UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

INVESTMENT ADVISERS ACT OF 1940
Release No. 6603 / May 14, 2024

ADMINISTRATIVE PROCEEDING
File No. 3-21937

In the Matter of **HUDSON VALLEY WEALTH MANAGEMENT, INC., and CHRISTOPHER CONOVER,** **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, 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") against Hudson Valley Wealth Management, Inc. ("Hudson") and Christopher Conover ("Conover") (collectively "Respondents").

II.

In anticipation of the institution of these proceedings, each Respondent has 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 the Respondents 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, 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[1] that:

Summary

1. These proceedings arise out of breaches of fiduciary duty by registered investment adviser Hudson Valley Wealth Management, Inc. ("Hudson") and its principal, Christopher Conover ("Conover"), to Hudson's clients, including separately managed accounts (the "SMAs") and a private investment fund called Hudson Private, LP that invests in films (the "Fund"). Specifically, Hudson and Conover failed to disclose to a conflict of interest to clients and Fund investors (most of whom were Hudson advisory clients) related to payments that a third-party film production finance company ("Production Company A") made to Conover. Hudson and Conover then later materially misled their clients and Fund investors regarding the nature of these payments and the associated conflicts of interest they posed. Hudson and Conover also breached their fiduciary duties to their clients who invested in the Fund by preferencing one Fund investor's redemption request over the redemption requests of clients invested in the Fund.

2. Between September 2017 and October 2021 ("Relevant Period"), Hudson and Conover advised both the Fund and the SMAs concerning investments in certain films produced by Production Company A. At the same time, Conover, through his affiliated company, Hudson Private Corp. ("Hudson Private"), received approximately $530,000 in executive producer compensation during the Relevant Period from Production Company A for the same films in which the Fund and the SMAs made investments. Hudson and Conover initially failed to disclose these payments and then later misrepresented to these clients that Conover earned this compensation for work as an executive producer on these films. In fact, Conover received these payments from Production Company A solely as a fee in exchange for the monies that the Fund and the SMAs invested in the films. Hudson and Conover also made materially false and misleading statements to investors in the Fund in its Form ADV Part 2B Brochure ("ADV Brochure") and in the Fund's private placement memorandum ("PPM") concerning these payments and the conflict they created.

3. Furthermore, in May 2021, Hudson and Conover granted a redemption request from one Fund investor by paying that investor's redemption request in full, at the Fund's then-current valuation, while leaving several other simultaneously submitted redemption requests from Fund investors (who were also Hudson clients) outstanding and unpaid. In effecting this preferential redemption, Hudson and Conover violated their fiduciary duties to their clients who invested in the Fund.

Respondents

4. **Hudson** is a New York corporation with its principal place of business in Pearl River, New York. Hudson has been registered with the Commission as an investment adviser

[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.

since March 2012. Hudson is the general partner of the Fund. In its Form ADV dated as of March 27, 2024, Hudson reported having 90 clients (including the Fund) with a combined total of approximately $112 million in regulatory assets under management.

5. **Conover**, age 47, is a resident of Blauvelt, New York. Conover is the founder, sole owner, president, and chief executive officer of Hudson.

Related Entities

6. The **Fund** is a private investment fund founded by Conover, with Hudson as its general partner and investment manager. It relies on the exclusion from the definition of "investment company" found in Section 3(c)(1) of the Investment Company Act of 1940 and is a pooled investment vehicle. The Fund made investments in films by loaning capital to film production companies at specified monthly interest rates for pre-determined periods of time. As of Hudson's March 27, 2024 Form ADV, the Fund had approximately $18.5 million in assets under management.

7. **Hudson Private** is a New York corporation that Conover founded in 2014 and of which Conover is the sole shareholder. During the Relevant Period, Conover used Hudson Private to receive the compensation he represented he earned as an executive producer for the films in which the Fund and the SMAs were invested.

Background

8. Conover founded Hudson in 2008 to provide wealth management services to high-net worth individuals. Since its founding, Conover has served as the CEO and president of Hudson and has been its sole shareholder. Hudson has been registered with the SEC as an investment adviser since March 2012.

9. Beginning in 2014, Conover began raising money from Hudson's clients to invest in the Fund, which had as its primary objective investment in film and television projects.

10. At all times, the Fund's portfolio of investments has consisted exclusively of interest-bearing loans that the Fund extended to finance films. Until 2017, the Fund invested in films produced by several different film production companies.

11. In September 2017, Conover negotiated an agreement with a film production studio ("Film Studio A") and Production Company A, under which Hudson and Conover agreed that they would invest their clients' assets—both those of the Fund and the SMAs—exclusively in film projects offered by Film Studio A and financed by Production Company A. Thereafter Hudson and Conover caused all film loans made by the Fund and the SMAs to be made only to either Production Company A directly or to a joint venture between Film Studio A and Production Company A (the "Joint Venture").

The Fund's and the SMAs' Film Investments

12. From September 2017 forward, the Fund made film investments by loaning a specified amount of money to Production Company A, which Production Company A would then provide to Film Studio A for production of the specified film.

13. In return, Production Company A agreed to pay the Fund a fixed interest rate that, together with the loan's principal, was amortized over the term of the loan. The interest rates for these loans ranged from approximately 10% to 30%, while the terms of these loans were between one and two years. At the expiration of the loan's term, any outstanding, unpaid amounts would accrue penalty interest at a higher rate, which was also pre-determined at the time of the investment.

14. Limited partners of the Fund earned returns from the interest (and penalty interest) payments on the loans by Production Company A.

15. Hudson and Conover also recommended that the SMAs make film investments directly through bilateral contracts between the client and either Production Company A or the Joint Venture. The SMAs then earned returns on their investments in the same way as the Fund.

Conover's Receipt of Executive Producer Compensation

16. During the Relevant Period, Film Studio A offered a percentage of the total films' budget as compensation to select executive producers. The total amount available as executive producer compensation for each film was fixed at the time the budget was determined. Each executive producer then earned their portion of the budgeted executive producer compensation based on the amount that they raised for the film.

17. As part of Conover's agreement with Film Studio A and Production Company A to exclusively invest assets of the Fund and the SMAs in the film projects produced by Film Studio A and financed by Production Company A, Conover also negotiated the right to receive a share of the executive producer compensation for certain of the films in which these clients invested. Under this arrangement, Conover typically received 3% of the amount of total financing he was able to deliver through loans by either the Fund or the SMAs for a particular film, provided that the loans reached a specified, minimum dollar threshold.

18. During the Relevant Period, Hudson and Conover advised the Fund and recommended the SMAs make loans to Production Company A and the Joint Venture totaling approximately $22 million to invest in eight different films. As a result of these investments, Conover received $531,787 in executive producer compensation from Production Company A

for these same films during the Relevant Period. Conover received these fees through payments to Hudson Private.

19. Conover did not distribute any of this compensation to the Fund, its limited partners, or the SMAs whose investments had enabled Conover to obtain this compensation.

Hudson and Conover Failed to Disclose the Material Conflict of Interest Resulting from Conover's Receipt of Executive Producer Compensation

20. Between March 2017 and May 2019, neither the Fund's offering documents, including both the PPMs and the limited partnership agreement ("LPA"), nor Hudson's ADV Brochure, contained any disclosure related to Conover's actual or potential receipt of executive producer compensation by virtue of the film investments made by the Fund or the SMAs. Nor did these documents identify any actual or potential conflict of interest resulting from Conover's receipt of executive producer compensation more generally.

21. Although Hudson updated its ADV Brochure in May 2019—and the Fund amended its PPM in June 2020—to include disclosures of Conover's receipt of fees related to his role as an executive producer, these disclosures were materially misleading because they either stated or implied that the executive producer fees paid to Conover were unrelated to his clients' investments.

22. Specifically, Hudson's May 2019 ADV Brochure stated only that "Hudson Private [ ] receives fees related to Mr. Conover's role as an Executive Producer for film and television productions" and therefore "a conflict of interest exists to the extent Hudson has an incentive to recommend investments in films and television productions for which Mr. Conover serves as Executive Producer." The revised ADV Brochure, and subsequent ADV Brochures during the Relevant Period, further stated (misleadingly), that "fees related to Mr. Conover's role as an Executive Producer are determined in advance of any client investment in a given film or television production and are not otherwise based on client investments."

23. Similarly, the Fund's updated June 2020 PPM stated, in relevant part, that Hudson Private "receives compensation in the form of fees and Net Profit Participations related to Mr. Conover's role as an executive producer for film and television productions," and that "a conflict of interest exists to the extent [Hudson] has an incentive to recommend investments in films and television for the Fund for productions for which [Conover] serves as Executive Producer or otherwise receives production fees." The revised PPM also stated that "a conflict of interest exists to the extent the General Partner has an incentive to recommend to the Fund investments in films and television productions for which Mr. Conover serves as Executive Producer."

24. These representations were materially false and misleading because they (a) failed to disclose that Conover's executive producer compensation was based *solely* on the amounts of money loaned by the Fund and the SMAs to Production Company A for these films and not for

any non-investment related production work; and (b) falsely stated that this compensation was "not . . . based on client investments."

25. In early 2021, Production Company A began defaulting on the remaining loans made by both the Fund and the SMAs. As a result, in or around that same time, the Fund and the SMAs ceased making any new investments with Production Company A. In September 2021, Hudson announced that it was suspending all investor withdrawals from the Fund and would no longer market the Fund or raise new investor capital for the Fund.

26. Thereafter, in October 2021, the Fund filed a lawsuit against Production Company A, the Joint Venture, and Film Studio A seeking repayment of the amounts outstanding on these loans, including principal, interest, and penalty interest. *See Hudson Private LP v. Bron Studios USA, Inc., et al.*, 21 Civ. 8259 (S.D.N.Y.).

Hudson and Conover Improperly Preferenced the Redemption of a Limited Partner

27. According to the LPA, limited partners who wanted to redeem their investments in the Fund were required to give at least 90 days' notice for the redemption and were capped at a withdrawal of 50% of their Fund investment on a quarterly basis.

28. During the Relevant Period, Production Company A 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.

29. 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.

30. In May 2021, however, Hudson and Conover deviated from their practice of satisfying limited partner redemptions in the Fund on a *pro rata* basis when it lacked the liquidity to satisfy such requests in full. Instead, at Conover's direction, the Fund redeemed a single investor ("Investor A") in full ahead of other simultaneously submitted redemption requests from other Fund investors, who were pre-existing Hudson clients.

31. Specifically, Conover preferenced Investor A's redemption request of $187,789 ahead of approximately $750,000 of other redemption requests that were submitted simultaneously by Fund investors who were Hudson's and Conover's advisory clients. These other redemption requests were left entirely unfulfilled.

32. Conover preferenced Investor A's redemption request over the duly-noticed redemption requests of these other investors because Investor A was a portfolio manager at a large private equity firm who, Conover believed, might dissuade others in the industry from investing with Hudson and/or initiate litigation against Hudson if Investor A's redemption request was not timely honored in full.

33. Neither Hudson nor Conover disclosed to, or otherwise obtained consent from, the limited partners in the Fund for this grant of preferential treatment. Investors whose redemption requests were not prioritized were left to bear the market risk of the Fund's remaining assets, and certain of these investors were unable to exit the Fund following its suspension of all withdrawals from limited partner capital accounts in September 2021.

Violations

34. As a result of the conduct described above, Hudson and Conover willfully[2] violated Section 206(2) of the Advisers Act, which prohibits an investment adviser from engaging in any transaction, practice or course of business that operates as a fraud or deceit upon a client or prospective client. Scienter is not required to establish a violation of Section 206(2), which may rest on a finding of simple negligence. *SEC v. Steadman*, 967 F.2d 636, 643 n.5 (D.C. Cir. 1992) (citing *SEC v. Capital Gains Research Bureau, Inc.*, 375 U.S. 180, 194-95 (1963)).

35. As a result of the conduct described above, Hudson and Conover also willfully violated Section 206(4) of the Advisers Act, and Rule 206(4)-8 thereunder, which make it unlawful for an investment adviser to a pooled investment vehicle to "[m]ake any untrue statement of a material fact or to omit 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 "engage 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." Scienter is not required to establish a violation of Section 206(4) or the rules thereunder. *Steadman,* 967 F.2d at 647.

Disgorgement and Civil Penalties

36. The disgorgement and prejudgment interest ordered in paragraph IV.D. is consistent with equitable principles and does not exceed Respondent Conover's net profits from his violations and will be distributed to harmed investors, if feasible. The Commission will hold funds paid pursuant to paragraph IV.D. in an account at the United States Treasury pending a decision whether the Commission in its discretion will seek to distribute funds. If a distribution is determined feasible and the Commission makes a distribution, upon approval of the distribution final accounting by the Commission, any amounts remaining that are infeasible to return to investors, and any amounts returned to the Commission in the future that are infeasible to return

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[2] "Willfully," for purposes of imposing relief under Sections 203(e) and (f) of the Advisers Act, "'means no more than that the person charged with the duty knows what he is doing.'" *Wonsover v. SEC*, 205 F.3d 408, 414 (D.C. Cir. 2000) (quoting *Hughes v. SEC*, 174 F.2d 969, 977 (D.C. Cir. 1949)). There is no requirement that the actor "also be aware that he is violating one of the Rules or Acts." *Tager v. SEC*, 344 F.2d 5, 8 (2d Cir. 1965). The decision in *The Robare Group, Ltd. v. SEC*, which construed the term "willfully" for purposes of a differently structured statutory provision, does not alter that standard. 922 F.3d 468, 478-79 (D.C. Cir. 2019) (setting forth the showing required to establish that a person has "willfully omit[ted]" material information from a required disclosure in violation of Section 207 of the Advisers Act).

to investors, may be transferred to the general fund of the U.S. Treasury, subject to Section 21F(g)(3) of the Exchange Act.

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, it is hereby ORDERED that:

A. Respondents Hudson and Conover cease and desist from committing or causing any violations and any future violations of Sections 206(2) and 206(4) of the Advisers Act and Rule 206(4)-8 promulgated thereunder.

B. Respondents Hudson and Conover are censured.

C. Respondent Hudson shall pay a civil money penalty in the amount of $200,000 to the Securities and Exchange Commission. The Commission may distribute civil money penalties collected in this proceeding if, in its discretion, the Commission orders the establishment of a Fair Fund pursuant to 15 U.S.C. § 7246, Section 308(a) of the Sarbanes-Oxley Act of 2002. The Commission will hold funds paid pursuant to this paragraph in an account at the United States Treasury pending a decision whether the Commission, in its discretion, will seek to distribute funds or, subject to Exchange Act Section 21F(g)(3), transfer them to the general fund of the United States Treasury.

Payments shall be made in the following installments:

- $50,000 within 14 days of the entry of this Order;
- $50,000 within 120 days of the entry of this Order;
- $50,000 within 240 days of the entry of this Order; and
- $50,000 within 360 days of the entry of this Order.

Payments shall be applied first to post-order interest, which accrues pursuant to 31 U.S.C. § 3717. Prior to making the final payment set forth herein, Respondent Hudson shall contact the staff of the Commission for the amount due. If Respondent Hudson fails to make any payment by the date agreed and/or in the amount agreed according to the schedule set forth above, all outstanding payments under this Order, including post-order interest, minus any payments made, shall become due and payable immediately at the discretion of the staff of the Commission without further application to the Commission.

D. Respondent Conover shall pay disgorgement of $531,787, prejudgment interest of $95,924.09, and a civil penalty of $150,000, totaling $777,711.09 to the Securities and Exchange Commission. The Commission will hold disgorgement and prejudgment interest paid pursuant to this paragraph in an account at the United States Treasury pending a decision whether the

Commission, in its discretion, will seek to distribute funds or, transfer them 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 SEC Rule of Practice 600. The Commission may also distribute civil money penalties collected in this proceeding, if in its discretion, the Commission orders the establishment of a Fair Fund pursuant to 15 U.S.C. § 7246, Section 308(a) off the Sarbanes-Oxley Act of 2002. The Commission will hold civil penalties paid pursuant to this paragraph in an account at the United States Treasury pending a decision whether the Commission, in its discretion, will seek to distribute funds, or subject to Exchange Act Section 21F(g)(3), transfer them to the general fund of the United States Treasury. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. § 3717.

Payments shall be made in the following installments:

- $194,427.77 within 14 days of the entry of this Order;
- $194,427.77 within 120 days of the entry of this Order;
- $194,427.77 within 240 days of the entry of this Order; and
- $194,427.78 within 360 days of the entry of this Order.

Payments shall be applied first to post-order interest, which accrues pursuant to 31 U.S.C. § 3717 and Commission Rule 600. Prior to making the final payment set forth herein, Respondent Conover shall contact the staff of the Commission for the amount due. If Respondent Conover fails to make any payment by the date agreed and/or in the amount agreed according to the schedule set forth above, all outstanding payments under this Order, including post-order interest, minus any payments made, shall become due and payable immediately at the discretion of the staff of the Commission without further application to the Commission.

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 Hudson Valley Wealth Management, Inc. and/or Christopher Conover, as appropriate, 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 Lee A. Greenwood, Assistant Regional Director, Asset Management Unit, Division of Enforcement, Securities and Exchange Commission, 100 Pearl Street, Suite 20-100, New York, NY 10004.

E. Regardless of whether the Commission in its discretion orders the creation of a Fair Fund for the penalties ordered in this proceeding, 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 agrees that in any Related Investor Action, Respondents shall not argue that Respondents are entitled to, nor shall Respondents benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondents' payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondents agrees that Respondents 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 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 Conover, and further, any debt for disgorgement, prejudgment interest, civil penalty or other amounts due by Respondent Conover 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 Conover 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.

Vanessa A. Countryman
Secretary