CV 11 - 3386

UNITED STATES DISTRICT COURT
EASTERN DISTRICT OF NEW YORK

U.S. SECURITIES AND EXCHANGE COMMISSION, Plaintiff v. JAMES M. PEISTER and NORTHSTAR INTERNATIONAL GROUP INC. Defendants	)	Case No.

FILED
IN CLERK'S OFFICE
US DISTRICT COURT E.D.N.Y.
★ JUL 14 2011 ★
BROOKLYN OFFICE

BIANCO, J.

TOMLINSON, M.J.

COMPLAINT

Plaintiff the United States Securities and Exchange ("Commission") alleges as follows:

SUMMARY

1. The Commission files this action against James M. Peister ("Peister") and an unregistered investment management company controlled by Peister, Northstar International Group Inc. ("Northstar") (together, "Defendants"). The action concerns a hedge fund controlled by Peister and Northstar, North American Globex Fund, L.P. ("Globex Fund" or "Fund").

2. From 2003 through 2009, the Defendants: (1) provided investors and prospective investors with materially false and misleading sales materials claiming an improbable track record of consistent positive monthly returns; (2) issued materially false and misleading account statements to the Globex Fund investors; and (3) issued

materially false and misleading financial statements. The Defendants engaged in this conduct at a time when Globex Fund's actual assets made it impossible to repay all investors either their principal or their share of the purported gain. Throughout this period, the Defendants continued to solicit new investors.

3. By engaging in the conduct described in this Complaint, the Defendants violated Sections 206(1), 206(2) and 206(4) of the Investment Advisers Act of 1940 ("Advisers Act") [15 U.S.C. §§ 80b-6(1), (2), (4)], and Advisers Act Rule 206(4)-8 [17 C.F.R. § 275.206(4)-8]; Section 17(a) of the Securities Act of 1933 ("Securities Act") [15 U.S.C. §§ 77e(a)]; and Section 10(b) of the Securities Exchange Act of 1934 ("Exchange Act") [15 U.S.C §78j(b)], and Exchange Act Rule 10b-5 [17 C.F.R. § 240.10b-5].

4. The Commission seeks equitable relief against the Defendants, including a permanent injunction against future violations of the federal securities laws.

DEFENDANTS AND RELIEF DEFENDANTS

5. Defendant Peister, 59, is a resident of Saint James, New York, and the President of Northstar and North American Globex Group ("Globex Group" or "Group"). At all relevant times, Peister provided investment advice and was responsible for the trading activities for the Globex Fund.

6. Defendant Northstar is a Nevada Corporation, organized on October 6, 2000, its principal place of business was in Oceanside, New York. Peister is the president of Northstar. Northstar received compensation for management and investment advice from fees paid by the Globex Fund.

JURISDICTION AND VENUE

7. This Court has jurisdiction over this action pursuant to Section 214 of the Advisers Act [15 U.S.C. § 80b-14]; Section 22(a) of the Securities Act [15 U.S.C. § 77v(a)]; and Sections 21(d), 21(e) and 27 of the Exchange Act [15 U.S.C. §§ 78u(d), 78u(e) and 78aa].

8. This Court has personal jurisdiction over the Defendants and venue is proper in the Eastern District of New York because the Defendants maintained a place of business, conducted business, and engaged in the conduct constituting the alleged fraud in the Eastern District of New York.

9. The Defendants, directly and indirectly, have made use of the means and instrumentalities of interstate commerce, or of the mails, in connection with the transactions, acts, practices, and courses of business set forth in this Complaint.

FACTS

10. The Globex Fund was formed in 2000. It attracted approximately 72 investors and purportedly grew to manage assets of approximately $15.6 million.

11. In 2000, Peister formed Northstar. Northstar is the general partner for Globex Fund. As the general partner, Northstar was responsible for investment decisions on behalf of the Globex Fund and for the execution of the Globex Fund's portfolio transactions. Peister controls Northstar.

12. In 1999, Peister formed the Globex Group. Peister controls Northstar, the Globex Group, and the Globex Fund. Neither Peister nor any of the entities mentioned here have been registered as an investment company or investment adviser with the Commission.

13. From 2001 to 2008, the Fund claimed that the vast majority of the Fund's assets, between 70% and 98%, were held at the Globex Group.

14. The Defendants offered and sold limited partnership interests in the Globex Fund through multiple offerings.

15. The Defendants have materially overstated the Globex Fund's historical investment returns and the value of its assets in account statements and promotional materials provided to investors and potential investors.

A. The Defendants Falsely Claimed Consistently Positive Returns

16. Since 2003, Defendants made material misrepresentations and omissions regarding the value of assets under their management and the Globex Fund's historical performance. These misrepresentations and omissions induced investors to invest in the Globex Fund.

17. The Defendants prepared, approved and disseminated to investors and prospective investors false and misleading written marketing materials. Among other things, the Defendants touted their use of multiple strategies to reduce financial risk while maximizing returns. Specifically, the Defendants falsely claimed that for the period stretching from January 2001 through December 2007, the Globex Fund achieved positive returns in all but 4 out of 84 months, or 95.24 percent of the time. That unlikely winning streak was presented to investors in a table substantially identical to the one portrayed here:

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Year
2007	0.97	(0.84)	2.16	1.46	4.87	1.53	1.49	1.02	0.34	0.67	(0.24)	.34	14.55
2006	0.61	1.67	1.60	0.50	(0.51)	0.72	0.59	1.28	0.75	0.31	0.71	0.86	9.46
2005	0.69	1.07	0.94	1.47	0.92	1.01	1.86	0.42	0.94	1.27	(0.25)	1.62	12.62
2004	1.70	0.90	1.51	0.15	1.56	1.07	0.12	0.22	0.87	1.19	0.94	1.18	12.01
2003	1.57	2.35	0.94	1.19	1.78	1.00	1.51	0.39	0.66	1.20	0.89	0.85	15.29
2002	1.23	3.46	1.88	2.51	1.71	1.55	3.12	1.24	1.49	0.49	1.32	0.12	22.02
2001	1.80	3.05	3.18	2.75	2.88	2.63	1.85	2.80	2.56	2.42	0.78	1.11	31.60

18. Similarly, the Defendants prepared, approved, and disseminated to investors and prospective investors performance returns of Globex Fund via at least one website, www.hedgefunds.net. The investment returns on this site were similar to the performance figures displayed immediately above.

19. Defendants also materially misrepresented to investors the value of their investments in the Globex Fund by providing them false account statements, with incorrectly calculated performance fees, management fees, and investment values.

20. In Northstar's and Peister's periodic emails and letters to investors, they generally summarized the Fund's performance and frequently and falsely showed positive returns for the Fund.

B. The Assets and Positive Performance Figures the Defendants Claimed Did Not Exist

21. Between 2004 and 2008, the Fund claimed the vast majority of its assets -- ranging from 70% to 98% of its assets -- were held at the Globex Group.

22. The assets the Fund purportedly held at the Globex Group were materially overstated. The following table shows the assets the Fund claimed were held at the Globex Group and the verifiable approximate investments actually held by the Group.

Year	Total assets claimed at Globex Group	Total Assets Held By Group (Approximate)
2004	$9,551,802 (85% of the Fund's total assets)	$465,500
2005	$10,842,625 (70% of the Fund's total assets	$70,600
2006	$13,213,249 (89% of the Fund's total assets)	$76,900
2007	$14,564,461 (94% of the Fund's total assets)	$7,800
2008	$6,129,486 (87% of the Fund's total assets)	$12,200

23. The performance calculations in the marketing materials, investor account statements, and internet sites were based on the Fund's claim of gains attributable to the Globex Fund, but did not take into account large losses incurred on the Fund's assets that were purportedly held at the Globex Group. As such, the Fund's performance figures were materially misstated.

C. Northstar Received Performance and Management Fees Based on Misstated Results

24. According to the Private Placement Memorandum, Northstar received management fees equal to approximately 1% of the Fund's weighted average net assets and a performance fee allocation of 20% of the Fund's net income, subject to a high-water mark provision.

25. Northstar collected management fees based on overstated assets. For years 2004 through 2008, Northstar collected a total of $577,341 in management fees from the Fund. The management fees collected by Northstar were substantially inflated based on overstated assets that the Fund reportedly held at the Group. For example,

based on the balances reported in the Group's brokerage account statements, the Fund had average net assets in 2005 and 2006 of approximately $3.06 million and $947,000, respectively. These true figures were far from the average net assets of $13 million and $12.9 million that are based on the incorrect balances reported in the Fund's financial statements. The Fund's assets were materially overstated, resulting in an over-collection of management fees.

26. Northstar also received a performance allocation of 20% of the Partnership's net income, subject to a high-water mark provision. From 2004 through 2008 a total of $1,473,326 was allocated to Northstar based on the overstated performance of the assets held at the Group. The actual brokerage account statements for the Group, however, show the gains the Fund claimed it earned from the Globex Group were illusory. For example, in 2005 the Group began the year with verifiable assets of approximately $455,000 and ended the year with assets of approximately $64,600. Despite this decline of over $390,000, which is only partially explained by net withdrawals of approximately $168,000 during the year, the Fund reported realized gains during 2005 of almost $1.4 million attributable to the Group. These supposed realized gains did not exist.

D. Peister's and Northstar's Private Placement Memorandum for Globex Fund Contained Materially Incorrect Statements

27. A Private Placement Memorandum for the Fund dated January 1, 2005 ("PPM") was provided to investors and contained materially incorrect statements regarding the Fund's structure and investment philosophy. Peister and Northstar had authority for the statements in the PPM and how they were communicated to investors.

28. The PPM stated that "[a]ll funds invested in the Partnership by Limited Partners [would] be held in the Partnership's name and the Partnership [would] not commingle its funds with any other party."

29. Instead of keeping limited partners' investments in accounts only titled in the name of the Fund as the PPM stated, the Fund invested with the Globex Group, which maintained accounts in its name.

30. The PPM also stated that the Fund's "investment objective [was] to preserve capital in all market environments, while using a strict risk-management process to take advantage of abnormal market conditions on a global basis to enhance absolute returns."

31. Peister's and Northstar's actions – having the vast majority of the Fund's assets transferred to or held by a single affiliated entity, the Globex Group – conflicted with the stated investment objective and made the statement about the Fund's investment objective misleading.

E. Peister's Attempts to Escape Culpability

32. Over time, investors' requests for redemptions became too much for the Fund to bear. By December 2006, these outstanding requests totaled over $3.6 million. The following years brought an increase in the redemption requests, and the Fund could not keep pace. Still, Peister continued to tell investors the Fund was doing well when that was not the case.

33. Defendants reported a roughly $9.2 million monthly loss for December 2008, which Peister attributed to current market forces. In fact, the Fund had not incurred a $9.2 million loss in that month, but this amount did include some of the previously

unreported losses. Even with that loss, the Defendants still overstated the Group's actual balance by millions of dollars.

34. The auditors resigned from the Fund audit by sending a letter to Peister by email and certified mail on February 11, 2009. The auditing firm noted in its resignation letter it was "unable to complete the audit based on the failure to have access to financial records and/or information with respect to assets held for the North American Globex Fund, L.P., by its affiliate North American Globex Group, Inc."

35. The same day, but after receiving the email from the auditor, Peister sent a letter dated February 12, 2009, to Fund investors incorrectly stating, "Soon you will be receiving the Financial Statement and Auditor's Report for the Partnership."

36. The auditor then sent a letter to the Fund's limited partners noting its resignation.

37. To explain away the auditor's action, Peister sent emails to some investors wrongly saying there was no reason for the auditor to resign and that all requested information had been provided to the auditors.

COUNT I

Violations of Sections 206(1), 206(2) and 206(4) of the Advisers Act and Rule 206(4)-8 Thereunder

38. The Commission repeats and realleges Paragraphs 1 through 37 of this Complaint as if fully set forth herein.

39. The Defendants, through the use of the mails or any means or instrumentality of interstate commerce, while acting as investment advisers within the meaning of Section 202(11) of the Advisers Act [15 U.S.C. § 80b-2(11)]: (a) have

employed, are employing, or are about to employ devices, schemes, and artifices to defraud any client or prospective client; (b) have engaged, are engaging, or are about to engage in transactions, practices or courses of business which operate as a fraud or deceit upon any client or prospective client; or (c) have engaged, are engaging, or are about to engage in acts, practices, or courses of business which are fraudulent, deceptive or manipulative.

40. By engaging in the foregoing conduct, the Defendants have directly or indirectly violated and, unless enjoined, are reasonably likely to continue to violate, Sections 206(1), 206(2), and 206(4) of the Advisers Act [15 U.S.C. §§ 80b-6(1), (2), (4)], and Rule 206(4)-8 thereunder [17 C.F.R. § 275.206(4)-8].

COUNT II

Violation of Section 17(a)(1) of the Securities Act

41. The Commission repeats and realleges Paragraphs 1 through 40 of this Complaint as if fully set forth herein.

42. The Defendants knowingly or recklessly, in the offer or sale of securities, directly or indirectly, by use of any means or instruments of transportation or communication in interstate commerce or by use of the mails employed devices, schemes or artifices to defraud.

43. By reason of the foregoing, the Defendants have directly or indirectly violated and, unless enjoined, are reasonably likely to continue to violate, Section 17(a)(1) of the Securities Act, [15 U.S.C. §77q(a)(1)].

COUNT III

Violation of Sections 17(a)(2) and 17(a)(3) of the Securities Act

44. The Commission repeats and realleges Paragraphs 1 through 43 of this Complaint as if fully set forth herein.

45. The Defendants, in the offer or sale of securities, directly or indirectly, by use of any means or instruments of transportation or communication in interstate commerce or by use of the mails (a) obtained money or property by means of an untrue statement of material fact or an omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and (b) engaged in transactions, practices or courses of business which operated or would operate as a fraud or deceit upon purchasers.

46. By reason of the foregoing, the Defendants have directly or indirectly violated and, unless enjoined, are reasonably likely to continue to violate, Sections 17(a)(2) and 17(a)(3) of the Securities Act, [15 U.S.C. §§77q(a)(2) and 77q(a)(3)].

COUNT IV

Violation of Section 10(b) of the Exchange Act and Rule 10b-5

47. The Commission repeats and realleges Paragraphs 1 through 46 of this Complaint as if fully set forth herein.

48. The Defendants, knowingly and recklessly, in connection with the purchase or sale of securities, directly or indirectly, by use of the means and instrumentality of interstate commerce or of the mails or the facility of a national securities exchange: (a) employed devices, schemes or artifices to defraud; (b) made untrue statements of material facts or omitted to state material facts necessary in order to

make the statements made, in the light of the circumstances under which they were made, not misleading; and (c) engaged in acts, practices or courses of business which operated or would operate as a fraud or deceit upon any purchasers of such securities.

49. By engaging in the foregoing conduct, the Defendants have directly or indirectly violated and, unless enjoined, are reasonably likely to continue to violate, Section 10(b) of the Exchange Act [15 U.S.C. §78j(b)], and Rule 10b-5 [17 C.F.R. §240.10b-5].

RELIEF REQUESTED

WHEREFORE, the Commission respectfully requests the Court enter a judgment of permanent injunction:

A. Permanently enjoining the Defendants, their agents, servants, employees, attorneys, and representatives, and all persons in active concert or participation with them, and each of them, from violating Sections 206(1), 206(2) and 206(4) of the Advisers Act and Rule 206(4)-8 thereunder, Section 17(a) of the Securities Act, and Section 10(b) of the Exchange Act and Rule 10b-5 thereunder;

B. Ordering the Defendants to disgorge, jointly and severally, all ill-gotten gains obtained as a result of the conduct alleged in this complaint, together with prejudgment interest on all such amounts;

C. Ordering the Defendants to pay civil penalties pursuant to Section 21A of the Exchange Act [15 U.S.C. § 78u-1] and Section 20(d) of the Securities Act [15 U.S.C. § 77t(d)]; and

D. Granting such other relief as the Court deems just and proper.

Dated: July 14, 2011

Respectfully submitted,

Richard E. Simpson (RS 5859)

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