

UNITED STATES DISTRICT COURT
NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

UNITED STATES OF AMERICA) No.
)
v.) Violations: Title 15, United States
) Code, Sections 80b-6 and 80b-17,
ERIC A. BLOOM and) Title 18, United States Code,
CHARLES K. MOSLEY) Sections 1027, 1343 and 2

COUNT 1
(Wire Fraud)

The SPECIAL JANUARY 2012 GRAND JURY charges:

1. At times material to this indictment:

a. Sentinel Management Group, Inc. was a corporation headquartered in Northbrook, Illinois. Sentinel was in the business of managing short-term cash investments of futures commission merchants, commodity pools, hedge funds, at least one pension fund, and other entities and persons.

b. Defendant ERIC A. BLOOM was president and chief executive officer of Sentinel, and was responsible for its day-to-day operations. At times prior to October 2002, BLOOM was Sentinel's trader and portfolio manager. At times prior to 2004, BLOOM was its chief financial officer, and prior to 2006, he also was Sentinel's compliance officer.

c. Defendant CHARLES K. MOSLEY was senior vice-president, head trader, and portfolio manager of Sentinel. MOSLEY was responsible for Sentinel's trading activities and reported directly to defendant BLOOM.

Regulatory Background

d. The Commodity Futures Trading Commission was a federal regulatory agency responsible for, among other things, enforcing the Commodity Exchange Act and regulations issued pursuant to the Act.

e. A futures commission merchant, also known as an FCM, was a person or business engaged in accepting orders for the purchase or sale of commodity futures and that, in connection with such orders, accepted money, securities, or property to margin, guarantee, or secure futures trades resulting from those orders. Under the Commodity Exchange Act and CFTC regulations, FCMs were required to treat all their customers' money, securities, and property as belonging to those customers and to separately account for those assets. FCMs were prohibited from commingling their customers' money, securities, or property with the FCMs' own funds, known as "house funds," and from using customers' funds to secure credit for the FCMs' own benefit. FCMs were responsible for segregating and preserving their customers' funds. Sentinel was registered with the CFTC as an FCM.

f. The Securities and Exchange Commission was a federal regulatory agency responsible for, among other things, enforcing the federal securities laws, including the Investment Advisers Act of 1940 and the regulations issued pursuant to the Advisers Act.

g. An investment adviser was any person (including a business) who, for compensation, engaged in the business of advising others as to the value of securities or as to the advisability of investing in, purchasing, or selling securities.

Investment advisers owed their customers a fiduciary duty to act in good faith, to fully disclose all material facts, to disclose conflicts of interest between the advisers and their customers, and to use reasonable care to avoid misleading their customers. Sentinel was registered with the SEC as an investment adviser and owed a fiduciary duty to Sentinel's customers. Defendants BLOOM and MOSLEY, as officers of and persons associated with an investment adviser, also owed a fiduciary duty to Sentinel's customers.

Sentinel's Business Operation

h. Sentinel offered customers different investment programs, each of which purported to have its own investment policy designed to meet different requirements, risk profiles, and investment objectives. Two of Sentinel's investment programs were its "125 Portfolio" and its "Prime Portfolio," as further described below:

i. **Sentinel's 125 Portfolio** was intended, according to Sentinel's marketing material, "to provide Sentinel's FCM clients with a short-term investment alternative that combines safety of principal, liquidity and competitive yields compliant with the CFTC's Rule 1.25." Investments permitted by CFTC Regulation 1.25 included bank-issued certificates of deposit, government securities, highly-rated corporate notes and bonds, and repurchase agreements involving the investments described above. Sentinel offered and sold investments in the 125 Portfolio primarily, though not exclusively, to other FCMs looking to invest customer funds on a short-term basis.

j. **Sentinel's Prime Portfolio** was intended, according to Sentinel's marketing materials, for its FCM customers' house funds and for its non-FCM

customers. The Prime Portfolio was intended to provide a higher rate of return with more risk than the 125 Portfolio by trading securities with lower ratings and longer maturities.

k. Sentinel's marketing material was distributed to customers, prospective customers, and to the public via the Sentinel website, www.sentgroup.com. The marketing material also was distributed via email, during in-person sales presentations, and by other means. Sentinel's marketing material claimed, among other things, that Sentinel was a "pre-eminent investment manager of short-term corporate cash" that provided its customers with "safety, liquidity and competitive yields through a well-managed portfolio of government and high-grade securities held in a custodial account for the benefit of Sentinel's clients." Sentinel's marketing material also made the following representations, among others:

The essence of Sentinel's service is preservation of capital and liquidity in even the most turbulent of market conditions. Sentinel has constructed a fail-safe system that virtually eliminates risk from short term investing;

Sentinel buys only the highest quality and most liquid securities Sentinel's objective is to achieve the highest yield consistent with preservation of principal and daily liquidity, not simply 'the highest yield';

Sentinel accounts are protected by something stronger than insurance: federal law Unlike FDIC insurance, which covers only the first \$100,000 . . . , there is no financial limit on the protection offered by fiduciary law; and

Sentinel clients receive a daily account statement (by email or fax), which shows, down to the penny, precisely what securities they own. . . . [T]hrough Sentinel, clients know exactly what they own. Sentinel sends daily emails . . . to

each client reporting the total amount invested, the interest earned, and supporting securities.

l. Sentinel's management of its customers' funds was governed by written investment agreements with each customer. The investment agreements granted Sentinel the discretionary authority to select, buy, and sell securities on behalf of customers without first requesting their specific authority. The investment agreements provided that the customers' funds would be deposited in a custodial account for the benefit of the customers, and that Sentinel would not have any ownership or interest in the customers' funds or securities in the custodial account or in any other funds or securities in which the customers had a beneficial interest. The investment agreements also provided that Sentinel would provide the customers with itemized statements showing all debits from the customers' assets during the reporting period, the value of the assets on which Sentinel's fees were based, and the specific manner in which the fees were calculated.

m. Both Sentinel's 125 Portfolio and Prime Portfolio used repurchase agreements, also known as "repos." In a repo, one party (effectively a borrower) sold a security to a counterparty (effectively a lender) with an agreement to repurchase the security at a later date. The interest generated by the security itself still belonged to the repo borrower, but the repo borrower paid interest to the repo lender when the repo borrower later "repurchased" the security. Repo lenders did not lend the full value of the security that collateralized the loan, but instead lent a lesser amount to provide

themselves with a “cushion” in the event the security lost value in the market and became less valuable collateral.

n. To have access to ready cash to, among other things, make redemptions to customers, Sentinel routinely borrowed funds from repo lenders and provided customers’ securities to the repo lenders as collateral. Sentinel often borrowed additional funds needed to make customer redemptions by drawing on a line of credit extended to it by the Bank of New York Mellon Corp., also known as “BoNY.” Sentinel also used funds borrowed from repo lenders and from BoNY to engage in additional securities transactions in an effort to increase the potential return on the investments in all of its portfolios, a practice known as “leverage.”

o. Regardless of which Sentinel portfolio a customer chose, Sentinel represented to the customer that it would pool the customer’s assets with those of other customers in that same portfolio, in segregated customer custodial accounts at BoNY. The pooled accounts of customer funds were referred to within Sentinel as the SEG 1, SEG 2, and SEG 3 portfolios. SEG 1 held funds belonging to customers of Sentinel’s FCM customers. Such funds were required to be segregated from funds belonging to customers who were not FCM customers, and from Sentinel’s own funds. SEG 2 held funds belonging to Sentinel’s FCM customers who traded on futures exchanges outside the United States, and those funds were required to be segregated in the same manner as the SEG 1 funds. SEG 3 held funds belonging to FCMs’ house funds, commodity pools, hedge funds, at least one pension fund, and other entities and persons.

p. Defendant MOSLEY oversaw trading activities for Sentinel's SEG 1, SEG 2, and SEG 3 portfolios. In addition, defendant MOSLEY traded a portfolio for the benefit of Sentinel officers including himself, defendant BLOOM and certain Bloom family members, and corporate entities owned and controlled by the Bloom family. This portfolio was known as the "House Portfolio." The House Portfolio was comprised of at least two securities accounts at BoNY. The two securities accounts were the SEN Account and the FC1 account, which also were used to clear securities trades for the three customer SEG portfolios. In addition to his salary, defendant MOSLEY received an annual bonus based on the profitability of the House Portfolio.

q. Firm 1 and Firm 2 were securities broker-dealers and sold Sentinel financial instruments commonly known as collateralized debt obligations, or "CDOs," which CDOs Sentinel purchased for the House Portfolio and for the SEG 3 portfolio. Certain of the CDOs Sentinel purchased from Firm 1 and Firm 2 carried significantly higher risk than the categories of investments that Sentinel represented it would make with customer funds invested in its 125 Portfolio and Prime Portfolio. These CDOs generally were allocated to the House Portfolio.

2. Beginning no later than January 2003, and continuing to on or about August 17, 2007, at Northbrook, in the Northern District of Illinois, Eastern Division, and elsewhere,

ERIC A. BLOOM and
CHARLES K. MOSLEY,

defendants herein, knowingly devised, intended to devise, and participated in a scheme to defraud and to obtain money and property of prospective customers and customers by means of materially false and fraudulent pretenses, representations, and promises, and by means of material omissions, as described below.

3. It was part of the scheme that defendants BLOOM and MOSLEY, and others, fraudulently obtained and retained under management more than \$500,000,000 of customers' funds by, among other things, falsely representing and causing to be represented: the risks associated with investing with Sentinel, the use of customers' funds and securities, the value of customers' investments, and the profitability of investing with Sentinel. In order to conceal the scheme and to retain possession of customers' funds, the defendants caused false and misleading account statements to be created and distributed to customers.

4. It was further part of the scheme that defendants BLOOM and MOSLEY misappropriated securities belonging to customer portfolios by using them as collateral for a loan that Sentinel obtained from BoNY to purchase millions of dollars worth of high-risk, illiquid CDOs from Firm 1 and Firm 2 for the benefit of Sentinel's House Portfolio without disclosing to Sentinel's customers that securities in their portfolio

were being used in this manner. While doing so, MOSLEY received substantial personal benefits from Firm 1 and Firm 2 in the form of gifts, vacations, expensive tickets to sporting events, and parties.

5. It was further part of the scheme that defendants BLOOM and MOSLEY falsely represented and caused to be represented to customers that invested funds would be traded in a manner consistent with the representations made to customers about the risk profile and investment objectives of the portfolios selected by the customers, when in fact the defendants employed an undisclosed trading strategy for the House Portfolio that included extensive leverage, and a high concentration of illiquid and high-risk securities, that was inconsistent with the representations to customers. This strategy affected all customers regardless of the portfolio in which they were invested, because the defendants used customers' securities as collateral when the defendants borrowed money from repo lenders and from BoNY, and then used that borrowed money to carry out the undisclosed trading strategy described above. The use of their customers' securities as collateral allowed the defendants to borrow more money than Sentinel otherwise could, subjected the customer securities to potential legal claims by creditors, and allowed the defendants to employ leverage to the extent that Sentinel itself, and all of the customer portfolios, were at increased risk of adverse market movements and insolvency.

6. It was further part of the scheme that, at the end of 2006, defendants BLOOM and MOSLEY entered into a sham repo transaction that resulted in a \$25 million payment from Firm 1 to Sentinel. The purpose of the repo was to temporarily

reduce the balance of Sentinel's BoNY loan so that Sentinel's annual financial statement for the year ending December 31, 2006 would show less debt, thereby concealing Sentinel's true financial position from regulators and from its customers.

7. It was further part of the scheme that defendants BLOOM and MOSLEY falsely represented and caused to be falsely represented to customers the returns generated by each Sentinel portfolio. Rather than giving customers the actual returns generated by a particular portfolio, the defendants on a daily basis pooled the trading results for all of Sentinel's portfolios and then allocated the returns to the various portfolios as they saw fit.

8. It was further part of the scheme that in order to conceal the scheme, to encourage customers to invest additional funds, and to otherwise lull customers, defendants BLOOM and MOSLEY on a daily basis caused false and misleading account statements to be created and distributed to customers, including via email. These account statements reported returns earned by customers without disclosing that the returns actually had been allocated by the defendants, and were not the result of the market performance of the customers' particular portfolios. The account statements also listed the purported value of securities being held by each portfolio without disclosing that the securities had been and were being used as collateral for Sentinel's loan from BoNY. The daily account statements were also misleading in that many of them, particularly those issued in July and August 2007, contained incorrect securities and inflated values of certain securities listed on the statements.

9. It was further part of the scheme that in or about July and August 2007, when defendants BLOOM and MOSLEY knew that Sentinel was approaching insolvency, and that defaulting on the over- \$400,000,000 bank line of credit was a real possibility, defendants caused millions of dollars in investments in Sentinel to be obtained and retained by concealing and causing to be concealed from customers Sentinel's true financial condition.

10. It was further part of the scheme that on or about August 13, 2007, defendant BLOOM emailed a false and misleading letter to all Sentinel customers advising them that Sentinel would not honor significant client redemption requests until further notice. Defendant BLOOM misled customers by blaming Sentinel's financial problems on the "liquidity crisis" and "investor fear and panic" when he knew that the actual reasons for Sentinel's financial problems were its purchase of high-risk, illiquid securities, excessive use of leverage, and the resulting indebtedness on the BoNY line of credit that had a balance exceeding \$415,000,000 on that day.

11. It was further part of the scheme that defendants BLOOM and MOSLEY concealed, misrepresented, and hid, and caused to be concealed, misrepresented, and hidden the existence of the scheme, the purposes of the scheme, and the acts done in furtherance of the scheme.

12. As a result of the scheme, more than 70 customers of Sentinel suffered losses of more than \$500,000,000.

13. On or about August 13, 2007, at Northbrook, in the Northern District of Illinois, Eastern Division, and elsewhere,

ERIC A. BLOOM and
CHARLES K. MOSLEY,

defendants herein, for the purpose of executing the scheme, knowingly caused to be transmitted by means of wire communication in interstate commerce certain writings, signs, and signals, namely a false and misleading Sentinel daily account statement emailed from Illinois to Customer A in Wyoming;

In violation of Title 18, United States Code, Section 1343.

COUNTS 2 – 18
(Wire Fraud)

The SPECIAL JANUARY 2012 GRAND JURY further charges:

1. The allegations in paragraphs 1 through 12 of Count One of this indictment are incorporated here.

2. On or about the dates set forth below, at Northbrook, in the Northern District of Illinois, Eastern Division, and elsewhere,

ERIC A. BLOOM and
CHARLES K. MOSLEY,

defendants herein, for the purpose of executing the scheme, knowingly caused to be transmitted by means of wire communication in interstate and foreign commerce certain writings, signs, and signals, as further described below:

Count	Date	Description of Wire Communication
2	08-13-2007	Sentinel daily account statement emailed from Illinois to Customer B in New York.
3	08-13-2007	Sentinel daily account statement emailed from Illinois to Capital Fund Management in France.
4	08-13-2007	Sentinel daily account statement emailed from Illinois to IFX Markets, Inc. in Massachusetts.
5	08-13-2007	Sentinel daily account statement emailed from Illinois to Country Hedging, Inc. in Minnesota.
6	08-10-2007	Transfer of approximately \$415,000 from an account of SMW Trading Co. at Harris Bank to a Sentinel account at the Bank of New York, which transfer was routed through the Federal Reserve system.
7	08-10-2007	Transfer of approximately \$18,500,000 from an account of Jump Trading LLC at JP Morgan Chase Bank to a Sentinel account at the Bank of New York, which transfer was routed through the Federal Reserve system.

Count	Date	Description of Wire Communication
8	08-10-2007	Transfer of approximately \$695,000 from an account of Kottke Associates LLC at Harris Bank to a Sentinel account at the Bank of New York, which transfer was routed through the Federal Reserve system.
9	08-09-2007	Transfer of approximately \$14,000,000 from an account of Country Hedging, Inc. at Wells Fargo Bank to a Sentinel account at the Bank of New York, which transfer was routed through the Federal Reserve system.
10	08-08-2007	Transfer of approximately \$9,500,000 from an account of Fortis Clearing Americas LLC at Harris Bank to a Sentinel account at the Bank of New York, which transfer was routed through the Federal Reserve system.
11	08-07-2007	Transfer of approximately \$6,500,000 from an account of Vision Financial Markets LLC at Harris Bank to a Sentinel account at the Bank of New York, which transfer was routed through the Federal Reserve system.
12	08-06-2007	Transfer of approximately \$3,350,000 from an account of Customer A at First National Bank and Trust Co. to a Sentinel account at the Bank of New York, which transfer was routed through the Federal Reserve system.
13	07-30-2007	Sentinel daily account statement emailed from Illinois to Customer A in Wyoming.
14	07-30-2007	Sentinel daily account statement emailed from Illinois to Customer B in New York.
15	07-30-2007	Sentinel daily account statement emailed from Illinois to Capital Fund Management in France.
16	07-30-2007	Sentinel daily account statement emailed from Illinois to IFX Markets, Inc. in Massachusetts.
17	07-30-2007	Sentinel daily account statement emailed from Illinois to Country Hedging, Inc. in Minnesota.
18	06-21-2007	Transfer of approximately €400,000 from an account of Discus Master Ltd. at HSBC Bank in Europe, to a Sentinel account at the Bank of New York in New York.

Each in violation of Title 18, United States Code, Section 1343.

COUNT 19
(Investment Adviser Fraud)

The SPECIAL JANUARY 2012 GRAND JURY further charges:

1. The allegations in paragraphs 1 through 12 of Count One of this indictment are incorporated here.

2. Beginning no later than January 2003, and continuing to on or about August 17, 2007, at Northbrook, in the Northern District of Illinois, Eastern Division, and elsewhere,

ERIC A. BLOOM and
CHARLES K. MOSLEY,

defendants herein, as persons associated with Sentinel, an investment adviser, willfully, by use of means and instrumentalities of interstate commerce, namely the Internet and the Federal Reserve funds transfer process, including the wire communications referenced in Counts 1 – 18 of this indictment, directly and indirectly (a) employed a device and scheme to defraud a Sentinel customer, and (b) engaged in a transaction, practice, and course of business which operated as a fraud and deceit on a Sentinel customer;

In violation of Title 15, United States Code, Sections 80b-6(1) and (2) and 80b-17, and Title 18, United States Code, Section 2.

COUNT 20
(False Statements to an Employee Benefit Plan)

The SPECIAL JANUARY 2012 GRAND JURY further charges:

1. At times material to this Count:

a. Customer C administered the Ravinia Investors LLC, Employees Profit Sharing Plan, which was an employee benefit plan subject to Title I of the Employee Retirement Income Security Act of 1974, also called “ERISA,” a federal law enacted to protect employer pension and welfare benefit plans and their participants and beneficiaries by regulating reporting, record keeping, disclosure, and other matters affecting the operation of such plan.

b. Ravinia was a Sentinel customer and received from Sentinel daily account statements by email, which were sent to the attention of Customer C and to the bookkeeper of Customer C and Ravinia. The Sentinel account statements purported to show the securities owned by Ravinia, as well as the cost and value of the securities and the interest income generated by the securities.

c. Ravinia was required to publish and file annual financial reports called “Form 5500 Reports” with the United States Secretary of Labor. The federal law also required that Ravinia keep and maintain all documents necessary to verify, explain, clarify, and check for accuracy and completeness the Form 5500 Reports that Ravinia was required to file. Ravinia’s account statements from Sentinel were documents that Ravinia was required to keep and maintain because they were used to prepare Ravinia’s Form 5500 Reports.

2. On or about August 13, 2007, at Northbrook, in the Northern District of Illinois, Eastern Division, and elsewhere,

ERIC A. BLOOM and
CHARLES K. MOSLEY,

defendants herein, in a document required by Title I of ERISA to be kept as part of the records of Ravinia, namely a Sentinel daily account statement for Ravinia, did make and cause to be made a false statement and representation of fact, knowing it to be false, and did knowingly conceal, cover up, and fail to disclose, and cause to be concealed, to be covered up, and not disclosed, a fact the disclosure of which was necessary to verify, explain, clarify, and check for accuracy and completeness Ravinia's 2007 Form 5500 Report, which document the defendants knew falsely stated interest income figures and the market value of the securities shown on the statement;

In violation of Title 18, United States Code, Sections 1027 and 2.

FORFEITURE ALLEGATION

The SPECIAL JANUARY 2012 GRAND JURY further alleges:

1. The allegations in Counts 1 – 18 of this indictment are incorporated here for the purpose of alleging forfeiture pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461(c).

2. As a result of their violations of Title 18, United States Code, Section 1343, as alleged in Counts 1 – 18 of this indictment,

ERIC A. BLOOM and
CHARLES K. MOSLEY,

defendants herein, shall forfeit to the United States, pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461(c), any and all right, title, and interest they may have in any property constituting, and derived from, proceeds they obtained directly or indirectly as the result of such violations.

3. The interests of defendants subject to forfeiture pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461(c), include the sum of more than \$500,000,000.

4. If any of the forfeitable property described above, as a result of any act or omission by defendants:

- (a) cannot be located upon the exercise of due diligence;
- (b) has been transferred or sold to, or deposited with, a third party;
- (c) has been placed beyond the jurisdiction of the court;

- (d) has been substantially diminished in value; or
- (e) has been commingled with other property which cannot be divided without difficulty,

the United States of America shall be entitled to forfeiture of substitute property under the provisions of Title 21, United States Code, Section 853(p), as incorporated by Title 28, United States Code, Section 2461(c);

All pursuant to Title 18, United States Code, Section 981(a)(1)(C) and Title 28, United States Code, Section 2461(c).

A TRUE BILL:

FOREPERSON

UNITED STATES ATTORNEY