

TRAVIS J. ILES
SECURITIES COMMISSIONER



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IN THE MATTER OF THE DEALER §
REGISTRATION OF D.H. HILL §
SECURITIES, LLLP §

Order No. IC-24-CAF-01

D.H. Hill Securities, LLLP
1543 Green Oak Place, Suite 100
Kingwood, TX 77339

DISCIPLINARY ORDER

Be it remembered that D.H. Hill Securities, LLLP ("Respondent") appeared before the Securities Commissioner of the State of Texas ("Securities Commissioner") and consented to the entry of this order ("Order"), the Findings of Fact and the Conclusions of Law contained herein.

FINDINGS OF FACT

1. Respondent has waived (a) Respondent's right to notice and hearing in this matter; (b) Respondent's right to appear and present evidence in this matter; (c) Respondent's right to appeal this Order; and (d) all other procedural rights granted to the Respondent by The Securities Act, Tex. Gov't Code §§ 4001.001-4008.105 ("Texas Securities Act"), and the Administrative Procedure Act, Tex. Gov't Code Ann. §§ 2001.001 to 2001.902.
2. On October 8, 1996, Respondent registered as a dealer with the Securities Commissioner. This registration is currently effective.

About GWG L Bonds

3. In June of 2016, Respondent approved for sale a type of privately issued, alternative investment—an unrated bond known as an L Bond.
4. L Bonds are high-yield, unrated, corporate debt instruments that originally financed the purchase of life insurance policies.

5. In 2018, the issuer of the L Bonds, GWG Holdings, Inc. (“GWG”) initiated a “strategic relationship” with an entity named Beneficient, which resulted in a significant change in GWG’s business.
6. Instead of using investor money to purchase life-insurance policies, as it previously had, investor money would now be used to invest in Beneficient and its subsidiaries, which were in the business of extending loans backed by cash flows from illiquid alternative assets. A large portion of investor money also went to repaying previous L bond investors.¹
7. The L Bonds issued by GWG purported to pay investors interest rates between 5.50% and 8.50% depending on the maturity period—two, three, five, or seven years. And once the bond matured—after the two, three, five or seven years—investors would receive their principal (initial investment) back also.
8. The L Bonds were sold by broker-dealers like Respondent, who would receive sales commissions between 1.95% and 7.2%, depending upon the maturity of the L Bonds, along with an additional allowance of up to 1% of the amount sold.
9. According to the L Bonds offering documents (“the Prospectus”), there were significant risks associated with investing in the L Bonds. These risks were similar to the risks of other alternative investments.
10. Specifically, the prospectus stated that investing in L Bonds involved a high degree of risk, could be considered a speculative investment, and was only suitable for suitable for persons with substantial financial resources and with no need for liquidity in this investment.
11. Dan Hill, Respondent’s founder, chief executive officer and chief compliance officer, acknowledged the risk the L Bonds carried when Respondent initially considered adding the L Bonds to its platform. He noted that: “[T]his is higher risk than it appears. Nothing like a typical bond other than maybe a junk bond.”
12. Accordingly, once Respondent allowed its agents to sell the L Bonds, Respondent classified the L Bonds as alternative investments and applied its alternative investments procedures to each sale.

Respondent’s Supervision of L Bond Sales

13. Respondent’s written supervisory procedures (“WSPs”) related to alternative investments required a general suitability review and general concentration limits.

¹ In June 2023, Beneficient and its CEO received a “Wells Notice” from the U.S. Securities and Exchange Commission (the “SEC”) informing it that the SEC had “made a preliminary determination to recommend that the SEC file a civil enforcement action against [Beneficient] alleging violations of certain provisions of the Securities Act and the Securities Exchange Act relating to [its] association with GWG Holdings.”

14. Specifically, the WSPs stated that registered persons are required to ensure that the factors that a registered person is required to consider prior to making any investment recommendation include the customer's investment objectives, risk tolerance, financial condition, age, employment status, investment holdings and investment experience and only make investment recommendation consistent with this information.
15. However, Respondent did not set any specific parameters or thresholds for customers to invest in L Bonds. For example, Respondent did not restrict the sale of L Bonds to customers with certain risk profiles or investment objectives.
16. Rather, Respondent's WSPs and its supervisory practices focused on the supervision of L Bonds as a non-traded alternative investment product.
17. From June 2016 through May 2018, Respondent's WSPs included a guideline stating that individual investments in non-traded alternative products, such as the L bonds, be limited to four to ten percent (4% – 10%) of a client's net worth. In May of 2018, this guideline was reduced to a four to six percent (4% - 6%) range.
18. Prior to 2018, the worksheet Respondent utilized was entitled *Investment Suitability Calculation Worksheet* (the "Calculation Worksheet") which solely focused on the amount of the investment as a percentage of the client's net worth.
19. The Calculation Worksheet consisted of two columns: column one depicting a customer's current asset detail (i.e. net worth, liquid net worth, semi-liquid assets, and non-liquid assets) before the proposed transaction; and column two depicting the same information after the proposed transaction.
20. Beginning in mid-2018, Respondent began utilizing a new worksheet entitled *DH Hill Client Worksheet* (the "Client Worksheet") (collectively with the Calculation Worksheet, "the Worksheets").
21. The Client Worksheet consisted of four sections— (1) client financial information, (2) source of funds, (3) recommended product(s), and (4) basis for the recommendation(s).
22. Respondent's compliance leadership would use the information and general guidelines, including approximate concentration levels, reflected on the Worksheets in evaluating whether to approve each individual transaction.
23. However, from August 2016 through March 2021, Respondent approved forty--six individual transactions—of 198 total transactions, approximately 23%--which exceeded ten percent (10%) and six percent (6%) concentration of a client's net worth.

24. In certain situations where the concentration in L-Bonds exceeded the WSP's stated guideline, Respondent failed to document a rationale or basis as to why its acceptance of an L-Bond purchase in excess of the firm-imposed guideline.
25. Those forty-six (46) transactions which exceeded the firm's guidelines of four to ten (4% - 10%) and four to six percent (4% - 6%) totaled \$2,021,295.31 and compromised over one-fourth of Respondent's total sales (28%). And in connection with these violative sales, Respondent received \$106,126.27 in commissions, of which \$21,225.25 was retained by Respondent.
26. Rule 115.10(a) of the Rules and Regulations of the Texas State Securities Board ("Board Rules") requires each dealer registered with the Securities Commissioner to establish, maintain, and enforce a system to supervise the activities of its agents that is reasonably designed to achieve compliance with the Texas Securities Act, Board Rules, and all applicable securities laws and regulations.

CONCLUSIONS OF LAW

1. Respondent's failure to consistently document a rationale or basis as to why Respondent accepted L-Bond purchases that exceeded the firm's concentration guidelines, is a failure to enforce a supervisory system reasonably designed to achieve compliance with applicable securities laws and regulations and a violation of Section 115.10(a) of the Board Rules.
2. Pursuant to Section 4007.105(a)(13)(B) of the Texas Securities Act, the aforementioned violation of a Board Rule constitutes a basis for the issuance of an order reprimanding Respondent.
3. Pursuant to Section 4007.106(a)(3) of the Texas Securities Act, the aforementioned violation of a Board Rule constitutes a basis for the assessment of an administrative fine against Respondent.

ORDER

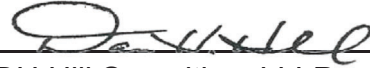
1. It is therefore ORDERED that DH Hill Securities, LLLP is hereby REPRIMANDED.
2. It is further ORDERED that D.H. Hill Securities, LLLP shall pay an ADMINISTRATIVE FINE in the amount of forty-two thousand dollars (\$42,000). Payment shall be made by wire to the Securities Commissioner within ten (10) days of the entry of this order in the amount of forty-two thousand dollars (\$42,000) payable to the State of Texas.

SIGNED AND ENTERED BY THE SECURITIES COMMISSIONER this 18th day of April, 2024.



TRAVIS J ILES
Securities commissioner

Respondent:

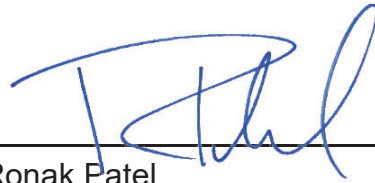


DH Hill Securities, LLLP
By: Dan Hill, Founder, CEO & CCO

Approved as to Form:



Cristi Ramón Ochoa
Attorney
Inspections and Compliance
Division



Ronak Patel
Counsel for Respondent