

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 10945 / May 27, 2021

SECURITIES EXCHANGE ACT OF 1934
Release No. 92061 / May 27, 2021

INVESTMENT ADVISERS ACT OF 1940
Release No. 5741 / May 27, 2021

INVESTMENT COMPANY ACT OF 1940
Release No. 34291 / May 27, 2021

ADMINISTRATIVE PROCEEDING
File No. 3-20351

In the Matter of

ARJUNA ARIATHURAI

Respondent.

ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT TO SECTION 8A OF THE SECURITIES ACT OF 1933, SECTION 21C OF THE SECURITIES EXCHANGE ACT OF 1934, SECTIONS 203(f) AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940, AND SECTIONS 9(b) AND 9(f) 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 8A of the Securities Act of 1933 (“Securities Act”), Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”), Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”), and Sections 9(b) and 9(f) of the Investment Company Act of 1940 (“Investment Company Act”) against Arjuna Ariathurai (“Respondent”).

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 him 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 8A of the Securities Act of 1933, Section 21C of the Securities Exchange Act of 1934, Sections 203(f) and 203(k) of the Investment Advisers Act of 1940, and Sections 9(b) and 9(f) 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

1. In early February 2018, a mutual fund called the LJM Preservation and Growth Fund (the “P&G Fund”) and several related private funds (the “Private Funds”) (collectively the “Funds”) suffered losses exceeding \$1 billion employing an options trading strategy. The P&G Fund was managed by LJM Funds Management, Ltd. (“LJMFM”), a registered investment adviser, and LJM Partners, Ltd. (“LJM Partners”), an unregistered investment adviser under common ownership with LJMFM, managed the Private Funds. From 2016 until the Funds collapsed, LJMFM and LJM Partners (collectively “LJM”), through its portfolio managers and Respondent Ariathurai, LJM’s Chief Risk Officer, repeatedly misled investors and the P&G Fund’s Board about LJM’s risk management practices and concealed from them the level of risk in LJM’s portfolios.

2. LJM’s short volatility trading strategy used margin to sell out-of-the-money put and call options on S&P 500 futures contracts. Similar to selling insurance, this option writing strategy carried risks that were remote but extreme. In various marketing documents, webinars, and communications with investors and their advisers, Respondent, LJM, and the portfolio managers emphasized LJM’s risk management practices and claimed LJM’s “managing principle” was to maintain a consistent risk profile and consistent risk levels. Supporting this central selling point, however, was a series of false statements that they (1) used historical event stress tests to calculate “worst-case” loss estimates for the Funds that were shared with investors, (2) managed risk by stressing the portfolios on a daily basis using historical market disruptions, and (3) managed LJM’s

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

strategies to maintain a consistent risk profile regardless of market environment. Respondent also told the P&G Fund's Board that Respondent monitored risk reporting to ensure the portfolio managers transacted within established risk parameters, when no such risk parameters existed.

3. During the period when LJM misled investors concerning risk, money flowed into the Funds. LJM's assets under management grew from approximately \$450 million in February 2016 to approximately \$1.3 billion in February 2018. In February 2018, the markets suffered a large spike in volatility, resulting in losses to the Funds exceeding 80%.

Respondent

4. **Ariathurai**, age 47, is a resident of Chicago, Illinois. From March 2012 through early 2018, he was LJM's Chief Risk Officer.

Other Relevant Entities

5. **LJM Funds Management, Ltd.**, an Illinois corporation based in Chicago, is registered with the Commodities Futures Trading Commission ("CFTC") and National Futures Association ("NFA"). LJMFM was a registered investment adviser with the Commission until its registration was terminated on March 30, 2018. Prior to that termination, LJMFM was the investment adviser to the P&G Fund.

6. **LJM Partners, Ltd.**, an Illinois corporation based in Chicago, is registered with the CFTC and NFA. LJM Partners was investment adviser to the Private Funds, which had a similar investment strategy as the P&G Fund. LJMFM and LJM Partners shared the same office space, officers, and employees, and effectively operated as one entity.

7. **LJM Preservation and Growth Fund** was a series of Two Roads Shared Trust ("Two Roads"), an open-end management investment company consisting of approximately 17 series of mutual funds. The P&G Fund commenced operations in January 2013. On February 7, 2018, the fund was closed to new investments and liquidated by the end of March 2018.

8. **The Private Funds** included, but were not limited to, LJM Investment Fund LP, LJM Preservation & Growth Fund, LP, LJM Aggressive Fund LP, LJM Fund, LP, LJM Master Trading Fund, LP, LJM Partners Insurance Fund, PFC-LJM Fund LP, and PFC-LJM Preservation & Growth Fund, LP.

LJM's Investment Strategy, Risk Management, and Marketing

9. LJM's investment strategy involved writing short-dated, out-of-the-money ("OTM") put and call options on S&P 500 futures contracts, which generated returns primarily by collecting option premiums. This strategy, known as a short volatility trade, offers profits from premiums, but

also presents significant risk when the S&P 500 moves significantly and/or market volatility increases.

10. LJM partially hedged its short option positions by purchasing a smaller number of long, closer to the money put and call contracts. LJM offered three versions of the same investment strategy (Aggressive, Moderately Aggressive, and Preservation and Growth), which differed by the amount of long option hedging employed. Investors could invest in the LJM strategy in three ways: (1) through the P&G Fund; (2) through Private Funds; or (3) through separately managed accounts as LJM Partners advisory clients. LJM's strategy was managed by Portfolio Manager 1, who was LJM's founder, owner, and architect of the strategy, and Portfolio Manager 2, who handled much of the day-to-day portfolio management (collectively "Portfolio Managers").

11. Under LJM's Risk Policy, the Portfolio Managers were responsible for managing risk in the portfolios and for following controls and incorporating risk management practices into their business practices. The policy further stated that Respondent was responsible for assessing risk, creating and monitoring risk reports, and making sure the portfolio managers followed controls and incorporated risk management into their management of the portfolios. Under the policy, Portfolio Manager 1 had "the final say on risk."

12. Through years of marketing LJM strategies, the Portfolio Managers and Respondent learned that investors and their advisors were concerned primarily with risk of loss and how LJM managed that risk. The most frequently asked question LJM received from potential investors and their advisors was "what is LJM's worst-case scenario?" To address this key concern, Portfolio Manager 1 directed Respondent and others to develop a marketing narrative focused on risk management. In these documents, and in separate oral statements, LJM stressed it was "risk centric" and not "return centric," which LJM defined as maintaining a consistent risk profile. Critically, LJM repeatedly assured investors that it would never increase portfolio risk to hit return targets. LJM stated that its "managing principle" was to maintain a consistent portfolio risk profile and consistent risk levels. LJM stated that it employed sophisticated risk management procedures, that the strategies were bound by established risk parameters, and that it employed a combination of scenarios to estimate "gap" or "overnight" risk to the portfolio, using historical market behavior such as the 2008 Lehman Brothers failure, the 2010 Flash Crash, and the 2011 S&P downgrade of U.S. debt.

13. After LJM began focusing its marketing narrative on extolling its "risk centric" approach to a short volatility strategy, investor money flowed into LJM. LJM's assets under management grew from approximately \$450 million in February 2016 to approximately \$1.3 billion in February 2018.

Misrepresentations Concerning Worst-Case Losses and Historical Event Stress Tests

14. From June 2016 through February 2018, Respondent and others at LJM made a series of false statements concerning LJM's risk and portfolio management.

15. Respondent prepared portions of due diligence questionnaires ("DDQ") provided to investors and other market participants, and "Frequently Asked Questions" talking points distributed to LJM's sales staff for use with the investment community, that addressed the P&G Fund's and Private Funds' risk management and loss exposure. These materials stated that LJM used historical event stress tests to calculate a worst-case loss estimate of 20% for the P&G Fund and 30-35% for more aggressive funds. LJM's DDQs stated that its worst-case loss estimates were reflective of "gap" or "overnight" risk to the portfolio and based on its testing of historical market behavior such as market movement when "Lehman Bros. failed in 2008, the electronic market Flash Crash in 2010 and the S&P downgrade of US debt in 2011."

16. The statements were false. *First*, the worst-case loss estimates were not based on historical event stress testing. Instead, Respondent calculated the 20% estimate by doubling the P&G Fund's worst single-day performance (which was around 9%). *Second*, while LJM generated daily historical event stress test reports, those reports did not support the maximum-loss estimates provided to investors. Instead, the reports consistently showed potential losses greatly exceeding 20% for the P&G Fund and 30-35% for the Private Funds.

17. Respondent, LJMFM, and the Portfolio Managers made other, similarly deceptive statements about LJMFM's risk management practices to the Two Roads Board and to the investment community. Respondent helped prepare written submissions to the Two Roads Board as part of the Board's annual evaluation of LJMFM as the P&G Fund's investment adviser. Those submissions represented that the Portfolio Managers and Respondent reviewed multiple risk reports, including historical event stress test reports, "several times during the day" and used those reports to manage the portfolio and to inform their trading strategy. The submissions further stated that Respondent monitored risk reporting to ensure the Portfolio Managers transacted within established risk parameters and the portfolio's risk profile was consistent with what had been disclosed to clients. LJM Partners and LJMFM made similar statements to members of the investment community as part of due diligence processes.

18. The statements were false. While Respondent generated historical event stress test reports on a daily basis, Respondent and the Portfolio Managers did not review the historical event stress test reports or use them to manage risk or manage the portfolio. And LJM did not have established risk parameters or a process in place that would allow Respondent to ensure that the Portfolio Managers controlled risk in a manner that was consistent with client disclosures.

LJM Increased Risk in Late 2017 Contrary to Representations to Investors

19. In both written and oral communications with investors, LJM repeatedly assured investors throughout 2016 and 2017 that its “managing principle” was to maintain a consistent risk profile and consistent risk levels. LJM routinely explained that LJM’s risk-reward analysis was affected by the current volatility environment. Specifically, LJM stated that periods of high volatility presented the best scenarios for LJM’s strategy and periods of low volatility presented the worst risk-reward scenarios, and further explained that a persistent low volatility environment meant that LJM would have to accept either lower returns due to lower option premiums or an increase in portfolio risk to generate the same level of returns. LJM assured investors that it would never take on more risk to meet return targets.

20. In communications to investors, LJM characterized 2017 and early 2018 as being a “low volatility environment” or “low-volatility regime.” Contrary to representations made to investors, LJM increased the risk in its portfolios beginning in or around October 2017, and continuing through LJM’s demise in February 2018. During this period of low volatility, LJM assumed more risk in the portfolios to meet its return targets. The elevated risk levels were evident in many of the risk reports generated by Respondent and available to the Portfolio Managers. Respondent also discussed the increased risk with the Portfolio Managers, but they did not reverse course. In contemporaneous internal correspondence, the Portfolio Managers acknowledged that they had changed the risk profile of the portfolios. As discussed above, Respondent, among others, was responsible for ensuring that LJM’s risk management aligned with disclosures to investors. However, Respondent failed to ensure that LJM limited its risk-taking during this period to a level consistent with what investors were told.

21. LJM did not disclose this material change in risk levels or risk profile to prospective or current investors. To the contrary, Respondent provided an update to LJM’s sales staff in December 2017, wherein he claimed that “the team has aggressively maintained the consistent risk profile our clients expect.” The sales staff parroted that messaging to prospective and current investors. Respondent’s message to sales staff was then used, in a manner that was or should have been apparent to Respondent, as the basis for a similar message in a December 2017 newsletter to LJM Partners clients. Through January 2018, LJM continued to assure LJM Partners clients and P&G Fund investors in multiple newsletters that it was maintaining consistent risk levels, when in fact the portfolio risk steadily increased from October 2017 into early February 2018 without any mitigating action by Respondent or the Portfolio Managers.

LJM’s Funds Suffered Catastrophic Losses in February 2018

22. LJM’s failure to manage its portfolios in the manner described to investors resulted in catastrophic losses in early February 2018 when the S&P 500 suffered declines and market volatility rapidly spiked over two trading days. Specifically, the Funds suffered losses in excess of approximately \$1 billion and the P&G Fund and the Private Funds were eventually liquidated.

Violations

23. As a result of the conduct described above, Respondent willfully violated Section 17(a) of the Securities Act and Section 10(b) of the Exchange Act and Rule 10(b)-5 thereunder.

24. As a result of the conduct described above, Respondent willfully aided and abetted and caused LJM Partners's and LJMFM's violations of Sections 206(1) and 206(2) of the Advisers Act; and willfully aided and abetted and caused LJMFM's violations of Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder, and Section 15(c) of the Investment Company Act.

Disgorgement

25. The disgorgement and prejudgment interest ordered in paragraph IV.D is consistent with equitable principles and does not exceed Respondent's net profits from his violations and will be distributed to harmed investors, if feasible. The Commission will hold funds paid pursuant to paragraph IV.D in an account at the United States Treasury pending a decision whether the Commission in its discretion will seek to distribute funds. If a distribution is determined feasible and the Commission makes a distribution, upon approval of the distribution final accounting by the Commission, any amounts remaining that are infeasible to return to investors, and any amounts returned to the Commission in the future that are infeasible to return to investors, may be transferred to the general fund of the U.S. Treasury, subject to Section 21F(g)(3) of the Exchange Act.

Undertakings

26. In connection with this action and any related judicial or administrative proceeding or investigation commenced by the Commission or to which the Commission is a party, Respondent Ariathurai: (i) agrees to appear and be interviewed by Commission staff at such times and places as the staff requests upon reasonable notice; (ii) will accept service by mail or facsimile transmission of notices or subpoenas issued by the Commission for documents or testimony at depositions, hearings, or trials, or in connection with any related investigation by Commission staff; (iii) appoints Respondent's attorney, Junaid Zubairi, Vedder Price, as agent to receive service of such notices and subpoenas; (iv) with respect to such notices and subpoenas, waives the territorial limits on service contained in Rule 45 of the Federal Rules of Civil Procedure and any applicable local rules, provided that the party requesting the testimony reimburses Respondent's travel, lodging, and subsistence expenses at the then-prevailing U.S. Government per diem rates; and (v) consents to personal jurisdiction over Respondent in any United States District Court for purposes of enforcing any such subpoena.

27. In determining whether to accept the Offer, the Commission has considered these undertakings.

IV.

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

Accordingly, pursuant to Section 8A of the Securities Act, Section 21C of the Exchange Act, Sections 203(f) and 203(k) of the Advisers Act, and Sections 9(b) and 9(f) of the Investment Company Act, it is hereby ORDERED that:

A. Respondent Ariathurai cease and desist from committing or causing any violations and any future violations of Section 17(a) of the Securities Act, Section 10(b) of the Exchange Act and Rule 10b-5 thereunder, Sections 206(1), 206(2), and 206(4) of the Advisers Act and Rule 206(4)-8 thereunder, and Section 15(c) of the Investment Company Act.

B. Respondent Ariathurai be, and hereby is:

barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization; and

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.

C. Any reapplication for association by the 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, compliance with the Commission's order and payment of any or all of the following: (a) any disgorgement or civil penalties ordered by a Court against the Respondent in any action brought by the Commission; (b) any disgorgement amounts ordered against the Respondent for which the Commission waived payment; (c) any arbitration award related to the conduct that served as the basis for the Commission order; (d) 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 (e) 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 Ariathurai shall pay disgorgement of \$83,333, prejudgment interest of \$14,111 and a civil penalty of \$150,000 to the Securities and Exchange Commission. Payment shall be made in the following installments: (i) \$67,444 within ten days of the entry of the Order; (ii) \$60,000 within 120 days of the entry of the Order; (iii) \$60,000 within 240 days of the entry of the Order; and (iv) \$60,000 within 360 days of the entry of the Order. Payments shall be applied

first to post-order interest, which accrues pursuant to SEC Rule of Practice 600 and/or pursuant to 31 U.S.C. § 3717. Prior to making the final payment set forth herein, Respondent Ariathurai shall contact the staff of the Commission for the amount due. If Respondent Ariathurai fails to make any payment by the date agreed and/or in the amount agreed according to the schedule set forth above, all outstanding payments under this Order, including post-order interest, minus any payments made, shall become due and payable immediately at the discretion of the staff of the Commission without further application to the Commission. The Commission may distribute civil money penalties collected in this proceeding if, in its discretion, the Commission orders the establishment of a Fair Fund pursuant to 15 U.S.C. § 7246, Section 308(a) of the Sarbanes-Oxley Act of 2002. The Commission will hold funds paid pursuant to this paragraph in an account at the United States Treasury pending a decision whether the Commission, in its discretion, will seek to distribute funds or transfer them to the general fund of the United States Treasury, subject to Section 21F(g)(3) of the Exchange Act.

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 Ariathurai 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 Jeffrey A. Shank, Division of Enforcement, Securities and Exchange Commission, 175 W. Jackson Blvd., Suite 1450, Chicago, IL 60604.

E. Payment, up to the amount of \$247,444, made by Respondent in satisfaction of the terms set forth in the Order Instituting Proceedings Pursuant to Section 6(c) and 6(d) of the Commodity Exchange Act, Making Findings, and Imposing Remedial Sanctions entered in *In the Matter of Arjuna Ariathurai*, Commodities Futures Trading Commission ("CFTC") (May 27, 2021) (the "CFTC Order"), shall be credited toward the \$247,444 disgorgement, prejudgment

interest, and/or civil monetary penalty ordered in Paragraph IV.D of this Order upon Respondent Ariathurai's presentation of satisfactory evidence to Commission staff establishing that such payment was timely made and received by the CFTC in connection with the CFTC Order.

F. Regardless of whether the Commission in its discretion orders the creation of a Fair Fund for the penalties ordered in this proceeding, 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 Ariathurai agrees that in any Related Investor Action, he shall not argue that he is entitled to, nor shall he 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 he 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 Respondent Ariathurai 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.

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

Vanessa A. Countryman
Secretary