

Corporate & Financial Weekly Digest

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SEC Charges Hedge Fund Managers with Fraud for Side Pocket Valuation and Theft of Investor Assets

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The Securities and Exchange Commission filed a complaint on October 19 in the U.S. District Court for the Northern District of Georgia against hedge fund portfolio managers Paul Mannion, Jr. and Andrew Reckles and their investment advisory entities, PEF Advisors LLC and PEF Advisors Ltd., for defrauding investors in the Palisades Master Fund, L.P. According to the complaint, Mr. Mannion and Mr. Reckles knowingly or recklessly overvalued Fund investments that they placed in a “side pocket” and charged excessive management fees to the Fund while simultaneously selling millions of dollars worth of the same securities from their personal accounts. The complaint also alleges that the defendants stole and exercised warrants belonging to the Fund, misappropriated investor cash and securities on other occasions to make personal investments, and made material misrepresentations regarding their short trading positions in order to participate in a PIPE transaction. The SEC is charging defendants with violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder, and Sections 206(1) and 206(2) of the Investment Advisers Act of 1940, and is seeking injunctive relief, disgorgement of profits, prejudgment interest and financial penalties.

To read the SEC’s press release, click [here](#).

To read the SEC’s complaint, click [here](#).

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