



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

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Department of Justice

U.S. Attorney's Office

Southern District of New York

FOR IMMEDIATE RELEASE

Friday, July 17, 2020

Managing Partner Of Investment Advisory Firm Charged For Over \$100 Million Ponzi-Like Fraud Scheme

Audrey Strauss, the Acting United States Attorney for the Southern District of New York, and William F. Sweeney Jr., the Assistant Director-in-Charge of the New York Office of the Federal Bureau of Investigation ("FBI"), announced today the filing of an Information charging DAVID HU, a managing partner and the chief investment officer of the New York-based investment advisory firm International Investment Group ("IIG"), with investment adviser fraud, securities fraud, and wire fraud offenses. As alleged, over a period of more than 10 years, HU perpetrated an over \$100 million scheme to defraud investors in IIG's funds, including by creating fictitious investments and overvaluing investments used to generate funds to pay off earlier investors in a Ponzi-like manner. HU was arrested today and was presented and arraigned before Magistrate Judge Robert W. Lehrburger. The case has been assigned to U.S. District Judge Alvin K. Hellerstein.

Acting Manhattan U.S. Attorney Audrey Strauss said: "As alleged, David Hu directed a multimillion-dollar, years-long scheme to defraud investors. Putting profit ahead of his fiduciary duties, Hu allegedly mismarked millions of dollars of loan assets to cover up millions in losses. Hu also created fake entities and loans, and falsified paperwork to deceive auditors and avoid detection. Now David Hu stands charged with federal crimes and faces time in federal prison."

FBI Assistant Director William F. Sweeney Jr. said: "As alleged, for nearly a decade, David Hu misled investors about the value of their investments, including the creation and sale of fictitious fund portfolios to raise capital to prop up his schemes. His alleged actions serve as an example of the lengths some will go to in these all-too-common fraud cases. The FBI is committed to investigating those who prey upon trusting individuals for their own personal gain."

In a separate civil action, the U.S. Securities and Exchange Commission ("SEC") today filed civil charges against HU.

As alleged in the Information and based on statements made in Manhattan federal court in this case:[1]

Background of IIG

HU and a co-conspirator ("CC-1") founded IIG in 1994. HU was a managing partner and the chief investment officer of IIG. IIG, an SEC-registered investment adviser, provided investment management and

advisory services, including for three private funds that it operated: (1) the IIG Trade Opportunities Fund N.V. (“TOF”), (2) the IIG Global Trade Finance Fund, Ltd. (“GTFF”), and (3) the IIG Structured Trade Finance Fund, Ltd. (“STFF”). IIG also advised the Venezuela Recovery Fund (“VRF”), a fund that managed the remaining assets of a failed Venezuelan bank (VRF, together with TOF, GTFF, and STFF, the “IIG Funds”). In March 2018, IIG reported to the SEC that it had approximately \$373 million in assets under management.

IIG advertised itself as specializing in global trade financing, particularly in providing trade finance loans to small and medium-sized businesses. IIG’s principal investment advisory strategy, including with respect to the IIG Funds, was investing in trade finance loans that it also originated. Trade finance loans are used by small and medium-sized companies, typically exporters and importers, to facilitate international trade. IIG’s purported expertise was in trade finance loans to borrowers located in Central or South America, and in a variety of industries, with a stated focus on “soft commodities,” such as coffee, agriculture, fishing, and other food products. IIG’s trade finance loans were purportedly secured by collateral, such as the underlying traded goods, assets held by the borrowers, or expected payments by third parties.

Investments in TOF, STFF, and GTFF were marketed by IIG to institutional investors, such as pension funds, hedge funds, and insurers. In offering memoranda and communications with investors, IIG advertised strict risk controls, such as promises to use diligence to carefully select borrowers or issuers with trusted management and marketable assets, and portfolio concentration limits based on borrower, developing country, and industry.

IIG purported to value the trade finance loans in the IIG Funds on a regular basis. IIG and, in turn, HU, received a performance fee with respect to the IIG Funds, as well as a management fee, which was calculated as a percentage of the assets under management held in the Funds.

The Scheme

From approximately 2007 to 2019, HU conspired to defraud investors in IIG-managed funds by: (i) overvaluing distressed loans held by the IIG Funds, (ii) falsifying paperwork to create a series of fake loans that were classified, fraudulently, as positively performing loans, and to otherwise hide losses, (iii) selling overvalued and fake loans to a collateralized loan obligation trust and new private funds established and advised by IIG, and (iv) using the proceeds from those fraudulent sales to generate liquidity required to pay off earlier investors in a Ponzi-like manner.

The scheme HU participated in involved, among other things:

- Mismarking Defaulted Loans. HU and CC-1 caused IIG to mismark the value of multiple loans that had, in reality, defaulted (the “Defaulted Loans”). Instead of acknowledging the defaulted status of these loans, HU and CC-1 instead caused IIG to mark the Defaulted Loans at par plus accrued interest, even though HU and CC-1 knew that the borrowers’ default significantly impaired the true value of these loans. HU and CC-1 certified these false valuations and caused them to be reported to investors.
- Mismarking Distressed Loans. HU and CC-1 caused IIG to mismark multiple loans that were distressed (the “Distressed Loans”). These Distressed Loans included, for example, loans for which the borrowers had missed multiple scheduled payments. Even though HU and CC-1 knew that the non-performing status of the loans significantly impaired their true value, they nevertheless caused IIG to continue to mark the loans at par plus accrued interest.
- Creating Fictitious Loans. With respect to TOF, in order to hide the losses resulting from the Defaulted Loans, including from auditors reviewing TOF’s financials, HU and CC-1 removed the Defaulted Loans from the TOF portfolio, replacing them with tens of millions of dollars in fictitious loans to purported borrowers in foreign countries (the “Fake Loans”). HU and CC-1 also created or directed the creation of documents to keep in IIG’s files as purported documentation of the Fake

Loans. To pass auditor scrutiny, HU and CC-1 also directed purported borrowers – sham foreign entities that were controlled by IIG’s business associates and that did not engage in actual business – to provide confirmations of the Fake Loans to auditors, including by arranging for TOF to pay a monthly fee to one purported borrower in exchange for providing false confirmations. In reality, these purported borrowers did not receive a loan from TOF, and were not expected to make any payments to TOF.

- Using a CLO Trust to Create Liquidity through Investments in Fraudulent Loans. In or about 2014, HU and CC-1 obtained approximately \$220 million in bank financing to create a collateralized loan obligation trust (the “CLO Trust”), for which IIG served as an investment adviser. HU and CC-1 then engaged in various deceptive acts, using the CLO Trust, to hide TOF’s losses and generate liquidity for TOF, which was facing investor redemption requests and demands for repayment of loans that IIG had taken from international development banks. For example, in its capacity as investment adviser for the CLO Trust, IIG, through the efforts of HU and CC-1, caused the newly-created CLO Trust to purchase loans from the TOF portfolio, including Defaulted Loans, Distressed Loans, and Fake Loans, which generated liquidity for TOF. After the CLO Trust purchased loans in the TOF portfolio, IIG, through the efforts of HU and CC-1, generated additional liquidity by causing the CLO Trust to issue securitized debt instruments based on these loans, payable in various tranches to investors in the CLO Trust.
- Using the CLO Trust and Panamanian Shell Entities to Cover Up Losses. IIG, through the efforts of HU and CC-1, also caused the CLO Trust to create new fraudulent trade finance loans, and used those new fraudulent loans to cover up TOF’s losses. Specifically, HU caused the creation of shell entities domiciled in Panama (“Panamanian Shell Entities”) that were controlled by an IIG nominee. Then, HU caused the CLO Trust to enter into fake loan transactions with the Panamanian Shell Entities. HU caused the creation of fake promissory notes and other paperwork to conceal the fraudulent nature of the loans to the Panamanian Shell Entities. Finally, under the guise of the fake loan transactions with the Panamanian Shell Entities, the CLO Trust disbursed funds that HU and CC-1 diverted to TOF in order to pay off TOF’s various debts and obligations.
- Generating Liquidity By Selling Fraudulent Loans to Newly Created Funds Backed by a New Investor. In or about 2017, HU and CC-1 targeted a foreign institutional investor (“Institutional Investor-1”) to raise money for two new private IIG managed funds: GTFF and STFF. Institutional Investor-1 provided \$70 million as the seed investment for GTFF, and, later, \$130 million as the seed investment for STFF. HU and CC-1 caused GTFF and STFF to purchase at least approximately \$100 million in fake, distressed, defaulted or otherwise fraudulent loans.
- Inducing a Retail Mutual Fund to Invest in a Fictitious \$6 Million Loan. In or about December 2012, IIG became an investment adviser to an open-ended mutual fund marketed to retail investors (the “Retail Fund”). As an investment adviser to the Retail Fund, IIG made investment recommendations, including recommendations that the Retail Fund invest in trade finance loans originated by IIG. In or about February 2017, a borrower (the “Argentine Borrower”) had failed to pay the principal on an approximately \$6 million loan (“Loan-1”) in which the Retail Fund had invested and which was nearing its maturity date. In or about March 2017, HU caused approximately \$6 million to be transferred into an account associated with the Argentine Borrower from the account of a different borrower (“Borrower-1”), and further directed the funds from Borrower-1’s account to pay off the debt owed by the Argentine Borrower to the Retail Fund. To replace the funds from Borrower-1’s account that were used to make it appear as though the Argentine Borrower had repaid its debt to the Retail Fund, HU fraudulently induced the Retail Fund to invest in a new, fake \$6 million loan to the Argentine Borrower (the “New Loan”). HU then directed that the proceeds from the fraudulently induced New Loan be transferred into Borrower-1’s account, effectively reimbursing the account for the earlier \$6 million transfer to the Retail Fund. To further conceal the fraudulent nature of the New Loan, HU caused the creation of forged documents to make it appear as though the New Loan was a legitimate loan to the Argentine Borrower.

* * *

DAVID HU, 62, of West Orange, New Jersey, is charged with one count of conspiracy to commit investment adviser fraud, securities fraud, and wire fraud, which carries a maximum sentence of five years in prison; one count of securities fraud, which carries a maximum sentence of 20 years in prison; and one count of wire fraud, which carries a maximum sentence of 20 years in prison. The maximum potential sentences are prescribed by Congress and are provided here for informational purposes only, as any sentencing of the defendant will be determined by a judge.

Ms. Strauss praised the investigative work of the FBI and also thanked the SEC for its assistance.

This case is being handled by the Office's Securities and Commodities Fraud Task Force. Assistant U.S. Attorneys Drew Skinner and Negar Tekeei are in charge of the prosecution.

The charges contained in the Information are merely accusations, and the defendant is presumed innocent unless and until proven guilty.

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

Attachment(s):

[Download U.S. v. David Hu Information - signed](#)

Topic(s):

Securities, Commodities, & Investment Fraud

Component(s):

[USAO - New York, Southern](#)

Contact:

Jim Margolin, Nicholas Biase
(212) 637-2600

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