' Improper Creation of a Separate Share Class

24. In addition to valuing contributions and redemptions as described above, SEI Global Fund Services also took steps to attempt to exclude certain new investors in the Liquidity Fund from the impact of impaired securities in the Liquidity Fund. In doing so, they effectively created a second share class of interests in the Liquidity Fund.

25. In August 2009, a newly-created SEI Fund began participating in the securities lending program, including investing the related cash collateral in the Liquidity Fund. Initially, in accordance with the valuation procedure described above, SEI Global Funds Services valued this new SEI Fund's initial capital contribution at \$1.00 per share and then allocated a portion of the Liquidity Fund's losses to the new SEI Fund using the manual side-spreadsheet. This resulted in the newly-investing SEI Fund incurring immediate losses, as if this first purchase had been made back when the Liquidity Fund's NAV per share was at a stable \$1.00, rather than at the then-current floating NAV.

26. The newly-investing SEI Fund, however, should not have been allocated any losses at the time of its first purchase in the Liquidity Fund, since the decline in fund value had occurred prior to this first investment. SEI Global Funds Services recognized that the immediate losses incurred by the new SEI Fund as a result of their valuation procedure were not proper.

27. SEI Global Funds Services sought to remedy this outcome by creating a system to segregate the interests of the new SEI Fund and any other SEI Funds that might invest in the Liquidity Fund in the future (the "New SEI Funds") from the interests of the SEI Funds that were already invested in the Liquidity Fund when the NAV dropped below \$0.995 (the "Existing SEI Funds").

28. For the Existing SEI Funds, SEI Global Funds Services continued to value purchases in and redemptions from the Liquidity Fund by allocating losses using the side-spreadsheet as described above. For the New SEI Funds, however, they valued all purchases in and redemptions from the Liquidity Fund at a stable \$1.00 NAV per share, as if the Liquidity Fund's NAV had never dropped below \$0.995. For these New SEI Funds, no additional losses or gains were allocated to them on the side-spreadsheet.

29. By valuing the New SEI Funds' purchases in and redemptions from the Liquidity Fund at a stable \$1.00 NAV per share, after SIMC had determined that the Liquidity Fund should be valued at a floating NAV, SEI Global Funds Services caused the Liquidity Fund to calculate its NAV in a manner that was not the floating NAV in compliance with Rule 2a-7. Further, because the New SEI Funds' purchases in and redemptions from the Liquidity Fund were valued at a different share price than the purchases in and redemptions from the Liquidity Fund by the

Existing SEI Funds, the New SEI Funds' shares in the Liquidity Fund in effect constituted a separate class of securities. This was not in compliance with Section 18's prohibition against issuance of senior securities.

Violations

30. As a result of the conduct described above, SEI Global Funds Services caused the Liquidity Fund to violate Sections 17(a)(1) and 17(a)(2) of the Investment Company Act, which make it unlawful, absent an exemption, for any affiliated person or promoter of or principal underwriter for a registered investment company, or any affiliated person of such person, promoter, or principal underwriter, acting as principal (1) knowingly to sell any security or other property to such registered company or to any company controlled by such registered company, or (2) knowingly to purchase from such registered company, or from any company controlled by such registered company, any security or other property. The Liquidity Fund could not rely on the exemption provided by Rule 12d1-1 because certain conditions in the rule – involving compliance with procedures for pricing under Rule 2a-7 under the Investment Company Act and compliance with the prohibition against the issuance of senior securities under Section 18 of the Investment Company Act – were not met. As such, without an exemption, SEI Global Funds Services caused the Liquidity Fund to violate Section 17(a)(1) and (2).

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent SEI Global Funds Services' Offer.

Accordingly, pursuant to Section 9(f) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent SEI Global Funds Services cease and desist from committing or causing any violations and any future violations of Sections 17(a)(1) and 17(a)(2) of the Investment Company Act.

B. Respondent shall, within thirty (30) calendar days of the entry of this Order, pay a civil monetary penalty in the amount of \$225,000.00 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). If timely payment 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 SEI Global Funds Services as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Kelly Gibson, Associate Regional Director, Securities and Exchange Commission, Philadelphia Regional Office, 1617 JFK Boulevard, Suite 520, Philadelphia, PA 19103.

By the Commission.

Brent J. Fields
Secretary