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OMAHA SCHOOL EMPLOYEES' RETIREMENT SYSTEM

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Dear Members of OSERS

It has come to the attention of OSERS management and Board of Trustees that there may be questions regarding a particular investment by OSERS. The record reflects, as detailed below, and as any review of various public pleadings show, OSERS is a victim of a massive fraudulent scheme.

In 1993, OSERS retained Atlantic Asset Management, LLC ("AAM") as one of its investment managers. As an investment manager, AAM was to provide asset management of pension funds as well as investment consulting advice to the retirement Board of Trustees. AAM was a trusted investment advisor of OSERS for over 20 years.

In the early spring of 2013, AAM proposed that OSERS invest in the Atlantic Global Yield Opportunity Fund, LP ("GYOF"). At that time, AAM had full discretion over GYOF. OSERS management had its counsel review the document for the proposed investment and in May 2013 counsel – who was and is counsel for the Omaha Public School District – concluded the investment did not reveal an appreciable risk of loss to OSERS. The investment by OSERS in GYOF was then subsequently approved by the Omaha Public School Board at its May 20, 2013 Board of Education meeting.

In early April 2015, an entity controlled by a group of fraudsters acquired AAM from its longtime owner. The fraudsters orchestrated the acquisition of AAM to gain access to investors –including OSERS – in order to perpetrate a fraudulent bond offering. According to federal, criminal and civil proceedings filed in the United States District Court for the Southern District of New York in 2016, substantially all of the proceeds of the bond offering involving the OSERS investment in GYOF - $16.2 MM – were stolen by this group of individuals, the above referenced fraudsters. A description of the fraud perpetrated against GYOF and OSERS investment in GYOF is described in the attached release from the United States Attorney's Office for the Southern District of New York [*the Release follows below*]. An example of OSERS status as a victim of the fraudulent scheme is that we have received a letter from the United States Department of Justice Victim Notification Division advising us of our rights as a victim of the fraudsters criminal action. On August 11, 2017, the ring leader of the fraudsters Jason Galanis was sentenced in a Manhattan New York federal court to serve fourteen years in prison for his role in the fraud perpetuated against OSERS. Galanis is already serving eleven years in a federal prison for another crime: swindling investors out of twenty million dollars in a now defunct financial services firm. The criminal proceedings are a public record and can be found at United States of America v. Jason Galanis, et al, S1 16 CR. 371 (RA) in the United States District Court for the Southern District of New York.

In December 2015, the Securities and Exchange Commission (SEC) filed a complaint against AAM in the United States District Court for the Southern District of New York ("Court"). The SEC alleged that AAM had invested over $40 million of its clients' funds, including $16.2 MM of OSERS' funds, in bonds issued by the Wakpamni Lake Community Corporation. On January 8, 2016, the Court appointed a Receiver for AAM.

On April 24, 2017, a Third Revised Joint Plan of Distribution was filed by the Receiver for AAM which was approved by the Court on the same date. OSERS has begun to receive proceeds from the Joint Plan of Distribution. However, the Order approving the Plan permanently enjoined all holders of claims against AAM, including OSERS, from commencing or continuing any action on AAM and further provides that the treatment of all claims in the Plan shall be in complete satisfaction of the claims. The receivership proceedings are a public record and can be found at Securities and Exchange Commission v. Atlantic Asset Management, LLC 15 Civ. 9764 (WHP) United States District Court for the Southern District of New York.

It is unfortunate these types of matters become part of the public discourse and are subject to rumors, innuendos, and half-truths. Proper prudence would dictate the review of all publicly available facts and understanding of those facts before drawing conclusions which could lead to perceptions that mischaracterize the facts.

You can be assured the trustees work diligently to administer the plan with the stakeholders in mind and take their roles as fiduciaries very seriously. OSERS management and Board of Trustees are pursuing every legal avenue available to recover as much as is possible of the stolen money. This matter does not or will not affect employee benefits under the current plan (active or retired.)

As is always the case, should you have questions or concerns regarding this or other like matters concerning the retirement plan, please feel free to contact the retirement office at any time.

The Retirement Board of Trustees
Omaha School Employees' Retirement System

United States Department of Justice

THE UNITED STATES ATTORNEY'S OFFICE
SOUTHERN DISTRICT of NEW YORK

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U.S. Attorney's Office

Southern District of New York

FOR IMMEDIATE RELEASE Wednesday, May 11, 2016

Seven Defendants Charged In Manhattan Federal Court With Defrauding A Native American Tribe And Investors Of Over $60 Million

Preet Bharara, the United States Attorney for the Southern District of New York, Diego Rodriguez, Assistant Director-in-Charge of the New York Office of the Federal Bureau of Investigation ("FBI"), and Philip R. Bartlett, Inspector-in-Charge of the New York Office of the U.S. Postal Inspection Service ("USPIS"), announced that seven defendants were arrested today and charged with orchestrating a scheme to defraud investors and a Native American tribal entity of tens of millions of dollars.

JASON GALANIS and HUGH DUNKERLEY were arrested in the Central District of California. JASON GALANIS will be presented later today before a U.S. Magistrate Judge in Los Angeles and DUNKERLEY will be presented before a U.S. Magistrate Judge in Santa Ana, California. GARY HIRST was arrested in the Middle District of Florida and will be presented later today before a U.S. Magistrate Judge in Orlando. JOHN GALANIS, a/k/a "Yanni," was arrested in the Southern District of California and will be presented later today before a U.S. Magistrate Judge in San Diego. BEVAN COONEY was arrested in the District of Nevada and will be presented later today before a U.S. Magistrate Judge in Reno. DEVON ARCHER was arrested in the Eastern District of New York. MICHELLE MORTON was arrested in New Jersey. ARCHER and MORTON will be presented later today before United States Magistrate Judge Ronald L. Ellis in Manhattan.

Manhattan U.S. Attorney Preet Bharara said: "As alleged, the defendants induced an Oglala Sioux Native American tribal entity to issue bonds through lies about how the bond proceeds would be invested. Instead of investing the proceeds in a way that would provide capital for development and help cover the interest payments, the defendants allegedly pocketed most of it to pay for their own personal expenses, homes, cars, travel, and jewelry. The defendants' alleged fraud did not stop with the tribe. The defendants also allegedly duped unwitting investors into buying the bonds by hiding material facts about them, including their lack of liquidity. The defendants' alleged fraud has left devastation in its wake: a tribe with tens of millions in bond obligations it cannot pay, and investors out tens of millions, left holding bonds they did not want."

FBI Assistant Director-in-Charge Diego Rodriguez said: "The alleged fraudsters named in this case didn't just see an opportunity to steal money when they thought no one was looking, they allegedly hatched a plan to scam a municipal entity from the start. The most egregious fallout from this scheme is that the bondholders now hold worthless securities, and the tribe can't make the interest payments due."

USPIS Inspector-in-Charge Philip R. Bartlett said: "These individuals allegedly took advantage of their clients, by luring them into creating bonds the defendants allegedly knew would never pay any returns to investors. White-collar criminals always believe their crimes and abilities are above the law, but Postal Inspectors and their law enforcement partners are very skilled at bringing these fraudsters to justice for their illegal financial schemes."

According to the Complaint unsealed today in Manhattan federal court:[1]

From at least in or about March 2014 through in or about April 2016, JASON GALANIS, GARY HIRST, JOHN GALANIS, a/k/a "Yanni," HUGH DUNKERLEY, MICHELLE MORTON, DEVON ARCHER, and BEVAN COONEY engaged in a fraudulent scheme to cause a Native American tribal entity to issue more than $60 million in municipal bonds and then misappropriate the proceeds from their sale. JASON GALANIS and JOHN GALANIS used the millions of dollars in illicit profits derived from the scheme to pay for a variety of personal and business expenses, including house payments, car payments and tax obligations, and to make food, travel and jewelry purchases. JASON GALANIS also used the proceeds to make millions of dollars of payments to other defendants, including to HIRST, DUNKERLEY, and COONEY, as well as to asset management firms run by MORTON.

To accomplish the scheme, JASON GALANIS and JOHN GALANIS first induced the Wakpamni Lake Community Corporation ("WLCC"), an Oglala Sioux tribal entity, to issue tens of millions of dollars in municipal bonds (the "Tribal Bonds") based on false and misleading representations. MORTON and HIRST, at the direction of JASON GALANIS, used approximately $40 million of funds belonging to clients of two related investment advisers run by MORTON – Hughes Capital Management, Inc. ("Hughes") and Atlantic Asset Management, LLC ("Atlantic") – to purchase the Tribal Bonds, even though those defendants were well aware that material facts about the Tribal Bonds had been withheld from clients in whose accounts they were placed, including the fact that the Tribal Bond purchases fell outside the investment parameters of certain Hughes clients and of the Atlantic investment vehicle in which the Tribal Bonds were placed. In addition, those defendants failed to apprise the Hughes and Atlantic clients of substantial conflicts of interest relating to the defendants – including that HIRST and DUNKERLEY were on multiple sides of the deal with respect to the issuance and placement of the Tribal Bonds. When Hughes and Atlantic clients learned about the purchase of the Tribal Bonds, several of them demanded that the Tribal Bonds be sold. However, because there was no ready secondary market for the Tribal Bonds, the Tribal Bonds remain in their accounts.

Moreover, certain defendants, including JASON GALANIS and DUNKERLEY, falsely represented to the WLCC that proceeds from the sale of the Tribal Bonds would be placed with an investment manager who would invest the proceeds in investments that would generate annuity payments sufficient to pay the interest on the Tribal Bonds and provide additional funds to the WLCC to be used for tribal economic development purposes. In fact, none of the proceeds of the Tribal Bonds were turned over to the investment manager specified in the closing documents. Instead, the defendants misappropriated significant portions of the proceeds for their own personal use.

Some of the misappropriated proceeds were recycled and provided by JASON GALANIS to entities affiliated with ARCHER and COONEY in order to facilitate the purchase of additional Tribal Bonds issued by the WLCC in subsequent offerings induced by JOHN GALANIS. As with the first offering of Tribal Bonds, none of the proceeds of the Tribal Bonds were actually turned over to the investment manager specified in the closing documents. Instead, the defendants again misappropriated substantial portions of the proceeds for their own use. As a result of the defendants' fraudulent scheme, the investors in whose accounts the Tribal Bonds were placed now hold worthless securities that cannot be sold, and the WLCC has no means of paying the interest payments due on the Tribal Bonds.

* * *

JASON GALANIS, HIRST, JOHN GALANIS, DUNKERLEY, MORTON, ARCHER, and COONEY are each charged with one count of conspiracy to commit securities fraud, which carries a maximum sentence of five years in prison and a maximum fine of $250,000, or twice the gross gain or loss from the offense; and one count of securities fraud, which carries a maximum sentence of 20 years in prison and a maximum fine of $5 million, or twice the gross gain or loss from the offense. JASON GALANIS, HIRST, and MORTON are also charged with conspiracy to commit investment adviser fraud, which carries a maximum sentence of five years in prison and a maximum fine of $250,000, or twice the gross gain or loss from the offense; and investment adviser fraud, which carries a maximum sentence of five years in prison and a maximum fine of $10,000. The statutory maximum sentences are prescribed by Congress and are provided here for informational purposes only, as any sentencings of the defendants would be determined by the judge.

Mr. Bharara praised the investigative work of the FBI and USPIS, and thanked the SEC, which has filed civil charges in a separate action.

The charges were brought in connection with the President's Financial Fraud Enforcement Task Force. The task force was established to wage an aggressive, coordinated and proactive effort to investigate and prosecute financial crimes. With more than 20 federal agencies, 94 U.S. attorneys' offices, and state and local partners, it is the broadest coalition of law enforcement, investigatory and regulatory agencies ever assembled to combat fraud. Since its formation, the task force has made great strides in facilitating increased investigation and prosecution of financial crimes; enhancing coordination and cooperation among federal, state and local authorities; addressing discrimination in the lending and financial markets; and conducting outreach to the public, victims, financial institutions and other organizations. Since fiscal year 2009, the Justice Department has filed over 18,000 financial fraud cases against more than 25,000 defendants. For more information on the task force, please visit www.StopFraud.gov.

This case is being handled by the Office's Securities and Commodities Fraud Task Force. Assistant U.S. Attorneys Brian Blais, Aimee Hector, and Rebecca Mermelstein are in charge of the prosecution.

The allegations contained in the Complaint are merely accusations, and the defendants are presumed innocent unless and until proven guilty.

[1] As the introductory phrase signifies, the entirety of the text of the Complaint and the description of the Complaint set forth below constitute only allegations, and every fact described should be treated as an allegation.

16-117

USAO - New York, Southern

Topic:
Securities, Commodities, & Investment Fraud

Download US v. Jason Galanis et al. complaint.pdf

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