

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

ADMINISTRATIVE PROCEEDING
File No. 3-20030

In the Matter of :

Northern Trust Hedge Fund Services :
LLC and Northern Trust Global Fund :
Services Cayman Limited, :

Respondents. :

PROPOSED PLAN OF DISTRIBUTION

I. OVERVIEW

1. The Division of Enforcement (“Division”) proposes the following plan of distribution (“Proposed Plan”) to the Securities and Exchange Commission (“Commission”) pursuant to Rule 1101 of the Commission’s Rules on Fair Fund and Disgorgement Plans (the “Commission’s Rules”), 17 C.F.R. § 201.1101. If approved, in accordance with Rule 1102(a) of the Commission’s Rules, 17 C.F.R. § 201.1102(a),¹ the disgorgement, prejudgment interest, and civil penalties paid by Northern Trust Hedge Fund Services LLC and Northern Trust Global Fund Services Cayman Limited, plus accrued interest (the “Northern Trust Fair Fund”), will be transferred to the Court Registry Investment System account established in the related civil action, *SEC v. Donald S. LaGuardia, Jr.*, No. 19-cv-05895 (S.D.N.Y.) (the “Civil Action”), for distribution to harmed investors in accordance with a plan to be approved by the district court (the “Distribution Fund”). As explained below, the Division has concluded that distributing the funds collected in the Commission’s administrative proceeding through the Civil Action is fair and reasonable because it reduces administrative costs and employs a more efficient use of resources to benefit investors harmed as a result of the misconduct underlying the captioned proceeding than would two separate distribution processes that would incur duplicative administrative and other expenses, resulting in a significant decrease in the amount of funds available for distribution.²

¹ Rule 1102(a) provides that “a plan for the administration of a Fair Fund . . . may provide for payment of funds into a court registry . . . in any case pending in federal or state court against a respondent or any other person based upon a complaint alleging violations arising from the same or substantially similar facts as those alleged in the Commission’s order instituting proceedings.”

² Consistent with the approach used by district courts when considering whether to approve a distribution plan, the Commission’s objective is to distribute the Disgorgement Fund in a fair and reasonable manner, taking into account relevant facts and circumstances. *See Official Committee of Unsecured Creditors of WorldCom, Inc. v. SEC*, 467 F.3d 73, 82 (2d Cir. 2006) (citing *SEC v. Wang*, 944 F.2d 80, 88 (2d Cir. 1991)). In *Wang*, the court held that “unless the consent decree specifically provides otherwise once the district court satisfies itself that the distribution of proceeds in a proposed SEC disgorgement plan is fair and reasonable, its review is at an end.” *Wang*, 994 F.2d at 85

2. The notice and comment procedures for the Proposed Plan are set forth below. The Proposed Plan is subject to approval by the Commission, and the Commission retains jurisdiction over the implementation of the Proposed Plan.

II. THE ADMINISTRATIVE PROCEEDING

3. On September 18, 2020, the Commission issued an Order Instituting Cease-and-Desist Proceedings Pursuant to Section 203(k) of the Investment Advisers Act of 1940, Making Findings, and Imposing a Cease-and-Desist Order (the “Order”)³ against Northern Trust Hedge Fund Services LLC and Northern Trust Global Fund Services Cayman Limited (collectively, the “Respondents”), the fund administrators for the LR Global Frontier Master Fund, Ltd. and two feeder funds, the LR Global Frontier Fund, Ltd. (offshore) and the LR Global Frontier Fund LP (onshore) (collectively, the “Funds”). According to the Order, from at least 2013 through mid-2017, Donald S. LaGuardia (“LaGuardia”), through the investment adviser he controlled, L-R Managers, LLC (“L-R Managers”) (collectively with LaGuardia, the “Advisers”), defrauded the Funds and their investors, misappropriating money from the Funds and directing that some of the misappropriated amounts be recorded as a promissory note and receivable “due from” L-R Managers to the Funds to conceal the misappropriation. The Commission found that the Respondents caused the Advisers’ violations of the antifraud provisions of the Investment Advisers Act of 1940 (“Advisers Act”) by, among other things, failing to adequately escalate concerns they identified regarding the Advisers prior to their engagement, permitting the Advisers to make unsupported withdrawals, improperly accounting for account receivables, and failing to obtain sufficient pricing support for a significant holding of the Funds. The Commission ordered Northern Trust Hedge Fund Services LLC to pay disgorgement of \$15,076 and prejudgment interest of \$2,553, and ordered the Respondents, jointly and severally, to pay a civil money payment of \$150,000. The Commission further established the Northern Trust Fair Fund pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, so the penalty paid, along with the disgorgement and interest paid, can be distributed to harmed investors. The Respondents have paid in full.

III. THE NORTHERN TRUST FAIR FUND

4. The Northern Trust Fair Fund is comprised of the \$167,629 paid by the Respondents. The Commission does not expect any additional funds. The Northern Trust Fair Fund is subject to the continuing jurisdiction and control of the Commission and is currently deposited in an interest-bearing account at the U.S. Department of Treasury’s Bureau of the Fiscal Service (“BFS”). Accrued interest will be added to, and become a part of, the Northern Trust Fair Fund.

(citing *SEC v. Certain Unknown Purchasers of the Common Stock and Call Options for the Common Stock of Santa Fe Int'l Corp.*, 817 F.2d 1018, 1021 (2d Cir.1987)).

³ Advisers Act Rel. No. 5585 (Sept. 18, 2020).

IV. THE CIVIL ACTION

5. On June 24, 2019, the Commission filed the Civil Action in the United States District Court for the Southern District of New York, charging LaGuardia for the fraud underlying the Order. Specifically, the Commission charged LaGuardia with misappropriating approximately \$2.6 million from investors and concealing the misappropriation through fraudulent accounting devices. The Commission further charged LaGuardia with violating the antifraud provisions Section 17(a) of the Securities Act of 1933, Section 10(b) of the Securities Exchange Act of 1934 (“Exchange Act”) and Rule 10b-5 thereunder, and Sections 206(1), 206(2) and 206(4) of the Advisers Act and Rule 206(4)-8 thereunder, as well as with control person liability under Exchange Act Section 20(a) for L-R Managers' antifraud violations of the Exchange Act.

6. On July 5, 2022, upon motion of the Commission, the district court entered an order (the “Distribution Order”) that, in relevant part, directed The Northern Trust Company (“Northern Trust”), the custodian of the Funds, to liquidate the assets in the custody account and transfer the resulting funds to the CRIS Account (the “Distribution Fund”).⁴ The Distribution Fund currently holds \$10,000.

7. The Distribution Order anticipates the possible transfer of the Northern Trust Fair Fund to the Distribution Fund. In the Distribution Order, the Court appoints Lain, Faulkner and Co., P.C. (“Lain Faulkner”) as distribution agent in the Civil Action, to work with the Commission staff to distribute the Distribution Fund, including any funds received from the Northern Trust Fair Fund, pursuant to a plan to be approved by the district court. The Distribution Order further directs Lain Faulkner to act as the tax administrator for the Distribution Fund, including the assets of the Northern Trust Fair Fund if transferred. Pursuant to the Distribution Order, costs of the distribution and tax administration of the assets in the Distribution Fund will be paid by the Respondents and their affiliates; while taxes associated with the Distribution Fund will be paid out of the Distribution Fund.

V. COMBINATION OF THE NORTHERN TRUST FAIR FUND WITH THE DISTRIBUTION FUND IN THE CIVIL ACTION

8. The Division has concluded that the allegations in the Civil Action arise from the same or substantially similar facts as those alleged in the Order. Both actions address the fraud perpetuated by LaGuardia through L-R Managers. The harm addressed and the investors harmed in both actions are the same. Additionally, distributing the Northern Trust Fair Fund through a plan to be approved by the district court in the Civil Action is fair and reasonable because it will reduce administrative costs,⁵ be a more efficient use of resources than would two separate distribution processes, and should not materially increase the amount of time to return funds to injured investors. Accordingly, in accordance with Rule 1102(a) of the Commission’s Rules, 17 C.F.R. § 201.1102(a), the Proposed Plan provides for the transfer of the Northern Trust Fair Fund

⁴ Civil Action, ECF No.78. The Northern Trust Company is a wholly-owned subsidiary of The Northern Trust Corporation and the custodian for the Funds. The Respondents are indirect wholly-owned subsidiaries of the Northern Trust Corporation.

⁵ Pursuant to the Distribution Order, the Respondents and their affiliates will pay the fees and expenses of Lain Faulkner.

less any investment fees incurred while held at the Commission, to the Distribution Fund in the Civil Action for distribution to harmed investors in accordance with a distribution plan to be approved by the district court.

VI. NOTICE AND COMMENT PERIOD

9. Notice of the Proposed Plan of Distribution and Opportunity for Comment (“Notice”) will be published on the Commission website at <http://www.sec.gov/litigation/fairfundlist.htm>. Any person wishing to comment on the Proposed Plan must do so in writing by submitting their comments to the Commission within thirty (30) days of the date of the Notice: (a) to the Office of the Secretary, United States Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090; (b) by using the Commission’s Internet comment form (<http://www.sec.gov/litigation/admin.shtml>); or (c) by sending an e-mail to rule-comments@sec.gov. Comments submitted by email or via the Commission’s website should include “Administrative Proceeding File No. 3-20030” in the subject line. Comments received will be publicly available. Persons should only submit comments that they wish to make publicly available.