

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES EXCHANGE ACT OF 1934
Release No. 69091 / March 8, 2013

INVESTMENT ADVISERS ACT OF 1940
Release No. 3563 / March 8, 2013

ADMINISTRATIVE PROCEEDING
File No. 3-15234

In the Matter of

**Ranieri Partners LLC and Donald
W. Phillips,**

Respondents.

**ORDER INSTITUTING ADMINISTRATIVE
AND CEASE-AND-DESIST PROCEEDINGS
PURSUANT TO SECTION 21C OF THE
SECURITIES EXCHANGE ACT OF 1934 AND
SECTION 203(f) 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 against Donald W. Phillips (“Phillips” or “Respondent Phillips”), pursuant to Section 21C of the Securities Exchange Act of 1934 (“Exchange Act”) and Section 203(f) of the Investment Advisers Act of 1940 (“Advisers Act”), and that cease-and-desist proceedings be, and hereby are, instituted against Ranieri Partners LLC (“Ranieri Partners” or “Respondent Ranieri Partners”) pursuant to Section 21C of the Exchange Act.

II.

In anticipation of the institution of these proceedings, the Respondents have submitted Offers of Settlement (the “Offers”), 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 them and the subject matter of these proceedings, which are admitted, Respondents consent to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Section 21C of the Securities Exchange Act of 1934 and Section 203(f) 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 the Respondents' Offers, the Commission finds¹ that:

Summary

From February 2008 through March 2011, William M. Stephens ("Stephens") operated as an unregistered broker in violation of Section 15(a) of the Exchange Act. While working as an independent consultant for Ranieri Partners, Stephens actively solicited investors on behalf of private funds managed by Ranieri Partners' affiliates and, in return, received transaction-based compensation totaling approximately \$2.4 million. Stephens' solicitation efforts included: (1) sending private placement memoranda, subscription documents, and due diligence materials to potential investors; (2) urging at least one investor to consider adjusting its portfolio allocations to accommodate an investment with Ranieri Partners; (3) providing potential investors with his analysis of Ranieri Partners' funds' strategy and performance track record; and (4) providing potential investors with confidential information relating to the identity of other investors and their capital commitments. By these actions, Stephens engaged in the business of effecting transactions in securities without first being registered as a broker or dealer or associated with a registered broker or dealer. Ranieri Partners and Donald W. Phillips ("Phillips"), its then Senior Managing Partner, provided Stephens with key documents and information related to Ranieri Partners' private equity funds and did not take adequate steps to prevent Stephens from having substantive contacts with potential investors.

Respondents

1. Ranieri Partners is a holding company located in New York, New York. It controls Selene Investment Partners LLC and Selene Investment Partners II LLC, which managed the investments of Selene Residential Mortgage Opportunity Fund L.P. ("Selene I") and Selene Residential Mortgage Opportunity Fund II L.P. ("Selene II") (collectively the "Selene Funds"). On March 26, 2012, Ranieri Residential Investment Advisors, LLC ("RRIA"), another entity controlled by Ranieri Partners, registered with the Commission as an investment adviser and now is the investment adviser to the Selene Funds.

2. Donald W. Phillips, age 63, resides in Barrington, Illinois. Phillips was a Senior Managing Partner of Ranieri Partners before resigning in December 2012. At the time of the conduct at issue, Phillips also was a managing member of a Chicago-based registered investment adviser.

Other Relevant Individuals

3. William M. Stephens, age 60, resides in Hinsdale, Illinois. From 1986 to 1998, Stephens was an asset manager for various public and private pension funds. From 1998 to 2000, Stephens was the Chief Investment Strategist at a San Francisco-based registered investment

¹ The findings herein are made pursuant to Respondents' Offers of Settlement and are not binding on any other person or entity in this or any other proceeding.

adviser. In June 2000, the Commission instituted public administrative and cease-and-desist proceedings against Stephens and, in November 2002, the Commission entered an order, based on an offer of settlement by Stephens, finding that Stephens violated certain provisions of the federal securities laws in connection with the investment of pension fund assets. Stephens agreed to the entry of an order requiring him to cease and desist from violating Section 17(a) of the Securities Act of 1933, Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder, and Sections 206(1) and 206(2) of the Advisers Act. The Commission also barred Stephens from association with any investment adviser, with the right to reapply after two years, and imposed a \$25,000 civil penalty. Stephens never reapplied for permission to become associated with an investment adviser. Since 2002, Stephens has not been registered with the Commission in any capacity, including as a broker or dealer.

Background

4. In January 2008, Ranieri Partners established the Selene I private investment fund. Selene I's investment strategy was to use investor capital to purchase underperforming or nonperforming residential mortgages, or loan portfolios, at a discount, rehabilitate the mortgages, and then resell them to traditional mortgage companies at a premium. The Private Placement Memorandum ("PPM") for Selene I also permitted the fund to purchase mortgage-backed securities. In 2010, Ranieri Partners formed Selene II. Selene II's investment strategy focused on generating returns from the rehabilitation of distressed residential mortgages.

5. Phillips, a Senior Managing Partner of Ranieri Partners, was in charge of raising capital for the Selene Funds. Phillips was a long-time friend of Stephens. In February 2008, Phillips caused an affiliate of Ranieri Partners to retain Stephens as an independent consultant to find potential investors for Selene I. At the time, Phillips was generally aware of Stephens' prior disciplinary history with the Commission. In 2010, Phillips again caused an affiliate of Ranieri Partners to retain Stephens to find potential investors, this time for Selene II.²

6. Ranieri Partners agreed to pay Stephens a fee equal to 1% of all capital commitments made to the Selene Funds by investors introduced by Stephens.

7. Phillips was responsible for coordinating the activities of Stephens and others engaged by Ranieri Partners to find potential investors for the Selene Funds. According to Phillips, he informed Stephens that Stephens' activities on behalf of Ranieri Partners were limited to contacting potential investors to arrange meetings for the principals of Ranieri Partners and that he specifically informed Stephens that he was not permitted to provide PPMs directly to potential investors. Ranieri Partners controlled the distribution of PPMs for the Selene Funds. According to Phillips, he also informed Stephens that Stephens was not permitted to contact investors directly to discuss his views of the merits and strategies of the Selene Funds.

8. Phillips and other Ranieri Partners personnel provided Stephens with materials relating to the Selene Funds. On February 29, 2008, Phillips sent Stephens several copies of a Selene I Executive Summary, which summarized the fund's investment strategy and provided

² In both instances, the terms of Stephens' engagement were reflected in consulting services agreements prepared by outside counsel to Ranieri Partners.

Ranieri Partners' view of the distressed mortgage market and the firm's competitive advantages in the distressed real estate space. On March 1, 2008, Ranieri Partners personnel provided Stephens with a copy of the Selene I PPM and, subsequently, provided Stephens with supplemental PPMs, subscription documents, and presentation materials. Ranieri Partners personnel also provided Stephens with marketing materials for Selene II, including an Executive Summary and PPM, as well as Ranieri Partners' overall business plan.

Stephens Solicited Investors for Selene I

9. Beginning in February 2008, Stephens contacted certain of his acquaintances and former colleagues in the pension fund investment community concerning a possible investment in Selene I.

10. In February 2008, Stephens contacted a former colleague who was the Director of Retirement Investments (hereinafter referred to as "Executive X") for a private corporation (hereinafter referred to as "Company X"). On February 26, 2008, Stephens contacted Executive X to set up a meeting among himself, Executive X, and Phillips. On February 28th, Stephens and Phillips met with Executive X. During the meeting, Phillips described a possible investment in Selene I. After the meeting, Stephens continued to communicate with Executive X directly via email. On March 4th, Stephens provided Executive X with details about Selene I's investment strategy. On April 29th, Stephens emailed Executive X to inform her that he provided due diligence materials regarding Selene I to a consultant that advises Company X on money manager selection and retention. In the same email, Stephens described the Selene I investment as "a rare opportunity to earn above market returns," and encouraged Executive X to consider adjusting Company X's asset allocation plan to take advantage of the Selene I opportunity. Also, Stephens traveled to various cities on four separate occasions in 2008 to meet with Company X's consultant, who was a friend and former consultant to pension funds managed by Stephens. Stephens continued to call upon Company X for an investment in Selene I until at least April 2009, when he again flew to the company's headquarters to meet with Executive X. Despite Stephens' efforts, Company X did not invest in Selene I.

11. In March 2008, Stephens contacted the Chief Investment Officer ("CIO") of an endowment fund of a Midwestern university ("Endowment X") regarding a possible investment in Selene I. Stephens had a close connection to the CIO, who worked for Stephens in the late 1990s when Stephens was the CIO of a large corporate pension fund. Stephens set up a meeting with the CIO to discuss Selene I. At the meeting, Stephens and Phillips met with the CIO and other members of his staff. During the meeting, Phillips made a presentation concerning a possible investment in Selene I. Shortly after the meeting, Stephens sent a copy of the Selene I PPM and other subscription materials to an Endowment X staff member. On April 21st, Stephens sent an email to the same staff member that contained a list of current and prospective investors for Selene I. In the email, Stephens listed the expected dates and amounts of the investors' respective capital commitments and then explained that there was a cap on the amount of investments that would be allowed in Selene I. On April 23rd, Stephens sent another email to the staff attaching additional due diligence materials on Selene I. On June 30, 2008, Endowment X committed \$65 million in capital to Selene I. Pursuant to his agreement with Ranieri Partners, Stephens was to be paid \$650,000 on the investment.

12. In April 2008, Stephens used a subagent to reach out to the retirement system for a Southern state (“State Retirement System X”) concerning a possible investment in Selene I. Stephens’ subagent arranged a meeting for Phillips to meet with the CIO of State Retirement System X and his staff. Stephens’ subagent accompanied Phillips to the meeting, which took place in April 2008. On June 30, 2008, State Retirement System X invested \$200 million in Selene I. As a result, Ranieri Partners owed Stephens a fee equal to 1% (\$2 million) of the total capital commitment. Pursuant to a side agreement between Stephens and his subagent, 80% of Stephens’ fee was to be paid to the subagent.

Stephens Solicited Investors for Selene II

13. Between August 2010 and March 2011, Stephens contacted Executive X about a possible investment by Company X in Selene II. Stephens traveled to Company X’s headquarters to discuss Selene II with Executive X and then traveled to meet with Company X’s consultant. Stephens also drafted correspondence, for Phillips’ signature, that addressed key questions about the potential investment that were raised by Executive X. Stephens continued to contact Executive X until at least March 2, 2011. Once again, despite Stephens’ efforts, Company X did not invest in Selene II.

14. In August 2010, Stephens contacted the CIO of Endowment X about a possible investment in Selene II. In an email dated August 4th, Stephens told the CIO and another staff member of Endowment X that the “returns to [Selene I] have been strong and the outlook for [Selene II] looks real positive with Ranieri Partners taking on the role of market leader in this space.” In the same email, Stephens told the CIO that Endowment X would pay a lower management fee if it made a commitment before the first closing date for the fund. Stephens also traveled on two occasions to discuss Selene II with the CIO. On October 15th, Endowment X invested \$30 million in Selene II. Pursuant to Stephens’ agreement with Ranieri Partners, he was to receive 1% of the funds invested by Endowment X, or approximately \$300,000.

15. In 2009, Stephens contacted State Retirement System X regarding an investment in Selene II. Stephens and his subagent traveled to meet with the CIO of State Retirement System X on two occasions in 2009. In addition, after State Retirement System X invested in Selene I, its investment office staff stayed in direct contact with Ranieri Partners. After these meetings and contacts, State Retirement System X invested \$150 million in Selene II and an additional \$124 million in a special purpose investment vehicle established by Ranieri Partners specifically for State Retirement System X. Pursuant to a new agreement negotiated between Stephens and Phillips, Ranieri Partners was to pay Stephens a fee equal to 0.3% of State Retirement System X’s capital commitments, or approximately \$822,000.

16. In total, investors introduced to Ranieri Partners by Stephens and/or his subagent committed \$569 million to funds managed by Ranieri Partners, earning Stephens \$3.772 million in fees. Ranieri Partners paid Stephens \$2.4 million of the fees he earned. Ranieri Partners also reimbursed Stephens for travel and entertainment expenses he incurred in connection with raising capital for the Selene Funds. The expenses claimed by Stephens include trips to meet potential investors that Stephens took both with and without Phillips or any other Ranieri Partners personnel.

Stephens' expense reports show that he met with representatives of Company X, Endowment X, and State Retirement System X several times after initially introducing them to Ranieri Partners.

17. Stephens was not registered as a broker or dealer or associated with a registered broker or dealer at any time while he was soliciting investors on behalf of Ranieri Partners.

18. Ranieri Partners failed to adequately oversee Stephens' activities. Although Stephens was not permitted to send documents like PPMs and subscription agreements to potential investors, he was able to obtain such documents from Ranieri Partners, as Ranieri Partners failed to limit Stephens' access to key documents. Stephens, in turn, sent such documents to potential investors. Ranieri Partners also received Stephens' requests for expense reimbursements, which reflected Stephens' extensive contact with potential investors. Yet Ranieri Partners did nothing to monitor or limit Stephens' contact with investors.

19. Since the conduct in question, Ranieri Partners has modified its policies and procedures to provide that it would not retain a third party, including a finder or marketer, that was not a broker or dealer or registered representative of a broker or dealer to market or place any security or investment in any security of any affiliate of Ranieri Partners. Those revised policies and enhanced procedures were implemented in 2011 and were fully in place during 2012. The Commission considered the remedial efforts undertaken by Ranieri Partners in determining to accept Ranieri Partners' Offer.

20. Phillips assisted Stephens' in his solicitation efforts by providing Stephens with key fund documents and information. Phillips also failed to limit Stephens' activities despite knowing that Stephens was supposed to play a limited role in introducing potential investors. Further, Phillips eventually became aware that Stephens was having substantive communications with potential investors, yet he still failed to do anything to curb Stephens' activities. Phillips did little to monitor Stephens' activities other than hold a weekly meeting at which Stephens and others discussed their progress in raising capital for the Selene Funds.

Violations

21. As a result of the conduct described above, Ranieri Partners caused Stephens' violations of Section 15(a) of the Exchange Act, which requires persons engaged in the business of effecting transactions in securities to be registered as a broker or dealer or associated with a registered broker or dealer.

22. As a result of the conduct described above, Phillips willfully aided and abetted and caused Stephens' violations of Section 15(a) of the Exchange Act.

Undertakings

23. Phillips undertakes to provide to the Commission, within 15 days after the end of the nine-month suspension period described below, an affidavit that he has complied fully with the sanctions described in Section IV, below.

IV.

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

Accordingly, pursuant to Section 21C of the Exchange Act and Section 203(f) of the Advisers Act, it is hereby ORDERED that:

A. Ranieri Partners

1. Respondent Ranieri Partners shall cease and desist from committing or causing any violations and any future violations of Section 15(a) of the Exchange Act.
2. Respondent Ranieri Partners shall, within 30 days of the entry of this Order, pay a civil money penalty of \$375,000 to the United States Treasury. 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 Ranieri Partners 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
 - (2) Respondent Ranieri Partners 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 Ranieri Partners 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 Timothy L. Warren, Senior Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, 175 West Jackson Blvd., Suite 900, Chicago, Illinois 60604.

B. Phillips

1. Respondent Phillips shall cease and desist from committing or causing any violations and any future violations of Section 15(a) of the Exchange Act.
2. Respondent Phillips be, and hereby is, suspended from association in a supervisory capacity with any broker, dealer, investment adviser, municipal securities dealer,

municipal adviser, transfer agent, or nationally recognized statistical rating organization for a period of nine (9) months, effective on the second Monday following the entry of this Order.

3. Respondent Phillips shall, within 30 days of the entry of this Order, pay a civil money penalty of \$75,000 to the United States Treasury. 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 Phillips 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
- (2) Respondent Phillips 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 Donald W. Phillips 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 Timothy L. Warren, Senior Associate Regional Director, Division of Enforcement, Securities and Exchange Commission, 175 West Jackson Blvd., Suite 900, Chicago, Illinois 60604.

4. Respondent Phillips shall comply with the undertakings enumerated in Section III, paragraph 23, above.

By the Commission.

Elizabeth M. Murphy
Secretary