

**UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF MICHIGAN
SOUTHERN DIVISION**

UNITED STATES SECURITIES
AND EXCHANGE COMMISSION,

Plaintiff,

Case No. 12-cv-12109

v.

Hon.

KWAME M. KILPATRICK,
JEFFREY W. BEASLEY,
CHAUNCEY C. MAYFIELD, AND
MAYFIELDGENTRY REALTY
ADVISORS, LLC

Defendants.

COMPLAINT

Plaintiff, the United States Securities and Exchange Commission (the “Commission”), for its complaint against defendants Kwame M. Kilpatrick (“Kilpatrick”), Jeffrey W. Beasley (“Beasley”), Chauncey C. Mayfield (“Mayfield”), and MayfieldGentry Realty Advisors, LLC (“MGRA”) (collectively, the “Defendants”), alleges as follows:

1. The Commission brings this suit to remedy brazen influence peddling and betrayal of the public trust by the Defendants. In 2006-2007, Kilpatrick and Beasley, respectively, were the Mayor and the Treasurer of the City of Detroit. They were also trustees of the Detroit public employee pension funds. Mayfield and MGRA were investment advisers to the funds. While the Defendants occupied these positions, Kilpatrick and Beasley secretly solicited and received lavish gifts from Mayfield and

MGRA. For their part, Mayfield and MGRA were only too eager to provide the undisclosed gifts in order to maintain their relationship with the pension funds – a relationship which generated millions of dollars in fees for Mayfield and MGRA. Kilpatrick and Beasley solicited, and Mayfield and MGRA supplied, more than \$125,000 worth of entertainment and travel, including multiple flights on private jets, concert tickets, hotel rooms, limousines, and more. At the same time Mayfield and MGRA secretly provided these gifts, they were seeking approval from the trustees of the funds, including Kilpatrick and Beasley, for over \$115 million in investments. The failure by Kilpatrick, Beasley, MGRA, and Mayfield to disclose these gifts and the resulting conflicts of interest constituted a fraud on the pension funds.

SUMMARY OF ALLEGATIONS

2. The General Retirement System of the City of Detroit (the “GRS”) and the Police and Fire Retirement System of the City of Detroit (the “PFRS”) (together, the “Pension Funds”) hold and manage billions of dollars for the benefit of Detroit’s police officers, firefighters, and non-uniformed employees.

3. MGRA has managed assets of the Pension Funds, through its CEO and majority owner Mayfield, since 2002. Mayfield and MGRA regularly sought and received additional business from the Pension Funds and received millions of dollars from the Pension Funds in management and transaction fees. The Pension Funds have consistently been MGRA’s largest source of income.

4. As Mayor of Detroit from 2001 until 2008, Kilpatrick was a voting member of the boards of trustees of both Pension Funds. So was Beasley, whom Kilpatrick appointed to be Detroit’s Treasurer in 2006.

5. Mayfield had supported Kilpatrick in his first run for Mayor, but in the 2005 election, he supported Kilpatrick's opponent. In 2006, Beasley and another representative from Kilpatrick's administration informed Mayfield that he needed to make amends with the Kilpatrick administration.

6. Throughout 2007, Beasley solicited an extensive array of gifts for Kilpatrick and himself from Mayfield and MGRA. Mayfield always delivered. The gifts included a lavish three-day vacation via private jet to Las Vegas for Kilpatrick, Beasley, and their entourage. This trip cost MGRA more than \$60,000 and included three rounds of golf, VIP hotel rooms at the Venetian Resort Hotel Casino, tickets to performances by singers Toni Braxton and Prince, and massages at the Canyon Ranch Spa. Beasley also solicited, and MGRA paid for, private jet flights to Bermuda and Tallahassee for Kilpatrick, Kilpatrick's wife, Kilpatrick's father, Beasley's son, and others.

7. At the same time that Beasley was soliciting these secret gifts for himself and Kilpatrick, Mayfield and MGRA were recommending that the Pension Funds' Boards of Trustees purchase over \$115 million in securities offered by an entity controlled by Mayfield.

8. Kilpatrick, Beasley, Mayfield, and MGRA were fiduciaries to the Pension Funds. As such, each had a duty to disclose to the Pension Funds the gifts and the conflict of interest created by the gifts. Despite their duty, none of the Defendants disclosed the gifts or the resulting conflict of interest to the Pension Funds.

9. On several occasions in 2007, the trustees voted to continue and add to their business with Mayfield and MGRA. They acted without the knowledge that Mayfield and MGRA had provided lavish gifts to Kilpatrick and Beasley. They did not

know because Kilpatrick, Beasley, Mayfield, and MGRA concealed the gifts and resulting conflict of interest. Kilpatrick and Beasley voted in favor of the investments, and Mayfield and MGRA received millions of dollars in fees from the investments.

10. As a result of the conduct described in this Complaint, all of the Defendants violated Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) [15 U.S.C. § 78j(b)] and Rules 10b-5(a), (b), and (c) thereunder [17 C.F.R. §§ 240.10b-5(a), (b), and (c)].

11. In addition, as a result of the conduct described in this Complaint, defendants Mayfield and MGRA violated Sections 17(a)(1), (2), and (3) of the Securities Act of 1933 (“Securities Act”) [15 U.S.C. §§ 77q(a)(1), (2), and (3)] and Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 (“Advisers Act”) [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].

12. Finally, as a result of the conduct described in this Complaint, defendants Kilpatrick and Beasley aided and abetted violations of Sections 206(1) and 206(2) of the Investment Advisers Act of 1940 [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].

JURISDICTION AND VENUE

13. The Commission brings this action pursuant to the authority conferred by Section 20(b) of the Securities Act [15 U.S.C. § 77t(b)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], and Section 209(d) of the Advisers Act [15 U.S.C. § 80b-9(d)], seeking to restrain and enjoin permanently the Defendants from engaging in the acts, practices, transactions, and courses of business alleged herein. The Commission also seeks to enjoin Kilpatrick and Beasley from participating in any decisions involving investments in securities by public pensions as a trustee, officer, employee, or agent.

14. The Commission also seeks a final judgment ordering the Defendants to disgorge their ill-gotten gains and pay prejudgment interest thereon, and ordering the Defendants to pay civil money penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d)(3) of the Exchange Act [15 U.S.C. § 78u(d)(3)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)].

15. This Court has jurisdiction over this action, and venue lies in this District, pursuant to Sections 20(d) and 22(a) of the Securities Act [15 U.S.C. §§ 77t(d) and 77v(a)], Sections 21(d) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d) and 78aa], and Section 214 of the Advisers Act [15 U.S.C. § 80b-14]. The Defendants, directly or indirectly, singly or in concert, have made use of the means or instruments of transportation or communication in, and the means or instrumentalities of, interstate commerce, or of the mails, in connection with the transactions, acts, practices, and courses of business alleged herein. Some of these transactions, acts, practices and courses of business occurred in the Eastern District of Michigan, where each of the Defendants transacted business during the relevant period. Kilpatrick and Beasley were members of the executive branch of the City of Detroit, and resided and maintained offices in the City of Detroit, during the relevant period. In addition, Mayfield maintains an office in the City of Detroit, and the principal place of business of MGRA is located in the City of Detroit.

DEFENDANTS

16. **MGRA** is a Michigan limited liability company with a principal place of business in Detroit, Michigan. MGRA has been registered with the Commission as an investment adviser since April 29, 2004.

17. **Mayfield**, age 56, resides in Fort Lauderdale, Florida. Mayfield is the founder, President, CEO, and majority owner of MGRA.

18. **Kilpatrick**, age 41, resides in Grand Prairie, Texas. Kilpatrick was Mayor of the City of Detroit from 2002 through 2008. Kilpatrick resigned from office in September 2008 after pleading guilty to two counts of obstruction of justice and no contest to a count of obstructing and assaulting a police officer.

19. **Beasley**, age 43, resides in Chicago, Illinois. Beasley was City Treasurer of the City of Detroit from 2006 through 2008.

OTHER RELEVANT ENTITIES

20. **The GRS** is a public pension fund which during the relevant period held nearly \$4 billion in assets for more than 20,000 employees, retirees, and other beneficiaries. The Mayor and the City Treasurer of the City of Detroit are each voting members of the board of trustees of the GRS. Kilpatrick and Beasley, as trustees to the GRS, were fiduciaries to the fund.

21. **The PFRS** is a public pension fund which during the relevant period held over \$5 billion in assets for more than 12,000 police officers, firefighters, retirees, and other beneficiaries. The Mayor and the City Treasurer of the City of Detroit are each voting members of the board of trustees of the PFRS. Kilpatrick and Beasley, as trustees to the PFRS, were fiduciaries to the fund.

22. **The MGRA Genesis Value Fund, LP** (the "MGRA Genesis Fund") is a limited partnership formed for the purpose of holding various real estate properties. The MGRA Genesis Fund was established by Mayfield and MGRA in 2007.

23. **MGRA GP LLC**, which is owned and controlled by Mayfield and

MGRA, is the general partner of the MGRA Genesis Fund. Mayfield and MGRA, through their ownership of MGRA GP LLC, earned management fees based on the value of the assets of the MGRA Genesis Fund.

24. **The MGRA Genesis Value REIT, Inc.** (the “MGRA Genesis REIT”) was a Maryland corporation with a principal place of business in Baltimore, Maryland. It was dissolved in 2010. The purpose of the MGRA Genesis REIT was to raise capital through the sale of securities and to invest that capital in the MGRA Genesis Fund.

25. **The Kilpatrick Civic Fund** (the “Kilpatrick Civic Fund”) is a charitable organization created by Kilpatrick purportedly to improve the City of Detroit.

FACTS

Background

MGRA’s Business with the Pension Funds

26. MGRA and its predecessors have performed services for the PFRS since 2002.

27. In 2004, MGRA’s business expanded greatly when the PFRS selected it to manage \$140 million in properties owned by the PFRS.

28. In May 2005, MGRA and the PFRS formalized their relationship by entering into a Real Estate Investment Advisory and Asset Management Agreement (the “PFRS MGRA Advisory Agreement”). Mayfield signed the agreement on behalf of MGRA.

29. In the PFRS MGRA Advisory Agreement, Mayfield, on behalf of MGRA, stipulated that the firm was a registered investment adviser pursuant to the Investment Advisers Act of 1940.

30. Mayfield, on behalf of MGRA, agreed in the PFRS MGRA Advisory Agreement that MGRA was a fiduciary of the PFRS.

31. Mayfield, on behalf of MGRA, also agreed in the PFRS MGRA Advisory Agreement that MGRA would immediately disclose to the PFRS any conflicts of interest or potential conflicts of interest.

32. The PFRS MGRA Advisory Agreement remained in effect until 2012.

33. Beginning in 2006, MGRA began acting in the capacity of a real estate advisor with respect to real estate investments of the GRS.

34. The relationship between MGRA and the GRS was formalized in a Real Estate Investment Advisory and Asset Management Agreement (the “GRS MGRA Advisory Agreement”). Although it was executed in August 2007, the GRS MGRA Advisory Agreement states that the contractual advisory relationship between MGRA and the GRS commenced on July 26, 2006. Mayfield signed the GRS MGRA Advisory Agreement on behalf of MGRA.

35. In the GRS MGRA Advisory Agreement, Mayfield, on behalf of MGRA, represented that the firm was a registered investment adviser pursuant to the Investment Advisers Act of 1940.

36. Mayfield, on behalf of MGRA, agreed in the GRS MGRA Advisory Agreement that MGRA was a fiduciary of the GRS.

37. Mayfield, on behalf of MGRA, also agreed in the GRS MGRA Advisory Agreement that MGRA would immediately disclose to the GRS any conflicts of interest or potential conflicts of interest.

38. The GRS MGRA Advisory Agreement remained in effect at least until 2012.

State Law and Pension Fund Policies

39. The Public Employee Retirement System Investment Act, Public Act 314 of 1965, as amended (“PERSIA”), the Michigan state law that governs the administration and investment of the assets of the Pension Funds, defines trustees such as Kilpatrick and Beasley, and investment advisers such as Mayfield and MGRA, as investment fiduciaries. PERSIA prohibits an investment fiduciary from receiving “any consideration for his or her own personal account from any party dealing with the [the pension fund] in connection with a transaction involving the assets of the [the pension fund].”

40. The GRS had an ethics policy in place during the relevant period. The policy stated that “[c]onflicts of interest, bribes, gifts or favors which subordinate fund trustees to private gains are unacceptable.”

41. Furthermore, the policy addressed conflicts of interest by dictating that:

A pension board must discharge all its duties solely in the interest of the participants and beneficiaries for the exclusive purpose of (1) providing benefits to participants and their beneficiaries; and (2) defraying reasonable expenses of administering the retirement system or pension fund. A trustee must act honestly and with undivided loyalty to the trust and must serve the interest of all beneficiaries excluding self interest...

The trustee must not deal with the pension system assets for the individual benefit of the trustee.

42. During the relevant time period, the Pension Funds did not monitor receipt of consideration by trustees and instead relied on the trustees to self-report any conflicts of interest.

Mayfield “On the Outs” with the Kilpatrick Administration

43. Kilpatrick was first elected Mayor of the City of Detroit in 2001. He ran for re-election in 2005. In the August 2005 nonpartisan primary, Kilpatrick and Freman Hendrix (“Hendrix”), the Deputy Mayor, received the highest number of votes. The two faced each other in the general election in November 2005.

44. Mayfield had supported Kilpatrick in his first run for Mayor, but he supported Hendrix in the 2005 election. Mayfield personally donated \$3,400, the maximum allowable individual contribution, to Hendrix’s campaign.

45. Prior to the 2005 election, Mayfield hired Hendrix’s daughter to work at MGRA. During the interview process, Hendrix’s daughter indicated to Mayfield that she believed she was having difficulty getting a job because, in her opinion, the Kilpatrick administration was “blackballing” her. Mayfield hired her nonetheless.

46. At the time of the 2005 election, MGRA, with Mayfield at its helm, was managing millions of dollars in real estate investments for the Pension Funds. The Pension Funds were MGRA’s largest source of income. Mayfield, who owned more than 70 percent of MGRA, was the biggest beneficiary of MGRA’s business relationship with the Pension Funds.

47. In September 2005, MGRA received conditional, preliminary approval

from the GRS Board for a \$10 million investment in the MGRA Genesis Fund. Mayfield and MGRA stood to benefit greatly from this investment by the GRS, but the deal was far from complete. The GRS Board's approval specifically stated, among other things, that it was expressly understood by both parties that there was no obligation of the GRS Board to make the investment, that there was a possibility of changes to the proposal, and that any executed preliminary transaction documents would include language indicating that final documents were subject to approval as to form and content by the GRS Board and its legal counsel.

48. As part of his second-term administration, Kilpatrick appointed Beasley, his college fraternity brother, as City Treasurer. In that position, Beasley was also as a trustee to the Pension Funds.

49. While final approval of the GRS \$10 million investment proposal was pending, members of Kilpatrick's administration began to exert pressure on Mayfield.

50. In January 2006, Deputy Mayor Anthony Adams ("Adams") invited Mayfield to dinner. At that dinner, Adams told Mayfield that Mayfield was "on the outs with the Kilpatrick administration" because of Mayfield's support of Hendrix in the 2005 election. Adams also told Mayfield that they needed to figure out a way to "get this cleared up" and then proposed that he fire Hendrix's daughter. Mayfield told Adams that he would not fire her.

51. In February 2006, Beasley invited Mayfield out for drinks. Mayfield agreed to meet with Beasley because "it just [made] good business sense" to have a positive relationship with the Kilpatrick administration.

52. As Adams had before, Beasley reiterated Mayfield's need to make amends

with the Kilpatrick administration. Beasley indicated that Mayfield was “in the dog house” with Kilpatrick and offered to help him “clear the air” with the Kilpatrick administration.

53. In April 2006, Mayfield and MGRA appeared before the PFRS Board and proposed that the PFRS invest in the MGRA Genesis Fund. Mayfield and MGRA proposed a possible real estate investment trust (“REIT”) structure for the MGRA Genesis Fund.

54. In June 2006, MGRA received conditional, preliminary approval from the PFRS Board for a \$20 million investment in the MGRA Genesis Fund. This investment would generate substantial fees for Mayfield and MGRA, but the PFRS approval was not final. The PFRS Board’s approval specifically stated, among other things, that it was expressly understood by both parties that there was no obligation of the PFRS Board to make the investment, that there was a likelihood of changes to the proposal, and that any executed preliminary transaction documents would include language indicating that final documents were subject to approval as to form and content by the PFRS Board and its legal counsel.

THE FRAUDULENT SCHEME

A Building Inspection in Charlotte, North Carolina

55. In 2007, Mayfield and MGRA sought to increase and finalize approval of the Pension Funds’ potential investments in the MGRA Genesis Fund.

56. As part of its advisory relationship with the Pension Funds, MGRA managed and acquired properties on behalf of the Pension Funds.

57. It was MGRA’s practice to conduct annual inspections of buildings it

managed for the Pension Funds, including the buildings located outside Michigan.

MGRA often invited trustees of the Pension Funds to accompany MGRA employees for inspections of out-of-state properties. When trustees accepted the invitation to make such trips, MGRA reimbursed the trustees for their expenses.

58. In January 2007, MGRA acquired a new building for the PFRS in Charlotte, North Carolina.

59. Shortly thereafter, Beasley called Mayfield and told him that Beasley and Kilpatrick wanted to travel to Charlotte to inspect the acquired building. At the time Beasley approached Mayfield, MGRA had not planned an inspection trip to Charlotte.

60. Beasley asked for a hotel recommendation, and told Mayfield that MGRA should pay for the hotel stay. Mayfield agreed to Beasley's demand.

61. Beasley provided an MGRA employee with the names of four individuals who would accompany Kilpatrick and Beasley on the trip: Duane Love (Kilpatrick's bodyguard), Marc Cunningham (Special Assistant to Kilpatrick), Bobby Ferguson (a city contractor and close friend of Kilpatrick), and Derrick Miller (Kilpatrick's Chief Information Officer).

62. MGRA made the hotel reservations for the six travelers. MGRA paid in excess of \$3,000 for the hotel rooms.

63. No trustees other than Kilpatrick and Beasley were informed of, or invited to take part in, the trip.

64. No MGRA employees accompanied Kilpatrick and Beasley on the Charlotte trip.

65. Kilpatrick, Beasley, and their companions travelled to Charlotte and

stayed in the hotel from January 19-22, 2007, but never inspected the building while they were there.

66. Mayfield knew that Kilpatrick and Beasley did not inspect the Charlotte building. Whenever someone from out of state entered a MGRA-managed property, MGRA's security company notified MGRA and Mayfield. Mayfield received no such notification. Furthermore, after the weekend of the Charlotte trip, Mayfield verified that no one had inspected or visited the property.

67. Beasley later lied to Mayfield, telling him that the building "looked good." Mayfield knew that Beasley and the others never inspected the building, but did not ask any further questions about the matter.

Leaving for Las Vegas

68. In April 2007, Mayfield was considering buying a private jet for MGRA. Mayfield had never traveled on a private jet before, so he chartered a flight to Las Vegas for himself and a few friends. He invited Beasley on the trip.

69. Before Mayfield had an opportunity to invite anyone else, Beasley called Mayfield and informed him that he would be coming on the Las Vegas trip, along with Kilpatrick and several members of Kilpatrick's inner circle: Derrick Miller, Duane Love, Marc Cunningham, and Lucius Vassar (Kilpatrick's Chief Administrative Officer).

70. Although Mayfield had not invited Kilpatrick and the others, Beasley told Mayfield that the Las Vegas trip would provide a good opportunity to "clear the air" with Kilpatrick.

71. On the morning of Friday, April 13, 2007, Kilpatrick, Beasley, their friends, and Mayfield flew by private jet from Pontiac, Michigan to Las Vegas for an

extravagant three-day vacation.

72. Kilpatrick, Beasley, and their entourage were picked up by private limousine, stayed at the Venetian Resort Hotel Casino for two nights, and played three rounds of golf – on Friday, Saturday, and Sunday. On Friday night, they attended a Toni Braxton concert at the Flamingo Showroom, and on Saturday night, they attended a midnight performance by Prince at Club 3121 inside the Rio Hotel Casino. On Sunday, they returned to the Las Vegas airport by private limousine, and the private jet returned them to Pontiac.

73. Mayfield was the only person from MGRA on the trip.

74. There were no discussions of business between Mayfield and Kilpatrick or Beasley during the trip.

75. MGRA paid the expenses associated with the Las Vegas trip, totaling \$62,922.17. These expenses included:

- Chartered flights on private jet (\$43,632.18)
- 7 VIP hotel rooms at the Venetian Resort Hotel Casino (\$7,038.77)
- Toni Braxton tickets (\$974.30)
- Prince tickets (\$2,175.44)
- Dinner at McCormick & Schmick (\$800.48)
- Golfing fees (\$2,712.00)
- Private limousine charges (\$5,289.00)
- Massages at Canyon Ranch Spa for Kilpatrick and Mayfield (\$300.00)

76. MGRA accounted for these expenditures as business expenses.

77. In May 2007, just weeks after the Las Vegas vacation, Mayfield and MGRA sought to finalize the PFRS investment in the Genesis Fund. However, the amount of the requested investments had increased from the \$20 million cash commitment conditionally approved in July 2006.

78. MGRA now requested that the PFRS transfer \$55 million worth of properties owned by the PFRS to the MGRA Genesis Fund, and that the PFRS commit \$25 million, not \$20 million, in cash to the MGRA Genesis Fund.

79. This proposed increase in the size of the investment meant increased fees for Mayfield and MGRA.

80. On May 10, 2007, the PFRS Board approved this proposal by a vote of 9 to 2. Both Kilpatrick's designee to the PFRS Board and Beasley voted in favor of the proposal. The designee acted as Kilpatrick's proxy at all relevant board meetings.

81. Neither Kilpatrick nor Beasley nor Mayfield nor MGRA informed anyone associated with the Pension Funds about the Las Vegas trip.

82. The Board thus voted to extend and increase its business with Mayfield and MGRA without the knowledge that their advisers had just provided Kilpatrick and Beasley with a \$63,000 vacation.

A Trip to Tallahassee

83. A few months after the Las Vegas junket, Mayfield again provided a private jet for Kilpatrick's personal use in response to a request from Beasley.

84. In July 2007, Beasley asked Mayfield to charter a private jet, at MGRA's expense, to fly Kilpatrick to Tallahassee, Florida.

85. Beasley told Mayfield that Kilpatrick was going to Tallahassee to raise money for the Kilpatrick Civic Fund. Beasley said the private jet was necessary to get Kilpatrick "in and out" of Tallahassee quickly.

86. Mayfield agreed to make the arrangements and also agreed that MGRA would pay for the jet.

87. On July 20, 2007, the Kilpatrick entourage flew to Tallahassee on a private jet. They returned on July 22, 2007. The private jet cost MGRA \$24,725.65. The passengers were Kilpatrick, Connor Beasley (Beasley's son), and two other individuals with the last name "Kilpatrick."

88. According to Mayfield, the \$25,000 gift of the private jet was a "charitable donation," because Beasley told him that Kilpatrick was taking the trip to raise money for the Kilpatrick Civic Fund. In its books and records, however, MGRA treated the expenditure as a business travel expense, not a charitable contribution.

89. MGRA did not seek a deduction on its tax returns for the purported \$25,000 charitable contribution.

90. By contrast, MGRA did take charitable deductions for cash contributions it donated to the Kilpatrick Civic Fund in 2007.

91. Likewise, the Kilpatrick Civic Fund's records do not reflect the receipt of any donations on or around the dates of the Tallahassee trip.

92. Contrary to Kilpatrick's purported need for a private jet to get "in and out" of Tallahassee quickly, the trip lasted three days.

93. Coincidentally, Kilpatrick and his wife had purchased a second home in Tallahassee in June 2007, just weeks before the trip.

94. In August 2007, shortly after the trip to Tallahassee, the GRS Board voted to enter into the GRS MGRA Advisory Agreement. Both Kilpatrick's designee to the GRS Board and Beasley voted in favor of the Agreement.

95. Mayfield, on behalf of MGRA, executed the GRS MGRA Advisory Agreement, formalizing the relationship between MGRA and the GRS.

96. Neither Kilpatrick nor Beasley nor Mayfield nor MGRA informed anyone associated with the Pension Funds about the trip to Tallahassee.

97. The Board thus voted to formalize its business relationship with Mayfield and MGRA without the knowledge that the advisers had just provided Kilpatrick and his associates a \$25,000 private jet trip.

A Long Weekend in Bermuda

98. In September 2007, Beasley asked Mayfield to charter a private jet, at MGRA's expense, to fly Kilpatrick and his wife to Bermuda.

99. Beasley again told Mayfield that Kilpatrick was going to Bermuda to raise money for the Kilpatrick Civic Fund.

100. Beasley told Mayfield the private jet was necessary to get Kilpatrick in and out of Bermuda quickly. Mayfield found the request questionable, and was "leery" about granting it. Mayfield nevertheless made the arrangements, and MGRA paid for the jet.

101. The trip took place on October 4-7, 2007, and the private jet cost MGRA \$34,604.90.

102. Mayfield sent an email shortly before the trip stating that the passengers on the private jet would include not just Kilpatrick and his wife, but also Bobby Ferguson (Kilpatrick's friend and city contractor), Beasley, Beasley's wife, and another individual.

103. Ultimately, Kilpatrick and his wife travelled on the jet from Detroit to Bermuda, while the return flight carried Kilpatrick, Kilpatrick's wife, Kilpatrick's father, and Kilpatrick's father's girlfriend.

104. During their weekend in Bermuda, Kilpatrick and his father played golf

with comedian Steve Harvey and Bermuda's Premier and Minister of Tourism and Transport. Kilpatrick and his wife also attended the Bermuda Music Festival, which took place over the weekend. They were photographed with celebrities including members of the band Earth, Wind & Fire and actresses Gabrielle Union and Regina King.

105. According to Mayfield, the \$35,000 gift of the private jet flight to Bermuda, like the gift of the private jet flight to Tallahassee, was a "charitable donation," because Beasley told him that Kilpatrick was taking the trip to raise money for the Kilpatrick Civic Fund.

106. In its books and records, however, MGRA treated the expenditure as a business travel expense, not a charitable contribution.

107. MGRA did not seek a deduction on its tax returns for the purported \$35,000 charitable contribution.

108. Likewise, the Kilpatrick Civic Fund's records do not reflect the receipt of any donations on or around the dates of the Bermuda trip.

109. Neither Kilpatrick nor Beasley nor Mayfield nor MGRA informed anyone associated with the Pension Funds about the trip to Bermuda.

The Final Votes to Invest Over \$115 million with Mayfield and MGRA

110. Just weeks after the trip to Bermuda, at its November 14, 2007 meeting, the GRS Board again considered the proposed \$10 million investment in the MGRA Genesis Fund. Mayfield and MGRA now proposed that the GRS purchase \$10 million in common shares of the MGRA Genesis REIT. The funds would in turn be invested in the MGRA Genesis Fund. The GRS Board approved the investment by a unanimous vote of 8 to 0. Both Kilpatrick's designee to the GRS Board and Beasley voted in favor of the

proposal.

111. Also in November 2007, the PFRS Board voted again to increase its investment. Mayfield and MGRA now proposed that the PFRS purchase common shares of the MGRA Genesis REIT. The funds would in turn be invested in the MGRA Genesis Fund. On November 15, 2007, the PFRS Board voted to contribute approximately \$67 million worth of PFRS properties, and approximately \$15 million in proceeds from the sale of another property, to the MGRA Genesis REIT in return for securities issued by the REIT. The PFRS also made a capital commitment of \$25 million in cash to the MGRA Genesis REIT. The PFRS Board approved the investment by a vote of 8 to 1. Both Kilpatrick's designee to the PFRS Board and Beasley voted in favor of the proposal.

112. Neither Kilpatrick nor Beasley nor Mayfield nor MGRA told anyone associated with the Pension Funds about the trip to Bermuda, which had taken place just weeks earlier.

113. The Boards thus voted to invest over \$115 million with Mayfield and MGRA without the knowledge that over the preceding ten months, Mayfield and MGRA had supplied Kilpatrick, Beasley, and their associates with approximately \$125,000 in extravagant gifts.

114. On November 14, 2007, Beasley signed the subscription agreement on behalf of the GRS for its \$10 million investment in the MGRA Genesis REIT. Mayfield executed the subscription agreement on behalf of the MGRA Genesis REIT. The GRS received 10,000 shares issued by the MGRA Genesis REIT in exchange for its investment.

115. On November 15, 2007, the PFRS executed a subscription agreement with the MGRA Genesis REIT for approximately \$67 million worth of properties it owned, approximately \$15 million in proceeds from the sale of another property, and a capital commitment of \$25 million in cash. Mayfield executed the subscription agreement on behalf of the MGRA Genesis REIT. In total, the PFRS invested \$106,886,532.54 in exchange for 106,886.532 shares issued by the MGRA Genesis REIT.

116. As of the end of 2007, the PFRS had purchased approximately \$107 million in shares of the MGRA Genesis REIT, and the GRS had purchased \$10 million in shares of the MGRA Genesis REIT. During 2008, 2009, and 2010, MGRA, through its ownership of MGRA GP LLC, earned between \$75,000 and \$85,000 per month in management fees, or almost \$3 million, from the MGRA Genesis Fund, due primarily to the PFRS and GRS investments in the MGRA Genesis REIT.

COUNT I

VIOLATIONS OF SECTION 17(a)(1) OF THE SECURITIES ACT [15 U.S.C. § 77q(a)(1)] (Against Mayfield and MGRA)

117. Paragraphs 1 through 116 above are realleged and incorporated herein by reference.

118. By their conduct, Mayfield and MGRA, in the offer or sale of securities, by the use of means or instruments of transportation or communication in interstate commerce and by the use of the mails, directly or indirectly, have employed devices, schemes or artifices to defraud.

119. Mayfield and MGRA acted with scienter.

120. By reason of the foregoing, Mayfield and MGRA violated Section

17(a)(1) of the Securities Act [15 U.S.C. § 77q(a)(1)].

COUNT II

**VIOLATIONS OF SECTIONS 17(a)(2) AND 17(a)(3) OF THE SECURITIES ACT
[15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)]
(Against Mayfield and MGRA)**

121. Paragraphs 1 through 116 above are realleged and incorporated herein by reference.

122. By their conduct, Mayfield and MGRA, in the offer or sale of securities, by the use of means or instruments of transportation and communication in interstate commerce and by the use of the mails, directly or indirectly, have obtained money or property by means of untrue statements of material fact or omissions to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; or have engaged in transactions, practices or courses of business that have operated as a fraud or deceit upon purchasers of securities.

123. By reason of the foregoing, Mayfield and MGRA violated Sections 17(a)(2) and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(2) and 77q(a)(3)].

COUNT III

**VIOLATIONS OF SECTION 10(b) OF THE EXCHANGE ACT
[15 U.S.C. § 78j(b)] AND RULES 10b-5(a), (b), and (c) THEREUNDER
[17 C.F.R. §§ 240.10b-5(a), (b), and (c)]
(Against All Defendants)**

124. Paragraphs 1 through 116 above are realleged and incorporated herein by reference.

125. By their conduct, Defendants, in connection with the purchase or sale of securities, by the use of means or instrumentalities of interstate commerce or by the use of the mails, directly or indirectly: (a) employed a device, scheme or artifice to defraud;

(b) made untrue statements of material fact and omitted to state material facts necessary in order to make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaged in an act, practice, or course of business that has been or is operating as a fraud or deceit upon other persons, including purchasers and sellers of such securities.

126. Defendants acted with scienter.

127. By reason of the foregoing, Defendants violated Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rules 10b-5(a), 10b-5(b), and 10b-5(c) thereunder [17 C.F.R. §§ 240.10b-5(a), (b), and (c)].

COUNT IV

VIOLATIONS OF SECTIONS 206(1) and 206(2) OF THE ADVISERS ACT [15 U.S.C. §§ 80b-6(1) and 80b-6(2)] (Against Mayfield and MGRA)

128. Paragraphs 1 through 116 above are realleged and incorporated herein by reference.

129. By their conduct, Mayfield and MGRA, while acting as investment advisers, directly or indirectly, by use of the mails or means or instrumentalities of interstate commerce, knowing or recklessly: (a) employed devices, schemes, or artifices to defraud their clients or prospective clients; and (b) engaged in transactions, practices, and courses of business that operated or would have operated as a fraud or deceit upon clients or prospective clients.

130. Mayfield and MGRA acted with scienter.

131. By reason of the foregoing, Mayfield and MGRA violated Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)].

COUNT V

**AIDING AND ABETTING VIOLATIONS OF SECTIONS 206(1) and 206(2) OF
THE ADVISERS ACT [15 U.S.C. §§ 80b-6(1) and 80b-6(2)]
(Against Kilpatrick and Beasley)**

132. Paragraphs 1 through 116 above are realleged and incorporated herein by reference.

133. By their conduct, Mayfield and MGRA, while acting as investment advisers, directly or indirectly, by use of the mails or means or instrumentalities of interstate commerce, knowing or recklessly: (a) employed devices, schemes, or artifices to defraud their clients or prospective clients; and (b) engaged in transactions, practices, and courses of business that operated or would have operated as a fraud or deceit upon clients or prospective clients.

134. Kilpatrick and Beasley knowingly or recklessly provided substantial assistance to Mayfield and MGRA in the commission of these violations.

135. MGRA, Mayfield, Kilpatrick, and Beasley acted with scienter.

136. By reason of the foregoing, Mayfield and MGRA violated Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)], and Kilpatrick and Beasley are liable for aiding and abetting those violations pursuant to Section 209(f) of the Advisers Act [15 U.S.C. § 80b-9(f)].

RELIEF REQUESTED

WHEREFORE, the SEC respectfully requests that this Court:

I.

Find that Kilpatrick, Beasley, MGRA, and Mayfield committed the violations alleged herein and find that, as a result of these violations, Kilpatrick, Beasley, MGRA, and Mayfield received ill-gotten gains.

II.

Issue an Order of Permanent Injunction, in a form consistent with Rule 65(d) of the Federal Rules of Civil Procedure, restraining and enjoining:

- A. Mayfield and MGRA, their officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from violating Sections 17(a)(1), 17(a)(2), and 17(a)(3) of the Securities Act [15 U.S.C. §§ 77q(a)(1), 77q(a)(2), and 77q(a)(3)];
- B. Kilpatrick, Beasley, MGRA, and Mayfield, their officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from violating Section 10(b) of the Exchange Act [15 U.S.C. § 78j(b)] and Rules 10b-5(a), 10b-5(b), and 10b-5(c) promulgated thereunder [17 C.F.R. §§ 240.10b-5(a), 240.10b-5(b), and 240.10b-5(c)];
- C. Mayfield and MGRA, their officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from violating Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)];

- D. Kilpatrick and Beasley, their officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from aiding and abetting Sections 206(1) and 206(2) of the Advisers Act [15 U.S.C. §§ 80b-6(1) and 80b-6(2)]; and
- E. Kilpatrick and Beasley, their officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, and each of them, from participating in any decisions involving investments in securities by public pensions as a trustee, officer, employee, or agent.

III.

Order Kilpatrick, Beasley, MGRA, and Mayfield to disgorge their ill-gotten gains, derived directly or indirectly from the misconduct alleged, together with prejudgment interest thereon.

IV.

Order Kilpatrick, Beasley, MGRA, and Mayfield to pay civil penalties pursuant to Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)], Section 21(d) of the Exchange Act [15 U.S.C. § 78u(d)], and Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)].

V.

Retain jurisdiction of this action in order to implement and carry out the terms of all orders and decrees that may be entered or to entertain any suitable application or motion for additional relief within the jurisdiction of this Court.

VI.

Grant such other and further relief as the Court deems just and appropriate.

JURY TRIAL DEMAND

The Commission requests a trial by jury.

Dated: May 9, 2012

Respectfully Submitted,
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