UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 4812 / November 22, 2017

INVESTMENT COMPANY ACT OF 1940
Release No. 32905 / November 22, 2017

ADMINISTRATIVE PROCEEDING
File No. 3-16554

In the Matter of **GRAY FINANCIAL GROUP, INC., LAURENCE O. GRAY, AND ROBERT C. HUBBARD, IV,** **Respondents.**	**ORDER MAKING FINDINGS AND IMPOSING REMEDIAL SANCTIONS AND CEASE AND DESIST ORDER**

I.

On May 21, 2015, the Securities and Exchange Commission ("Commission") instituted administrative and cease and desist proceedings pursuant to Section 8A of the Securities Act of 1933 ("Securities Act"), Section 21C of the Securities Exchange Act of 1934 ("Exchange Act"), Sections 203(e), 203(f), and 203(k) of the Investment Advisers Act of 1940 ("Advisers Act"), and Section 9(b) of the Investment Company Act of 1940 ("Investment Company Act") against Respondent Gray Financial Group, Inc. ("Gray Financial"), Respondent Laurence O. Gray ("Gray"), and Respondent Robert C. Hubbard, IV ("Hubbard") (collectively "Respondents").

II.

Respondents have each submitted an Offer 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, and except as provided herein in Section V., Respondents consent to the entry of this Order Making Findings and Imposing Remedial Sanctions and Cease-and-Desist Order ("the Order").

III.

On the basis of this Order and Respondents' Offers, the Commission finds[1] that:

Summary

1. These proceedings arise out of the recommendation and sale of investments by Gray Financial Group Inc., an Atlanta-based formerly registered investment adviser, and one of its senior officers to several Georgia-based public pension clients, as assisted by another senior officer of that adviser.

2. In July 2012, the State of Georgia allowed, for the first time, most of its public pension plans to invest in alternative investments. However, such investments were subject to certain specific restrictions as to investment size and timing.

3. Between July 2012 and August 2013, Gray Financial, its founder Laurence O. Gray, and Robert C. Hubbard, IV, who was the firm's co-CEO during part of this time, recommended, offered and sold investments in a Gray Financial proprietary fund of funds, GrayCo Alternative Partners II, LP ("GrayCo Alt. II"), to four Georgia public pension clients, despite the fact that they knew, were reckless in not knowing, or should have known that these investments did not comply with the restrictions on alternative investments imposed by Georgia law.

4. Additionally, in October 2012, when recommending GrayCo Alt. II to one of these clients, Gray Financial and Gray made specific material misrepresentations concerning the investment's compliance with the Georgia law and the number and identity of prior investors in the fund.

Respondents

5. Gray Financial Group, Inc., doing business as Gray & Company, is an Atlanta, Georgia-based investment adviser that was registered with the Commission from 1998 until March 2017, when its Form ADV-W became effective. It primarily provided consulting services to pension and profit sharing plans, endowments, and other entities. According to its annual amendment to its Form ADV, filed with the Commission on March 31, 2015, Gray Financial had 28 non-discretionary accounts with approximately $5.6 billion in plan assets and 18 discretionary accounts with approximately $933 million

[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.

in assets under management. Gray Financial also created and advised (through a division of Gray Financial) two alternative investment funds of funds, GrayCo Alternative Partners I, LP ("GrayCo Alt. I") and GrayCo Alt. II.

6. Laurence O. Gray, age 56, is a resident of Atlanta, Georgia. Since its founding, he had been President and, until July 2013, he also served as Chief Executive Officer of Gray Financial. According to Gray Financial's Form ADV, Gray also has at least a 75% ownership interest in Gray Financial. At various prior times, though not during the relevant period, Gray has been associated with broker-dealers.

7. Robert C. Hubbard, IV, age 42, is a resident of Dunwoody, Georgia. He was employed by Gray Financial from August 2006 until March 2017 in various senior positions. Hubbard was the Chief Operating Officer of Gray Financial from October 2009 until July 2013, was co-CEO of Gray Financial from July 2013 until July 2015, and became CEO of Gray Financial in July 2015. Prior to Gray Financial, he was employed by Washtenaw County, Michigan from 2000 to 2006 in various positions, including, Retirement Administrator and Strategic Operations Manager.

Other Relevant Entity

8. GrayCo Alternative Partners II, LP is a private fund of funds organized in Delaware. It filed a Form D with the Commission on December 20, 2012. GrayCo Investment Management II, LLC is its general partner and GrayCo Global Advisors is its manager. Gray and Hubbard are both members of GrayCo Alt. II's executive committee.

Background

9. From at least 2006 through at least August 2013, Gray Financial provided investment advice and consulting services to public and private pension funds nationwide, including a number of Atlanta, Georgia-area public pension plans.

10. Among other clients, Gray Financial served as pension consultant to: (a) the City of Atlanta Firefighters' Pension Fund ("Atlanta Firefighters' Pension"); (b) the City of Atlanta General Employees' Pension Fund ("Atlanta General Pension"); (c) the City of Atlanta Police Officers' Pension Fund ("Atlanta Police Pension"); and (d) the MARTA/ATU Local 732 Employees Retirement Plan ("MARTA/ATU Retirement") (all plans cumulatively, "the Georgia-based public pension clients").

11. Beginning in 2011, Gray Financial expanded its business to include originating, managing and advising alternative investment fund of funds.

12. In 2012, the State of Georgia enacted a law that authorized eligible large Georgia retirement systems, such as the Georgia-based public pension clients, to invest in alternative investments for the first time, subject to certain limitations and restrictions (the bill was entitled the "Employees' Retirement System of Georgia Enhanced Investment Authority Act" and is codified as Official Code of Georgia Annotated (O.C.G.A.) § 47-20-

87, hereinafter, the "Georgia Investment Act"). For example, any single Georgia-based retirement system's investment in alternative investments "shall not exceed in any case 20 percent of the aggregate amount of: (1) the capital to be invested in the applicable private pool, including all parallel pools and other related investment vehicles established as part of the investment program of the applicable private pool; . . . ." The Georgia Investment Act also requires that "[e]ach alternative investment by an eligible large retirement system shall have previously been or shall be concurrently made or committed to be made by at least four other investors not affiliated with the issuer." Finally, the law provides that "[a]lternative investments shall only be made in private pools and issuers that have at least $100 million in assets, including committed capital, at the time the investment is initially made or committed to be made" by an eligible large retirement system.

Respondents Recommended and Sold Investments in GrayCo Alt. II to Public Pensions

13. By early to mid-2012, Gray and Hubbard, with knowledge of the Georgia Investment Act, which would become effective July 1, 2012, conceived and created Gray Financial's second fund of funds, GrayCo Alt. II, an alternative investments-based fund of funds.

14. Gray was largely responsible for marketing GrayCo Alt II to Georgia public retirement system clients. Hubbard was the Gray Financial employee with principal responsibility for arranging the drafting of the offering and subscription documents, providing the investment documents containing proposed investors' names to Gray, and tracking the date and amount of the ultimate investments in the GrayCo Alt. II.

15. By no later than July 2012 and throughout the fall 2012, Gray Financial and Gray began to recommend GrayCo Alt. II to their Georgia-based public pension clients. At their formal Board meetings, Gray recommended that Atlanta General Pension and MARTA/ATU Retirement invest in GrayCo Alt. II and recommended that the Boards of Atlanta Firefighters' Pension and Atlanta Police Pension authorize their Chairs to execute the necessary paperwork for the alternative investments.

16. Gray Financial's Georgia-based public pension clients, based upon Gray Financial's recommendation, invested in GrayCo Alt. II, as follows (table includes initial required investment of the general partner, a Gray Financial affiliate):

Investor	Investment Date	Amount	Investor's Percentage of Total Fund Assets (As of 12/31/2012)
Atlanta Firefighters Pension	10/20/2012	$15 million	19.2%
Atlanta Police Pension	10/22/2012	$21 million	26.9%
Atlanta General Pension	11/7/2012	$28 million	35.9%
MARTA/ATU Retirement	11/30/2012	$13 million	16.3%
General Partner (Gray Financial affiliate)		$1 million	1.3%
Total		**$78 million**	

17. During the months that Respondents marketed and sold these investments to the Georgia-based public pension clients, Respondents charged those retirement system's pension funds that purchased the investments consulting fees totaling $224,071.

18. By recommending and selling these investments, Gray Financial and Gray, aided and abetted by Hubbard, breached their fiduciary duty to their advisory clients.

19. Gray Financial, Gray and Hubbard knew or were reckless in not knowing that the investments were unsuitable for the Georgia-based public pension clients because, as sold, the investments violated the Georgia Investment Act. Specifically, GrayCo Alt. II never met the $100 million requirement at the time of the investment of any of Gray Financial's Georgia-based public pension clients, or at any subsequent time. The fund only raised $78 million initially, i.e., in 2012, and at no time to date exceeded $100 million.

20. Furthermore, two of the Georgia-based public pension clients invested an amount greater than 20% of the capital invested in GrayCo Alt. II. Both the Atlanta Police Pension (26.9%) and the Atlanta General Pension (35.9%) investments exceeded the 20% statutory ceiling of investment in GrayCo Alt. II, based upon the initial investment of $78 million in 2012.[2]

21. Finally, each of the four Georgia-based public pension clients' investments, even if considered concurrent, would fall outside the statutory requirement that four non-issuer affiliated investors exist prior to the investment by a Georgia public pension.

[2] MARTA/ATU Retirement invested an additional $5 million on August 16, 2013. The combined investment of $18 million by this pension represented 21.7% of GrayCo Alt. II's total assets at that time ($83 million), thus also exceeding the 20% statutory ceiling.

Gray Financial and Gray Made Material Misrepresentations

22. In a meeting of the Board of Trustees of the Atlanta General Pension on November 7, 2012, Gray Financial and Gray, in recommending an investment in GrayCo Alt. II, made two specific material misrepresentations.

23. First, Gray told the Board that the Atlanta General Pension's then-proposed investment in GrayCo Alt. II was consistent with Georgia law. When asked by an Atlanta General Pension trustee prior to voting if the proposed $28 million alternative investment that Gray Financial was recommending was "consistent with the law," Gray responded that it "absolutely" was and that "the only reason you can do this now is because of the change in the law."

24. Gray knew or was reckless in not knowing that his claim was false, as the three relevant limitations of the Georgia Investment Act were not met at that time. Specifically, (a) Atlanta General Pension's $28 million investment was and still is greater than 20% of the capital to be invested in GrayCo Alt. II;(b) there were not four other investors not affiliated with Gray Financial that had previously been invested or concurrently invested or committed to invest; and (c) GrayCo Alt. II did not have at least $100 million in assets, including committed capital, at the time Atlanta General Pension's investment was initially made or committed to be made.

25. Second, Gray misrepresented that certain other public pension clients had already invested in GrayCo Alt. II. Prior to the conclusion of the November 7, 2012 meeting, a vote was called on whether to authorize a $28 million investment in GrayCo Alt. II. During the course of the vote, a trustee asked Gray who else had invested in the fund. In response, Gray referenced, among a few others, four pension plans, three of which never invested in the fund and one of which did not invest until three weeks later. Specifically, in response to the trustee questions, Gray stated that "MARTA is already done" and that "Michigan, New York, Chicago, those plans are already executed, as well." Gray had no reasonable basis to claim that MARTA/ATU Retirement was "done," because its board did not vote to invest or execute its subscription agreement until November 30, 2012, more than three weeks after Atlanta General Pension's investment. Moreover, there have never been any investors in GrayCo Alt. II from Michigan, New York, or Chicago.

VIOLATIONS

26. Section 206(1) of the Advisers Act prohibits any investment adviser from employing any device, scheme, or artifice to defraud any client or prospective client.

27. Section 206(2) of the Advisers Act prohibits any investment adviser from engaging in any transaction, practice or course of business which operates as a fraud or deceit upon any client or prospective client. A violation of this section does not require a showing of scienter, but may rest on a finding of negligence. SEC v. Steadman, 967 F.2d 636, 643, n.5 (D.C. Cir. 1992) (*citing* Capital Gains Research Bureau, 375 U.S. at 191-92).

28. As a result of the conduct described above, Gray Financial and Gray willfully violated Sections 206(1) and 206(2) of the Advisers Act.

29. As a result of the conduct described above, Hubbard willfully aided, abetted, and caused Gray Financial and Gray's violations of Section 206(2) of the Advisers Act.

UNDERTAKING

30. Gray Financial undertakes and agrees that it shall not act as an investment adviser as that term is defined in Section 202(a)(11) of the Advisers Act.

31. In determining whether to accept Gray Financial's Offer, the Commission has considered this undertaking. Should Respondent violate this undertaking, the Division of Enforcement may petition the Commission to reopen this proceeding solely for the purposes of determining whether any additional remedies are in the public interest. In such event, Gray Financial shall not be permitted to (1) oppose the petition, (2) challenge the validity of the findings in the Order; or (3) assert the statute of limitations as a defense.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in the Respondents' respective Offers**.**

Accordingly, pursuant to Sections 203(e), (f) and (k) of the Advisers Act and Section 9(b) of the Investment Company Act, it is hereby ORDERED that**:**

A. Respondent Gray Financial cease and desist from committing or causing any violations and any future violations of Sections 206(1) and 206(2) of the Advisers Act.

B. Respondent Gray cease and desist from committing or causing any violations and any future violations of Sections 206(1) and 206(2) of the Advisers Act.

C. Respondent Hubbard cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Advisers Act.

D. Respondent Gray Financial is censured.

E. Respondent Gray be, and hereby is:

barred from association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization; and

prohibited from serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal

underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter;

with the right to apply for reentry after two (2) years to the appropriate self-regulatory organization, or if there is none, to the Commission.

F. Any reapplication for association by Respondent Gray will be subject to the applicable laws and regulations governing the reentry process, and reentry may be conditioned upon a number of factors, including, but not limited to, the satisfaction of any or all of the following: (a) any disgorgement ordered against Respondent Gray, whether or not the Commission has fully or partially waived payment of such disgorgement; (b) any arbitration award related to the conduct that served as the basis for the Commission order; (c) any self-regulatory organization arbitration award to a customer, whether or not related to the conduct that served as the basis for the Commission order; and (d) any restitution order by a self-regulatory organization, whether or not related to the conduct that served as the basis for the Commission order.

G. Respondent Hubbard be, and hereby is, suspended for a period of twelve (12) months, effective on the first Monday following the entry of this Order, from:

association with any broker, dealer, investment adviser, municipal securities dealer, municipal advisor, transfer agent, or nationally recognized statistical rating organization; and

serving or acting as an employee, officer, director, member of an advisory board, investment adviser or depositor of, or principal underwriter for, a registered investment company or affiliated person of such investment adviser, depositor, or principal underwriter.

H. Respondents Gray and Gray Financial shall pay, jointly and severally, disgorgement of $224,071 and prejudgment interest of $27,227.72, for a total of $251,298.72. Payment of these amounts shall be made in the following installments: $62,824.68 paid within 10 business days following entry of this Order, followed by three quarterly payments, each in the amount of $62,824.68. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of disgorgement, and prejudgment interest, plus any additional interest accrued pursuant to SEC Rule of Practice 600, shall be due and payable immediately, without further application.

I. Gray shall pay a civil monetary penalty of $150,000 to the Securities and Exchange Commission. Payment of these amounts shall be made in the following installments: $37,500 paid within 10 business days following entry of this Order, followed by three quarterly payments, each in the amount of $37,500. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of civil penalties, plus any additional interest accrued pursuant to 31 U.S.C. § 3717, shall be due and payable immediately, without further application.

J. Respondent Hubbard shall pay a civil money penalty in the amount of $75,000 to the Securities and Exchange Commission. Payment of these amounts shall be made in the following installments: $18,750 paid within 10 business days following entry of this Order, followed by three quarterly payments, each in the amount of $18,750. If any payment is not made by the date the payment is required by this Order, the entire outstanding balance of civil penalties, plus any additional interest accrued pursuant to 31 U.S.C. § 3717, shall be due and payable immediately, without further application.

K. Payments specified in Paragraphs H., I. and J. herein must be made in one of the following ways:

(1) Respondents may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondents 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

(3) Respondents 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 Gray Financial Group, Inc., Laurence O. Gray and Robert C. Hubbard, IV as Respondents 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 M. Graham Loomis, Division of Enforcement, Securities and Exchange Commission, 950 East Paces Ferry Road, N.E., Suite 900, Atlanta, Georgia 30326.

L. Pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002, as amended, a Fair Fund is created for the disgorgement, prejudgment interest AND penalties referenced in paragraphs IV. H-J above. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondents agree that in any Related Investor Action, they shall not argue that any of them are entitled to, nor shall they benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agree that they shall, within 30 days after entry of a final order granting the

Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against any Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

V.

It is further Ordered that, solely for purposes of exceptions to discharge set forth in Section 523 of the Bankruptcy Code, 11 U.S.C. §523, the findings in this Order are true and admitted by Respondents Gray and Hubbard, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondents Gray and Hubbard under this Order or any other judgment, order, consent order, decree or settlement agreement entered in connection with this proceeding, is a debt for the violation by Respondents Gray and Hubbard of the federal securities laws or any regulation or order issued under such laws, as set forth in Section 523(a)(19) of the Bankruptcy Code, 11 U.S.C. §523(a)(19).

By the Commission.

Brent J. Fields
Secretary