UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 6823 / January 14, 2025

ADMINISTRATIVE PROCEEDING
File No. 3-22414

In the Matter of **NAVY CAPITAL GREEN MANAGEMENT, LLC** **Respondent.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS, PURSUANT SECTIONS 203(e) AND 203(k) OF THE INVESTMENT ADVISERS 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) and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act") against Navy Capital Green Management, LLC ("Respondent" or "Navy Capital").

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 Administrative and Cease-and-Desist Proceedings, Pursuant to Sections 203(e) and 203(k) of the Investment Advisers 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 finds[1] that:

Summary

1. These proceedings arise out of the failure by Navy Capital, an investment adviser, to act in a manner consistent with representations made to prospective and existing investors in private funds Navy Capital managed regarding the firm's anti-money laundering (AML) due diligence practices.

2. Between at least October 2018 and January 2022, Navy Capital represented in offering and other documents provided to prospective and existing investors in pooled investment vehicles that Navy Capital conducted specific AML due diligence on prospective investors and ongoing AML due diligence monitoring on existing investors. In particular, Navy represented that it was voluntarily complying with AML due diligence laws that did not apply to investment advisers, including the Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 ("USA Patriot Act"). Navy Capital's private fund investors included multiple foreign-based entities with opaque beneficial ownership and sources of wealth, at least one of which was owned by an individual publicly reported to be suspected of being connected to money laundering activities. Because Navy Capital's actual AML due diligence practices were materially inconsistent with its representations to investors in the pooled investment vehicles it managed, Navy Capital violated Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

3. Between April 2019 and at least January 2022, while Navy Capital was registered with the Commission as an investment adviser, Navy Capital violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder because it did not adopt and implement written policies and procedures reasonably designed to prevent violations of the Advisers Act and rules thereunder.

Respondent

4. Navy Capital is a New York limited liability company currently operating from Westport, Connecticut. Navy Capital was registered with the Commission as an investment adviser from April 26, 2019 to March 27, 2024, when it withdrew its registration and began filing as an exempt reporting adviser. During that period, Navy Capital reported regulatory assets under management ranging from about $130.7 million to about $322.2 million.

Other Relevant Entities

5. Navy Capital Green Fund, LP ("Master Fund"), a pooled investment vehicle, is a Delaware limited partnership formed on March 8, 2017. The Master Fund's General Partner, Navy Capital Green Management Partners, LLC, delegated certain operating functions of the Master

[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.

Fund, including responsibility for investing the Master Fund's capital, to Navy Capital. On November 15, 2024, Navy Capital informed Master Fund investors that it had stopped accepting subscribers and was preparing to liquidate the fund's holdings.

6. Navy Capital Green International, Ltd. ("Feeder Fund"), a pooled investment vehicle, is a Cayman Islands exempted company with limited liability, was incorporated on April 4, 2018, under the laws of the British Virgin Islands (BVI), registered in the Cayman Islands on April 2, 2019, and ceased to be registered in the BVI on April 17, 2019. Under the terms of an investment management and advisory agreement, Navy Capital is the manager of the Feeder Fund, and made all trading and investment decisions on its behalf. The Feeder Fund stopped accepting subscribers in November 2024.

Navy Capital's Representations to Fund Investors Concerning AML Due Diligence Procedures

7. From at least October 2018 to at least January 2022 ("Relevant Period"), Navy Capital represented to prospective and existing investors in Navy Capital's Master and Feeder Funds that it was committed to protecting the fund and investors against money laundering activities and associated risks, and, to that end, it conducted AML due diligence on prospective investors and ongoing AML due diligence on investors in those funds.

8. During the Relevant Period, Navy Capital distributed offering memoranda to prospective Feeder Fund investors representing that it had implemented an AML due diligence program "designed to guard against and identify money laundering activities," and would accept investments in the Feeder Fund, including additional investments from existing investors, only after confirming the identity of the investor and its principal beneficial owners. In addition, the Feeder Fund's offering memoranda represented that Navy Capital had to comply with the anti-money laundering laws and regulations of the jurisdictions where it registered, namely the British Virgin Islands (BVI) and, after its reincorporation in April 2019, the Cayman Islands. These laws and regulations also required Navy Capital to obtain certified identification documentation and detailed personal information about beneficial owners. Navy Capital also represented in the Feeder Fund offering documents that it would undertake "enhanced due diligence procedures" before accepting any investment if "high risk factors with respect to money laundering activities" were present.

9. Navy Capital's Master Fund subscription booklets provided to prospective investors likewise stated that, "to comply with applicable anti-money laundering laws and regulations, the [Master Fund] is required to verify the identities and sources of funds of all Investors."

10. In Due Diligence Questionnaires (DDQs) distributed to prospective investors who requested them, Navy Capital stated that it "adopted a written AML policy and established procedures to implement the firm's policy and reviews it to monitor and [e]nsure the policy is being observed, implemented properly and amended or updated, as appropriate." Navy Capital further represented in the DDQs that it "performs its own due diligence into the identities of all

of its potential investors" and "will confirm identity through appropriate identification means (as outlined in Navy's written 'Customer Identification Program')."

11. Navy Capital also represented in offering memoranda for the Feeder Fund and subscription agreements for the Master and Feeder Funds that, as part of its AML program, it required verification of the sources of funds of all investors, and Navy Capital instructed prospective investors and existing investors making additional contributions to wire their subscription proceeds from accounts held in their own names. For example, the Feeder Fund's subscription agreement included an "Anti-Money Laundering Supplement" that required investors to "wire the [subscription] payment from an account in your name." The Master Fund's subscription agreements, including the "Additional Subscription Request" forms, had a similar instruction.

12. In the Master Fund and Feeder Fund subscription agreements, Navy Capital listed the specific AML documentation Navy Capital required before accepting investments in those Funds, including recently verified identification documentation on beneficial owners. The Master Fund and Feeder Fund subscription agreements also made clear that investors must submit all required AML documentation before Navy Capital would deem the subscription complete. For example, the "Anti-Money Laundering Supplement" to the Feeder Fund's subscription agreements represented that an investor "will not be deemed a Subscriber of the Fund, regardless of whether you have already wired the funds, until all of the required [AML] documentation listed below is received by the Fund." Similarly, the Master Fund subscription agreements advised investors that "[y]our subscription application will not be deemed complete until all of the required [AML] documentation listed above is received" and only after "verification of your identity[.]"

13. Navy Capital also represented to prospective and existing investors in its April 2018 and February 2019 Feeder Fund offering memoranda that, although not required by law, it had incorporated the requirements imposed on certain financial institutions under the USA Patriot Act into its own AML program. This included the requirement "to confirm the identity of each investor to the extent reasonable and practicable, including the principal beneficial owners of an investor, if applicable."

14. Navy Capital's compliance manual required employees to follow the firm's AML due diligence policies and procedures. The compliance manual also recognized the potential consequences to investors of a failure in the subscription process: "An oversight in the Investor subscription process could jeopardize the safety of Client and Investor assets and/or impair Navy's ability to manage [investor] accounts[.]" To mitigate these risks, Navy Capital required itself and its employees "to act in furtherance of [Navy Capital's AML] policy statement to protect the Adviser from exploitation by money launderers or terrorists" by identifying red flags or "other suspicious activities," such as "acting for an unrepresented principal" and "reluctance to provide information about identity, assets, [and] business." The compliance manual provided that "[a]ny of these red flags" would "prompt further inquiry[.]" Navy Capital provided its compliance manual to prospective investors who requested it, and Navy Capital referred to these

portions of the compliance manual in DDQs provided to certain prospective investors in 2019 and 2021.

Navy Capital's Failure to Follow Its Represented AML Due Diligence Procedures

15. Despite these representations to prospective and existing investors, Navy Capital did not always conduct the AML due diligence described. In addition, in some instances where red flags or "high risk factors with respect to money laundering activities" were present, Navy Capital did not conduct the enhanced AML due diligence it represented it would conduct.

16. In October and November 2018, for example, Navy Capital accepted two Master Fund investments from Investor A, a limited liability company. Despite representing to other investors that Navy Capital would not accept investments until it verified the identity of an investor's beneficial owners, Navy Capital did not obtain documents identifying Investor A's beneficial owners. The only person identified in the six documents constituting Navy Capital's due diligence files on Investor A was Investor A's president. And the only identification documentation Navy Capital obtained for this individual was an unverified copy of the president's driver's license issued in December 2022, over four years after Navy Capital accepted Investor A's investment.

17. Between October 2018 and February 2021, Navy Capital accepted three Feeder Fund investments from Investor B through a foreign entity Navy Capital knew at the time Investor B indirectly owned. Even though Navy Capital represented it would not accept a prospective investment until the investor submitted all required AML documentation, including documentation verifying the identities of beneficial owners and sources of subscription funds, Navy Capital did not obtain all required AML documentation on Investor B until 2022. By then, Investor B already owned about 65% of the Feeder Fund. Navy Capital also did not conduct pre-investment AML due diligence on the entity through which Investor B made these three investments, or the entities within the chain of ownership leading to Investor B. In fact, Navy Capital did not know the name of the investing entity until three days after the initial effective investment date. Further, Navy Capital missed red flags in the form of widely-circulated public reports of suspicions that Investor B might have been connected to money laundering activities – precisely what Navy Capital's anti-money laundering policies and procedures were supposed to address. Just one week before Investor B's October 2018 investment, for example, a major media outlet reported that a foreign court unsealed confidential police suspicions that Investor B's money was "at least partially of illegal origin" and might have been connected to "money laundering." Notwithstanding its policy to conduct "enhanced due diligence" if red flags or "high risk factors with respect to money laundering activities" were present, Navy Capital did not conduct "enhanced due diligence" at that time. Navy Capital then accepted investments from Investor B two more times after the initial investment – in November 2018 and February 2021 – without verifying the source of Investor B's funds. In March 2022, foreign authorities officially sanctioned Investor B and a foreign court imposed an asset freeze on Investor B, which applied to Navy's Feeder Fund because Investor B owned more than 50% of the fund. Only then did Navy Capital collect all required AML documentation for its files on Investor B.

18. Navy Capital accepted an investment from a Master Fund subscriber, Investor C, a limited liability limited partnership, even though Investor C provided contradictory documents concerning its beneficial ownership. Specifically, Investor C provided two corporate documents, each including a list of 10 limited partners that differed from one another. Despite representing it would confirm and verify the identity of an investor's beneficial owners before accepting an investment, Navy Capital did not obtain documents or information resolving this discrepancy.

19. Navy Capital also accepted funds from bank accounts not held in the name of the subscribing investor or without sufficiently confirming the source of funds for the investments, which was inconsistent with representations made to investors. For example, between September 2018 and March 2020, Navy Capital accepted three Master Fund investments from Investor D, a natural person who signed a subscription agreement in the investor's personal capacity as an investor. Records for the Master Fund's bank accounts show that the money funding Investor D's investment did not come from an account held in his own name, but from an account held in the name of a trust for which Investor D served as trustee. For investors that were trusts, Master Fund subscription agreements required a certified copy of the trust deed detailing the nature and purpose of the trust, where the trust was created, the identity of all beneficiaries, settlors, grantors, and protectors of the trust, and verified identification documentation of anyone who contributed assets to the trust and at least two trustees/controllers. That the title of the trust used Investor D's name was not evidence that the investor had any beneficial interest in, or contributed assets to, the trust and the money funding Investor D's investment. Despite its representations that an investor "must wire the payment from an account in your name," Navy Capital accepted the investments without having Investor D resend the investment funds from an appropriate account or having the trust submit its own subscription agreement and provide detailed documentation that Navy Capital required of trusts.

20. Navy Capital also accepted investments from investors that disclosed on their subscription agreements they had zero assets, or without obtaining information about the source of the money funding the investment. For example, Navy Capital accepted an investment in the Feeder Fund from Investor E, a privately held corporation, effective January 1, 2022. Even though Navy Capital told investors it would verify the sources of funds for investors' subscriptions, the only document contained in Navy Capital's files in this regard was an undated one-page document containing the words "Investments," "Business ownership profits," and "Employment income." There were no documents in Navy Capital's file on Investor E explaining whose list this was, when it was provided, what the items listed meant, or how they related to the sources funding Investor E's subscription.

21. Although Navy Capital was registered with the Commission as an investment adviser during the period from April 26, 2019 to March 27, 2024, it failed to adopt written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder. For example, during the time period it was registered with the Commission as an investment adviser, Navy Capital failed to adopt policies and procedures reasonably designed to ensure the accuracy of offering and other documents provided to prospective and existing fund investors.

Violations

22. As a result of the conduct described above, Navy Capital willfully[2] violated Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder, which make it unlawful for any investment adviser to a pooled investment vehicle to "[m]ake any untrue statement of a material fact or to omit to state a material fact necessary to make the statements made, in the light of the circumstances under which they were made, not misleading, to any investor or prospective investor in the pooled investment vehicle; or [o]therwise engage in any act, practice, or course of business that is fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle." A showing of negligence is sufficient to establish a violation of Section 206(4) of the Advisers Act and the rules thereunder; proof of scienter is not required. *See SEC v. Steadman*, 967 F.2d 636, 647 (D.C. Cir. 1992).

23. As a result of the conduct described above, Respondent willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-7 thereunder, which require a registered investment adviser to adopt and implement written compliance policies and procedures reasonably designed to prevent violations of the Advisers Act and the rules thereunder.

IV.

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

Accordingly, pursuant to Sections 203(e) and 203(k) of the Advisers Act, it is hereby ORDERED that:

A. Respondent cease and desist from committing or causing any violations and any future violations of Section 206(4) of the Advisers Act and Rules 206(4)-7 and 206(4)-8 thereunder.

B. Respondent is censured.

C. Respondent shall, within ten (10) days of the entry of this Order, pay a civil money penalty in the amount of $150,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Securities Exchange Act of 1934 Section

[2] "Willfully," for purposes of imposing relief under Section 203(e) of the Advisers Act, "'means no more than 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." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965). The decision in *The Robare Group, Ltd. v. SEC*, which construed the term "willfully" for purposes of a differently structured statutory provision, does not alter that standard. 922 F.3d 468, 478-79 (D.C. Cir. 2019) (setting forth the showing required to establish that a person has "willfully omit[ted]" material information from a required disclosure in violation of Section 207 of the Advisers Act).

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 Navy Capital 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 Tejal D. Shah, Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, New York Regional Office, 100 Pearl Street, Suite 20-100, New York, NY 10004-2616.

D. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it 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 it 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 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.

By the Commission.

Vanessa A. Countryman
Secretary