UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 4641 / February 7, 2017

INVESTMENT COMPANY ACT OF 1940
Release No. 32470 / February 7, 2017

ADMINISTRATIVE PROCEEDING
File No. 3-17826

In the Matter of **SLRA INC. as successor entity to LIQUID REALTY ADVISORS III, LLC and SCOTT M. LANDRESS** **Respondents.**	**ORDER INSTITUTING ADMINISTRATIVE AND CEASE-AND-DESIST PROCEEDINGS PURSUANT TO SECTIONS 203(e), 203(f), AND 203(k) OF THE INVESTMENT ADVISERS ACT OF 1940 AND SECTION 9(b) OF THE INVESTMENT COMPANY 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 pursuant to 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 SLRA Inc. as successor entity to Liquid Realty Advisors III, LLC and Scott M. Landress (collectively, "Respondents").

II.

In anticipation of the institution of these proceedings, 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 proceeding brought by or on behalf of the Commission, or to which the Commission is a party, 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 Instituting Administrative and Cease-and-Desist Proceedings Pursuant to Sections 203(e), 203(f), and 203(k) of the Investment Advisers Act of 1940 and Section 9(b) of the Investment Company 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 Respondents' Offers, the Commission finds that:

SUMMARY

1. This proceeding concerns the improper disbursement of £16.25 million in undisclosed fees by registered investment adviser SLRA Inc. ("SLRA") as successor entity to Liquid Realty Advisors III, LLC ("LRA III") and Scott M. Landress ("Landress") from the accounts of two private equity fund advisory clients, Liquid Realty Partners III, L.P. and Liquid Realty Partners III-A, L.P. (collectively, the "Funds").

2. Landress was a founder and principal of a group of affiliated entities doing business under the name Liquid Realty Partners ("Liquid Realty"), which formed the Funds in 2006 for the purpose of investing in securities in the form of real estate private equity secondary transactions. As the adviser to the Funds, SLRA and its predecessor LRA III earned management fees based upon the net asset value of the underlying investments. As real estate property values fell during the global financial crisis and certain assets of the Funds were disposed of, LRA III's management fees shrank while costs to manage the impact of the crisis increased. The lower-than-expected management fees and increased costs resulted in the adviser operating at a loss.

3. Between 2009 and 2011, Landress sought additional compensation from the limited partners of the Funds ("Limited Partners") on several occasions, but the Limited Partners declined to cover these shortfalls. Subsequently, on January 7, 2014, Landress—the controlling member of both the Funds' investment adviser (SLRA) and general partner—directed the general partner to transfer £16.25 million from the Funds' accounts to SLRA. On February 3, 2014, Landress informed the Limited Partners that the withdrawn funds were for fees owed to a Liquid Realty affiliate for services performed for the Funds for the period from 2006 to 2013 ("the Service Fees"). In March 2014, Landress caused the money to be transferred to a personal account.

4. Landress asserted that these services were allowed by the Funds' Limited Partnership Agreements and performed pursuant to an oral agreement entered into in 2006 with Landress acting both on behalf of the Funds (through their general partner) and on behalf of the Liquid Realty affiliate that performed the services. SLRA and Landress did not, however, disclose to their advisory clients, or to the Funds' investors or prospective investors, the Service Fees, or this related-party transaction and the conflicts of interest it created, until after the money had been withdrawn from the Funds' accounts eight years later, in 2014. Neither the Service Fees nor the purported oral agreement for the Liquid Realty affiliate to provide the services was reflected on any of the Funds' audited financial statements. Through these actions, SLRA and Landress breached their fiduciary duties to the Funds and willfully violated Sections 206(1) and 206(2) of the

Advisers Act. Further, through these actions, SLRA and Landress willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

RESPONDENTS

5. **SLRA Inc.** ("SLRA"), a corporation headquartered in California and formed in December 2013, was until 2016 registered with the Commission as an investment adviser (File No. 802-96197). SLRA is the successor to Liquid Realty Advisors III, LLC, which served as the investment adviser to the Funds from their inception in 2006 through 2013.

6. **Scott M. Landress** ("Landress"), 55, resides in Mill Valley, California. Landress was a founder and principal of Liquid Realty Partners ("Liquid Realty"), a group of affiliated entities engaged in the business of investing in secondary real estate investments. He is the managing member of LRGP III, LLC, the general partner of Liquid Realty Partners III, L.P. and Liquid Realty Partners III-A, L.P. during the relevant period. He is also the president and sole owner of SLRA and was a managing member of Liquid Realty Advisors III, LLC.

OTHER RELEVANT ENTITIES

7. **Liquid Realty Partners III, L.P.** ("Fund III") and **Liquid Realty Partners III-A, L.P.** ("Fund III-A") (collectively, the "Funds") are Delaware limited partnerships formed to invest in real estate private equity secondary transactions. The Funds were invested in the same secondary interests and together had committed approximately £400 million (approximately $700 million) in investment capital.

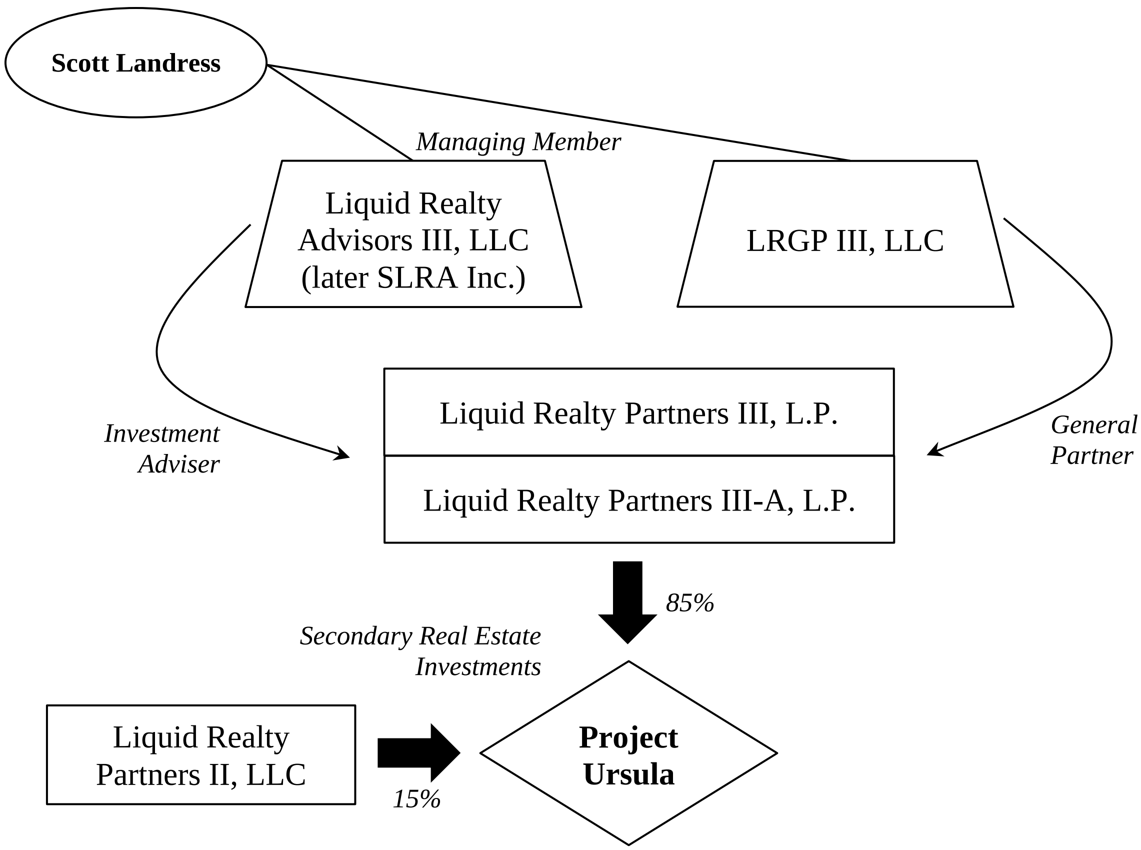
8. **Liquid Realty Advisors III, LLC** ("LRA III") was a predecessor entity to SLRA and until December 2013 served as the investment adviser to, and received management fees from, the Funds. LRA III was registered with the Commission (File No. 801-74308) from 2012 to 2014. In December 2013, LRA III and certain other Liquid Realty affiliates were merged into SLRA. Landress was the managing member of LRA III.

9. **LRGP III, LLC** (the "General Partner"), a Delaware limited liability company headquartered in California, whose managing member is Landress, was until October 2014 the general partner of the Funds.

FACTS

10. The Funds were formed in January 2006 for the purpose of investing in certain real estate private equity secondary transactions, which involve the purchase of pre-existing investor commitments to real estate private equity funds. LRGP III, LLC, an entity owned and controlled by Landress, was the General Partner of the Funds. The Funds' investments were in real estate trusts with underlying investments in properties throughout the United Kingdom, a portfolio known as "Project Ursula." Liquid Realty originally identified Project Ursula as a potential investment for an earlier fund, Liquid Realty Partners II, LLC ("Fund II"). But because Fund II lacked sufficient capital to

complete the investment, Liquid Realty formed Fund III and Fund III-A to acquire the portion of the Ursula portfolio (approximately 85%) that was beyond the capacity of Fund II. The following chart shows the relationships among the relevant entities:



11. The Funds' Limited Partners, which included university endowments and pension funds, committed a total of approximately £400 million (or approximately $700 million at the time) toward Project Ursula. The Funds' capital was invested in 10 property unit trusts, with interests in 197 office, retail, and industrial properties. The acquisitions were financed through a loan secured by a portion of the Limited Partners' capital commitments. The loan was later refinanced and secured by the Ursula portfolio, allowing a substantial portion of the Limited Partners' initial capital commitments to be released.

12. Investments in the Funds were governed by Limited Partnership Agreements ("LPAs").

13. Each LPA provided for the creation of an Advisory Committee composed of representatives of the Limited Partners and possessing the authority to review and approve of certain actions of the General Partner.

14. The LPAs provided that the General Partner or its designee[1] would be compensated through (1) management fees of 1.25% of the Funds' net asset value, (2) carried interest, and (3) liquidation fees upon termination of the Funds, subject to Advisory Committee approval.

15. Section 5.14 of the LPAs addressed "Business with Affiliates" and provided in relevant part (emphasis in the original):

> (a) The Partnership, directly or with respect to any assets in which the Partnership is authorized to invest, may, as necessary or appropriate, engage in any transaction with or employ or retain the General Partner or any of its respective Affiliates to provide services . . . that would otherwise be performed for the Partnership by third parties on terms (including, without limitation, the consideration to be paid) that are determined by the General Partner to be fair and reasonable to the Partnership, and such Persons may receive from the Partnership (and any such other Person) compensation . . . in addition to that expressly provided for in this Agreement; <u>provided</u>, <u>however</u>, the Advisory Committee must approve all such transactions.

16. The LPAs did not provide for any additional compensation in the form of fees typically charged in the private equity industry, such as success fees.

17. The LPAs also contained a provision requiring that to the extent the General Partner received any excess distributions, calculated at the liquidation of the Funds based upon the Funds' overall performance, the General Partner was required to reimburse the Funds. This was referred to as the "giveback obligation."

Fund Performance and LRA III Operating Losses

18. Until 2007, the Funds' performance met or exceeded investment plan objectives, returning 63% of paid-in capital to the Limited Partners and reporting a gross internal rate of return of approximately 50%.

19. However, with the onset of the global financial crisis, between 2007 and 2009, real estate property values declined and, by the second quarter of 2009, the Funds' net unrealized asset value had fallen 94%.

20. LRA III's management fees were based upon the net asset value of the Funds' underlying investments. As real estate property values fell during the global financial crisis and certain assets of the Funds were disposed of, LRA III's management fees similarly shrank, falling 62% in 2009. During the same period, the impact of the global financial crisis caused LRA III to perform additional services. The lower-than-expected management fees were insufficient to cover LRA III's expenses.

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[1] LRA III, designated by the General Partner as the investment adviser to the Funds, was the recipient of the management fee.

21. At least three times beginning in 2009, Landress asked the Advisory Committee for additional compensation to make up for the reduced management fees.

22. For example, at an Advisory Committee meeting in October 2009, Landress indicated that the management fees were insufficient to cover LRA III's expenses, and asked the Advisory Committee to reimburse (or "make whole") LRA III for the shortfall. The Advisory Committee declined the request, but agreed to revisit the issue in the future.

23. In a July 29, 2010 letter to the Advisory Committee, Landress repeated the "make whole" request, seeking £1,041,848 (then approximately $1.6 million) from the Funds, equivalent to the amount by which expenses had exceeded management fees during the prior six quarters. The Advisory Committee again rejected the request.

24. Similarly, in November 2011, Landress wrote to the Advisory Committee that he expected LRA III's cash shortfall to reach £1.5 million by year end and £2.6 million by the anticipated liquidation of the Funds in the first quarter of 2013 and that management fees would continue to fall for the duration of the Funds' existence. Landress asked the Advisory Committee to waive the General Partner's "giveback obligation," estimated at that time to be £685,914 (approximately $1.1 million). The Advisory Committee declined the request.

25. Throughout this period from 2007 to 2011, Landress and other Liquid Realty personnel worked to minimize the Funds' losses and avoid threatened foreclosures, including through asset dispositions, negotiations with the Funds' lenders, and restructurings and recapitalization. Landress updated the Limited Partners about this work as it was performed, but made no disclosure to the Advisory Committee of any additional fees for this work. The Limited Partners understood this work to fall within the scope of the management fees payable to LRA III.

Respondents' Withdrawal of £16.25 Million from the Funds

26. On January 7, 2014, Landress directed Liquid Realty's Director of Finance and Accounting (the "Finance Director") to invoice the Funds on behalf of SLRA and then withdraw £16.25 million from the Funds' accounts and deposit it in SLRA's account. On the following day, despite objecting, the Finance Director did so.

27. In February 3, 2014 letters to the Limited Partners—nearly a month after directing that the £16.25 million be withdrawn from the Funds' accounts—Landress for the first time asserted that SLRA had earned these additional fees. In particular, Landress, acting on behalf of the General Partner, claimed that work that had been performed by an affiliate of the General Partner on behalf of the Funds entitled the affiliate to compensation under Section 5.14 of the LPAs. Landress claimed the Service Fees for work relating to the acquisition, disposition, financing, refinancing, workout, and recapitalization of Project Ursula's investments. SLRA and Landress only charged Funds III and III-A for the Service Fees and not Fund II, which also invested in Project Ursula.

28. Landress explained that his calculation of £16.25 million for the Service Fees was based upon 1.25% of the value of thirteen transactions connected to Project Ursula, detailed as follows:

Service	Type	Year	Amount (£)	Pct.	Fee (£)
Ursula Acquisition	Acquisition	2006–07	344,867,055	1.25	4,310,838
Ursula Financing	Financing	2006	155,177,175	1.25	1,939,715
Hercules Unit Trust	Disposition	2006–07	75,650,673	1.25	945,633
IPIF Feeder Fund Unit Trust	Disposition	2006	23,922,867	1.25	299,036
Ursula Refinancing	Refinancing	2006	158,870,226	1.25	1,985,878
Grosvenor Festival Place Unit Trust	Disposition	2007	52,852,507	1.25	660,656
Ursula Loan Modifications	Loan Workout	2009	158,870,226	1.25	1,985,878
SCB Unit Trust	Disposition	2008	11,389,770	1.25	142,372
Ursula Recapitalization	Recapitalization	2009–10	198,504,586	1.25	2,481,307
Lend Lease Retail Unit Trust	Disposition	2010	32,040,560	1.25	400,507
Paddington Central I	Disposition	2010	45,426,618	1.25	567,833
Chiswick Unit Trust	Acquisition	2011	164,497	1.25	2,056
Paddington Central II	Disposition	2013	42,585,115	1.25	532,314
			1,300,321,873		16,254,023
LRP III Allocation					2,249,251
LRP III-A Allocation					14,004,772

29. Prior to this time, the Funds and the Limited Partners were not aware of the existence of these claimed fees or the retention of the Liquid Realty affiliate to perform any such services for additional compensation. Indeed, it was only during the early fall of 2013, as Landress began to prepare to withdraw these fees, that Liquid Realty's Finance Director and the Funds' auditors first learned of these fees. Though Landress subsequently asserted that he engaged the Liquid Realty affiliate pursuant to an oral agreement in which he represented both the Funds (through the General Partner) and the affiliate, there is no documentary evidence that the Liquid Realty affiliate was actually hired in 2006 (or at any later point in time) to perform services for the Funds.

30. After receiving the February 2014 letters, the Limited Partners objected to the withdrawal of the Service Fees and demanded that SLRA return the £16.25 million to the Funds' accounts. SLRA declined to do so, and on March 4, 2014 Landress caused the money to be transferred to a personal account. Shortly thereafter, during negotiations with the Limited Partners, Landress agreed to freeze the withdrawn Service Fees in his account. The General Partner and SLRA then filed suit against certain Limited Partners in August 2014 in the Southern District of New York, seeking a declaratory judgment and other relief regarding SLRA's asserted entitlement to the Service Fees. After commencement of the Commission's investigation, the parties reached a final settlement in February 2016 pursuant to which SLRA returned $24,422,852.43 to the Limited Partners.

Respondents Breached their Fiduciary Duty by Withdrawing the Funds, and Failing to Disclose the Hiring of An Affiliate and the Purported Service Fees

31. SLRA and Landress breached their fiduciary duties to the Funds by improperly withdrawing £16.25 million as Service Fees from the Funds' accounts in January 2014.

32. Even if Landress had in fact hired a Liquid Realty affiliate in 2006 to perform services for the Funds, the retention of an affiliate of the General Partner and LRA III was a related-party transaction and created a conflict of interest. LRA III and Landress were required to disclose all such conflicts of interest to their advisory clients, the Funds, but did not do so. As fiduciaries, LRA III and Landress were also obligated to inform their advisory clients of Service Fees that were purportedly accruing in connection with the affiliate's work on the Funds' behalf from 2006 onward for which the Funds would be liable, but did not do so until February 2014.

33. From 2006 until 2014 when the £16.25 million was withdrawn from the Funds, LRA III and Landress never disclosed the existence of the Service Fees in any communications with the Funds, the Limited Partners, or the Advisory Committee.

34. For example, for each year from 2006 to 2012, as required by the LPAs, the Limited Partners were provided with audited financial statements of the Funds. None of these audited financial statements accounted for or disclosed the Service Fees.

35. In annual management representation letters to the Funds' auditors, Landress confirmed that "[t]here are no transactions that have not been properly recorded in the accounting records underlying the consolidated financial statements," and that "all the related-party relationships and transactions of which the Partnership is aware, including fees, commissions, sales, purchases, loans, transfers, leasing arrangements, side agreements, and guarantees (written or oral)" and "[t]he amounts receivable from or payable to related parties" "have been appropriately identified, properly accounted for, and disclosed."

36. Further, regular communications to the Limited Partners regarding the performance of the Funds, including the internal rate of return, did not discuss or account for any Service Fees.

37. After the Service Fees were withdrawn from the Funds' accounts, Landress represented to the Advisory Committee that the Funds' auditors had "advised [the General Partner] in conversations that the Service Fee need not have been disclosed per GAAP standards." This representation was inaccurate. Prior to late 2013, the Funds' auditors were unaware of the purported Service Fees. When the auditors learned of the Service Fees, they declined to express an opinion as to whether the accounting treatment of the Service Fees was proper.

38. Respondents' failure to disclose the existence of the Service Fees prevented the Limited Partners from understanding that any work being performed was not covered by the management fees and that the Funds might owe additional fees and

prevented the Limited Partners from factoring the Service Fees into their investment decisions.

VIOLATIONS

39. As a result of the conduct described above, Respondents willfully violated Sections 206(1) and 206(2) of the Advisers Act, which prohibit an investment adviser from (1) employing any device, scheme, or artifice to defraud any client or prospective client, or (2) engaging in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client.

40. As a result of the conduct described above, Respondents willfully violated Section 206(4) of the Advisers Act and Rule 206(4)-8 thereunder, which prohibit an investment adviser to a pooled investment vehicle from making an untrue statement of a material fact or omitting to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading, to any investor or prospective investor in the pooled investment vehicle; or otherwise engaging in any act, practice, or course of business that is fraudulent, deceptive, or manipulative with respect to any investor or prospective investor in the pooled investment vehicle.

IV.

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

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

A. Respondent SLRA cease and desist from committing or causing any violations and any future violations of Sections 206(1), 206(2), and 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

B. Respondent Landress cease and desist from committing or causing any violations and any future violations of Sections 206(1), 206(2), and 206(4) of the Advisers Act and Rule 206(4)-8 thereunder.

C. Respondent Landress 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.

D. Any reapplication for association by Respondent Landress 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 the Respondent, 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.

E. Respondent SLRA is censured.

F. Respondent Landress shall, within 20 days of the entry of this Order, pay a civil money penalty in the amount of $1,250,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Exchange Act Section 21F(g)(3). 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 may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;

(2) Respondent 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) Respondent 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 SLRA Inc. and Scott M. Landress 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 Scott W. Friestad, Division of Enforcement, Securities and Exchange Commission, 100 F St., NE, Washington, DC 20549-5010.

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 they 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 one or more Respondents 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 Respondent Landress, and further, any debt for disgorgement, prejudgment interest, civil penalty, or other amounts due by Respondent Landress 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 Respondent Landress 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