

UNITED STATES DISTRICT COURT
DISTRICT OF CONNECTICUT

_____)	
SECURITIES AND EXCHANGE COMMISSION,)	
)	
Plaintiff,)	
)	
v.)	Case No.
)	
DONALD H. HUNTER,)	JURY TRIAL DEMANDED
)	
Defendant,)	
)	
_____)	

COMPLAINT

Plaintiff Securities and Exchange Commission (“the Commission”) alleges the following against defendant Donald H. Hunter (“Hunter” or “Defendant”), and hereby demands a jury trial:

PRELIMINARY STATEMENT

1. Hunter had a long career as a stock broker with various brokerage firms. In 2012, after finding that he had defrauded some of his former brokerage customers, the Financial Industry Regulatory Authority (“FINRA”), a self-regulatory organization that generally regulates brokerage firms, permanently barred Hunter from acting as a broker or otherwise associating with a broker-dealer firm.

2. After the FINRA bar, Hunter established a private fund, You Angel Finance, LLC (“You Angel Fund”), and acted as its investment adviser. Investment advisers have a fiduciary duty to their investment advisory clients and are obligated to act in their clients’ best interests. In 2016 and 2017, Hunter (directly, and through someone he hired) solicited people to invest in the You Angel Fund. He claimed to have established the You Angel Fund to raise money in order to provide “seed capital” to small and micro-cap companies in exchange for securities issued by

those companies. Hunter represented to the You Angel Fund investors that, through their investments, they would share ownership of various company shares held by the You Angel Fund. Hunter claimed that one such company was a private drug research company that purported to be working on a treatment for Alzheimer's disease ("the Start-up Company").

3. But instead of providing seed money to start-up companies, Hunter was lining his own pocket. Hunter failed adequately to disclose to investors or to his advisory client, the You Angel Fund, that Hunter and entities he controlled were actually the ones selling the Start-up Company shares that the Fund was buying. And Hunter did not explicitly disclose that he set the price at which those shares were sold, directly or indirectly, to the You Angel Fund. Instead, in breach of his fiduciary duty to the You Angel Fund, Hunter used the You Angel Fund for his own financial benefit by causing the You Angel Fund to purchase, from Hunter and his entities, thousands of Hunter's or his entities' own shares of the stock of the Start-up Company. Hunter sold shares in the You Angel Fund to a number of investors, thus effectively converting his shares in the Start-up Company into cash for himself.

4. Beginning in late 2016, Hunter first acquired the right to receive shares in the Start-up Company. Those Start-up Company shares had restrictions on how and when they could be sold. And Hunter himself was barred by FINRA, so he could not sell the Start-up Company shares directly to brokerage customers, as he had sold other stocks in the past when he worked as a broker. Instead, by turning to former brokerage customers of his and his employee's, between 2016 and the beginning of 2018, Hunter raised over \$400,000 from individual investors by selling them You Angel Fund shares. In offering the You Angel Fund shares, Hunter and his employee promoted the Start-up Company, leading investors to believe

that investments in the You Angel Fund were effectively an investment that would help the Start-up Company launch its business.

5. Hunter and his employee misled many of the investors to understand that the You Angel Fund was supplying seed capital to and/or purchasing shares directly from the Start-up Company. In actuality, Hunter and his entities owned the shares in the Start-up Company; the You Angel Fund (and investors) were simply taking those shares off Hunter's hands, and paying a significant mark-up, to boot. The You Angel Fund (and investors) bought shares, directly or indirectly, from Hunter and entities he controlled; the Start-up Company did not receive the proceeds from the investors' purchases of shares in the You Angel Fund. And the You Angel Fund (and its investors) were paying up to two and a half times the purported value at which Hunter had acquired the shares.

6. Through his conduct, Hunter violated the fiduciary duty he owed to the You Angel Fund and defrauded its investors. Every investment adviser owes its clients and prospective clients a fiduciary duty: to put client interests first, to deal with clients with the utmost honesty, to disclose to them all conflicts or potential conflicts of interest, and to use reasonable care in providing investment advice. Because Hunter was selling his and his own entities' Start-up Company shares to the You Angel Fund, Hunter created a conflict of interest with the You Angel Fund. Hunter did not disclose this conflict of interest. And, because Hunter set the price for those shares, including marking up the price of many of them, the higher the price that the You Angel Fund paid to purchase the Start-up Company shares from Hunter and his entities, the more money Hunter pocketed. Hunter did not adequately disclose this conflict to the You Angel Fund either. Hunter also misled investors in the You Angel Fund when he failed to disclose to most investors who bought shares in the You Angel Fund that he and his entities

were selling their own Start-up Company stock, that he was arbitrarily setting the price for that stock, and (in connection with some of the shares), that the price was much higher than the value of anything Hunter or his entities had exchanged for the stock.

JURISDICTION

7. The Commission seeks a permanent injunction and disgorgement pursuant to Section 209(d) of the Advisers Act [15 U.S.C. §80b-9(d)]. The Commission seeks the imposition of civil penalties pursuant to Section 209(e) of the Advisers Act [15 U.S.C. §80b-9(e)].

8. This Court has jurisdiction over this action pursuant to Sections 209(d), 209(e) and 214(a) of the Advisers Act [15 U.S.C. §§80b-9(d), 80b-9(e), 80b-14(a)]. Venue is proper in this District because Defendant lives and transacted business in the District of Connecticut.

9. In connection with the conduct described in this Complaint, Defendant directly or indirectly made use of the mails or the means or instruments of transportation or communication in interstate commerce.

10. Defendant's conduct has involved fraud, deceit, or deliberate or reckless disregard of regulatory requirements, and has resulted in substantial loss, or significant risk of substantial loss, to other persons.

DEFENDANT

11. Donald H. Hunter, age 52, resides in Ridgefield, Connecticut. In 2015, Hunter founded You Angel Fund as an unregistered private fund. Hunter is the You Angel Fund's investment adviser. From May 1989 until October 2010, Hunter was a registered representative of various broker-dealer firms. In 2012, FINRA permanently barred Hunter from acting as a broker or otherwise associating with a broker-dealer firm, finding that Hunter had violated

Section 10(b) of the Exchange Act, Rule 10b-5 thereunder, and Section 5 of the Securities Act, by making untrue statements and omitting material facts in connection with the sale of promissory notes to some of his broker-dealer customers. FINRA determined that Hunter misrepresented the use of the proceeds from the sale of the notes. Specifically, FINRA determined that Hunter had claimed that the proceeds would be used to develop new business lines. In reality, Hunter actually used the proceeds to pay obligations that had already been incurred. Hunter consented to the entry of FINRA's findings and to the permanent bar.

STATEMENT OF FACTS

12. For over 20 years, Hunter made his living selling stocks and working in brokerage firms. But in 2012, after he was barred by FINRA, Hunter needed a new career. He later began acting as an investment adviser. Investment advisers are required by law to serve as their clients' fiduciary and put the clients' interests first.

13. In 2015, Hunter formed the You Angel Fund. Hunter described the You Angel Fund as a "fund" that would provide capital to start-up companies that were listed on a companion crowd-funding site he claimed to maintain. Hunter served as the investment adviser to the You Angel Fund. As the You Angel Fund's investment adviser, Hunter made all of the decisions about the You Angel Fund's investments, including what the You Angel Fund would buy and sell and what it would do with the money investors paid into the You Angel Fund. He was compensated for his services as the You Angel Fund's investment adviser by selling his and his entities' Start-up Company shares, directly or indirectly, to the You Angel Fund – a fact that he did not affirmatively disclose to investors. Hunter also decided what he and his employee would tell their client and investors about their actual or potential investments and what disclosures they would make about Hunter's own conflicts of interest.

14. As an investment adviser, Hunter owed a fiduciary duty to the You Angel Fund to make full and fair disclosure of all conflicts of interest that might incline him – consciously or unconsciously – to render advice that is not disinterested. As the fiduciary to the You Angel Fund, Hunter could not by himself consent to conflicts on the You Angel Fund’s behalf. Instead, he was required to disclose his conflicts in the You Angel Fund’s governing documents or otherwise disclose his conflicts to the You Angel Fund’s investors so they could consent to the conflicts.

15. In late 2016, Hunter and entities he controlled received stock in the Start-up Company. He got the stock in connection with two Hunter-controlled businesses. One stock transfer to Hunter or his entities was made to resolve a claim by a Hunter-controlled communications company that it was entitled to compensation for work done. Hunter agreed to drop his company’s claim for compensation and, in exchange, he and his entity received 1,250,000 shares in the Start-up Company. The other stock transfer to Hunter or his entities, also of 1,250,000 shares in the Start-up Company, was made in payment of a fee, which Hunter set at \$125,000, which was charged by a different Hunter-controlled business for listing the Start-up Company on a crowdfunding website. In total, Hunter and his entities accepted 2,500,000 Start-up Company shares purportedly valued at 10 cents apiece.

16. Hunter had the Start-up Company shares, but he could not sell them. FINRA had barred him from associating with any FINRA member in any capacity, so he could not sell his Start-up Company shares to investors as a broker, and the shares were also subject to legal restrictions on how and when they could be sold. In order to get some money value out of the Start-up Company shares, Hunter sold these shares to the You Angel Fund. Beginning in late 2016 and into 2017, Hunter and his employee began selling investors shares in the You Angel

Fund. Hunter controlled the You Angel Fund; by offering Fund shares to investors, he raised money to pay himself and his company for the Start-up Company shares they owned but weren't permitted to sell. At the time, the You Angel Fund had not made any investments in small or micro-cap companies of the type that Hunter had told investors the Fund would make.

17. Looking for investors, Hunter and his employee contacted people who had invested with them before. They told investors about the Start-up Company and led investors to believe that each share of the You Angel Fund they bought would be equal in value to a share of Start-up Company stock. Hunter and his employee also represented that when the You Angel Fund sold the Start-up Company shares, any increase in the value of those shares would result in a profit for the You Angel Fund's investors. In this way, Hunter effectively sold investors his own shares of the Start-up Company by selling them shares of the You Angel Fund.

18. Hunter structured the sale of You Angel Fund shares for his own benefit, and none of the investors' money served as "seed money" for the Start-up Company. Hunter and his employee told investors that the You Angel Fund was raising money to invest needed funds in small companies, but they directed investors to pay for their shares by sending money to You Angel Fund bank accounts that Hunter controlled.

19. Hunter locked in his and his entities' profit by taking it up front, when the investors bought into the You Angel Fund. By contrast, the You Angel Fund, his client, was left with the shares Hunter was prohibited from selling directly, and could profit only if shares in the Start-up Company went up in value and were sold. Hunter set the price of each transaction; he and his employee offered and sold the You Angel Fund shares to investors at prices of \$.10 and \$.25 a share. After paying his employee, Hunter took a substantial portion of the proceeds for his personal use and to use in his other business activities. Hunter and his entities had received

the Start-up Company shares at a stated value of \$.10 each. By selling You Angel Fund shares at up to \$.25 each, Hunter immediately profited by at least \$180,000.

20. As an investment adviser, Hunter was obligated to act for the benefit of clients, to exercise the utmost good faith in dealing with clients, to disclose to clients all material facts, and to employ reasonable care to avoid misleading his clients. Hunter's client was the You Angel Fund. He engaged in a conflicted transaction with the You Angel Fund by selling his and his entities' own Start-up Company shares to the You Angel Fund, at prices set by Hunter. Given that Hunter hadn't established a You Angel Fund board of directors or other mechanism for reviewing and consenting to conflicts of interest in dealing with the You Angel Fund itself, Hunter could have met this obligation by disclosing those conflicts of interest to the investors in the You Angel Fund and obtaining their consent. Hunter, however, never alerted most investors who purchased shares in the You Angel Fund that he was selling his own Start-up Company stock to the You Angel Fund, that he was arbitrarily setting the price for that stock, or that the price was much higher than the value of anything Hunter had exchanged for that stock. Nor did Hunter identify these circumstances as creating a conflict of interest or take any steps to mitigate the conflict. Hunter's failure to disclose his conflicts of interest breached his fiduciary duty to the You Angel Fund and defrauded investors in the You Angel Fund.

21. Hunter and his employee solicited most of their investors by phone. Neither Hunter nor his employee disclosed in phone solicitations or in any written explanations to investors that Hunter himself stood to gain from the sale of You Angel Fund shares. When they discussed the share price with investors and potential investors, Hunter and his employee failed to disclose that the You Angel Fund was buying shares of the Start-up Company at a price that was set by Hunter, himself, largely for his own financial benefit. Nor did Hunter and his

employee even disclose that the money investors paid was actually going to Hunter, who was selling his own Start-up Company securities to the You Angel Fund. Hunter told few, if any, investors that the money they paid to the You Angel Fund went to him. Based on the representations made by Hunter and by his employee, some investors understood that the You Angel Fund was supplying funds to the Start-up Company to use in its business.

FIRST CLAIM FOR RELIEF
(Violation of Section 206(1) of the Advisers Act)

22. The Commission repeats and incorporates by reference the allegations in paragraphs 1-21 of the Complaint as if set forth fully herein.

23. Hunter operated as an investment adviser as defined by Section 202(a)(11) of the Advisers Act [15 U.S.C. § 80b-2(a)(11)]. As an investment adviser, Hunter had a duty to act for the benefit of clients, to exercise the utmost good faith in dealing with clients, to disclose all material facts, and to employ reasonable care to avoid misleading clients.

24. Section 206(1) of the Advisers Act [15 U.S.C. §§80b-6(1)] provides that it is unlawful for an investment adviser, by use of the mails or any means or instrumentality of interstate commerce, directly or indirectly to employ any device, scheme, or artifice to defraud a client or prospective client.

25. As set forth above, Hunter, acting intentionally, knowingly, or recklessly, employed a device, scheme, or artifice to defraud when he failed to disclose an actual or potential conflict of interest arising from his selling his own and his company's interest in the Start-up Company to the You Angel Fund, setting the price for those shares, and profiting from the price he set. As a result, Hunter violated and, unless enjoined, will continue to violate, Section 206(1) of the Advisers Act [15 U.S.C. §§80b-6(1)].

SECOND CLAIM FOR RELIEF
(Violation of Section 206(2) of the Advisers Act)

26. The Commission repeats and incorporates by reference the allegations in paragraphs 1-21 of the Complaint as if set forth fully herein.

27. Hunter operated as an investment adviser as defined by Section 202(a)(11) of the Advisers Act [15 U.S.C. § 80b-2(a)(11)]. As an investment adviser, Hunter had a duty to act for the benefit of clients, to exercise the utmost good faith in dealing with clients, to disclose all material facts, and to employ reasonable care to avoid misleading clients.

28. Section 206(2) of the Advisers Act [15 U.S.C. §§80b-6(2)] provides that it is unlawful for an investment adviser, by use of the mails or any means or instrumentality of interstate commerce, directly or indirectly to engage in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client.

29. As set forth above, Hunter's sale of his and his company's interest in the Start-up Company to the You Angel Fund, setting the price for those shares, and profiting from the price he set presented an actual or potential conflict of interest that Hunter knew or should have known must be disclosed to his advisory client. Hunter failed to disclose that he owned the shares, that he set their price, and that he profited from that price, and failed to disclose the resulting conflict of interest. Hunter acted negligently, and violated applicable standards of care, in failing to disclose the conflicts of interest described above.

30. As a result, Hunter violated and, unless enjoined, will continue to violate, Section 206(2) of the Advisers Act [15 U.S.C. §§80b-6(2)].

THIRD CLAIM FOR RELIEF
(Violation of Section 206(3) of the Advisers Act)

31. The Commission repeats and incorporates by reference the allegations in paragraphs 1- 21 of the Complaint as if set forth fully herein.

32. Hunter operated as an “investment adviser” as defined by Section 202(a)(11) of the Advisers Act [15 U.S.C. §80b-2(11)].

33. Section 206(3) of the Advisers Act prohibits an investment adviser from, directly or indirectly, acting as principal for his own account, knowingly to sell any security or to purchase any security from a client, without disclosing to such client in writing before the completion of such transaction the capacity in which he is acting and obtaining the consent of the client to such transaction.

34. When Hunter sold the Start-up Company shares, he, by the use of the mails or any means or instrumentality of interstate commerce, directly or indirectly, acting as principal for his own account, knowingly sold securities to advisory clients, without providing sufficient disclosure of Hunter’s conflicts of interest, without disclosing in writing his role in those transactions before the completion of those transactions, and without obtaining the consent of the clients to such transactions before the completion of those transactions.

35. As a result, Hunter violated and, unless enjoined, will continue to violate Section 206(3) of the Advisers Act [15 U.S.C. §80b-6(3)].

FOURTH CLAIM FOR RELIEF
(Violation of Sections 206(4) of the Advisers Act and Rule 206(4)-8 thereunder)

36. The Commission repeats and incorporates by reference the allegations in paragraphs 1-21 of the Complaint as if set forth fully herein.

37. Section 206(4) of the Advisers Act prohibits an investment adviser from directly or indirectly engaging in any act, practice or course of business which is fraudulent, deceptive, or manipulative. Under Rule 206(4)-8, such prohibited conduct includes making false or misleading statements (206(4)-8(a)(1)) or otherwise defrauding (206(4)-8(a)(2)) investors or prospective investors in pooled investment vehicles that the adviser manages, including registered investment companies, private funds, and other types of pooled vehicles that invest in securities.

38. Hunter, alone or in concert with others, directly or indirectly, by use of the mails or any means or instrumentality of interstate commerce, while acting as an investment adviser to pooled investment vehicles within the meaning of Section 202(11) of the Advisers Act [15 U.S.C. §80b-2(11)], made untrue statements of material fact or omitted to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, to an investor or prospective investor in a pooled investment vehicle or otherwise engaged in acts, practices, or courses of business that are fraudulent, deceptive or manipulative with respect to an investor or prospective investor in a pooled investment vehicle.

39. By reason of the foregoing, Hunter has directly or indirectly violated, and unless enjoined will likely again violate, Section 206(4) of the Advisers Act [15 U.S.C. §80b-6(4)] and Rule 206(4)-8 thereunder [17 C.F.R. §275.206(4)-8].

PRAYER FOR RELIEF

WHEREFORE, the Commission requests that this Court:

A. Enter a permanent injunction restraining defendant Hunter, as well as his officers, agents, servants, employees, attorneys, and other persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, including

facsimile transmission or overnight delivery service, from directly or indirectly engaging in the conduct described above, or in conduct of similar purport and effect, in violation of Sections 206(1), 206(2), 206(3) and 206(4) of the Advisers Act [15 U.S.C. §§80b-6(1)–(2)] and Rule 206(4)-8 thereunder [17 C.F.R. §275.206(4)-8];

B. Require Hunter to disgorge his ill-gotten gains, plus prejudgment interest, with such monies to be distributed in accordance with a plan of distribution to be ordered by the Court;

C. Require Hunter to pay an appropriate civil penalty pursuant to Section 209(e) of the Advisers Act [15 U.S.C. § 80b-9(e)];

D. Enter a permanent injunction pursuant to Section 21(d)(5) of the Exchange Act restraining Hunter, as well as his officers, agents, servants, employees, attorneys, and other persons in active concert or participation with him who receive actual notice of the injunction by personal service or otherwise, including facsimile transmission or overnight delivery service, from accepting funds for investment in a pooled investment vehicle or for any investment without first disclosing, in writing, whether Hunter would be compensated as a result of the investment, the nature of such compensation, (e.g., an advisory fee, a commission, or from selling assets to the fund or other advisory client), the amount of the compensation, and the associated conflict of interest.

E. Retain jurisdiction over this action to implement and carry out the terms of all orders and decrees that may be entered; and

F. Award such other and further relief as the Court deems just and proper.

DEMAND FOR JURY TRIAL

Pursuant to Rule 38 of the Federal Rules of Civil Procedure, the Commission demands a jury trial in this action of all issues so triable under the claims in this Complaint.

Respectfully submitted,

/s/ Rachel E. Hershfang

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