

SEC Enforcement Case Summary Hudson Valley & Founder Failure to Disclose Conflicts of Interest

On May 14, 2024, the Securities and Exchange Commission (**SEC**) charged Hudson Valley Wealth Manager Inc., and its manager and founder, Christopher Conover, with undisclosed conflicts of interest related to investments by a private fund (the **Fund**) and separately managed account clients (**SMAs**) in films produced by a firm production company. The investments were in the form of loans to the production company or to a joint venture between a film studio and the production company. The production company paid Conover approximately \$530,000 as “executive producer compensation” in exchange for the money invested in the firms. Conover did not distribute any of this compensation to the Fund, its limited partners, or the SMAs whose investments had enabled Conover to obtain the compensation. Hudson and Conover initially failed to disclose these payments or the potential conflict of interest resulting from such compensation. They later updated Hudson’s Form ADV and the Fund’s PPM to provide disclosure but misrepresented the amounts as compensation for Conover’s work as an executive producer on the films. However, according to the SEC complaint, Conover’s executive producer compensation was based solely on the amounts of money loaned by the Fund and the SMAs to the production company for these films and not for any non-investment-related production work. Moreover, the disclosure falsely stated that this compensation was “not . . . based on client investments.”

The production company reportedly was routinely delinquent in its monthly payments on the film loans the Fund provided. As a result, the Fund frequently lacked sufficient liquidity to satisfy outstanding redemption requests in full. The Fund provided quarterly liquidity to investors with 90 days’ notice up to 50% of their investment. Generally, when the Fund could not satisfy all pending redemption requests, Hudson and Conover would cause the Fund to partially satisfy redemption requests by distributing its available cash on a pro-rata basis to the redeeming investors. However, in one instance, at Conover’s direction, the Fund redeemed a single investor in full ahead of other simultaneously submitted redemption requests from Fund investors. He purportedly approved such redemption because the investor was a portfolio manager at a large private equity firm, whom Conover believed might dissuade others in the industry from investing with Hudson or initiate litigation if the redemption request was not timely honored in full. The SEC order noted that this preferential treatment was not disclosed to other Fund limited partners.

Hudson and Conover settled the case, with Conover agreeing to pay \$600,000 in disgorgement and interest and a \$150,000 penalty and Hudson agreeing to pay a \$200,000 penalty.

See Press Release – <https://www.sec.gov/news/press-release/2024-55>