

**UNITED STATES OF AMERICA**  
**Before the**  
**SECURITIES AND EXCHANGE COMMISSION**

**INVESTMENT ADVISERS ACT OF 1940**  
**Release No. 2602 / May 14, 2007**

**ADMINISTRATIVE PROCEEDING**  
**File No. 3-12635**

**In the Matter of**

**STEPHEN J. TREADWAY,**

**Respondent.**

**ORDER INSTITUTING  
ADMINISTRATIVE AND CEASE-AND-  
DESIST PROCEEDINGS, MAKING  
FINDINGS, AND IMPOSING REMEDIAL  
SANCTIONS AND A CEASE-AND-DESIST  
ORDER PURSUANT TO SECTIONS 203(f)  
AND 203(k) OF THE INVESTMENT  
ADVISERS ACT OF 1940**

**I.**

The Securities and Exchange Commission (“Commission”) deems it appropriate and in the public interest that public administrative and cease-and-desist proceedings be, and hereby are, instituted pursuant to Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Advisers Act”) against Stephen J. Treadway (“Respondent” or “Treadway”).

**II.**

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over him and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions and a Cease-and-Desist Order Pursuant to Sections 203(f) and 203(k) of the Investment Advisers Act of 1940 (“Order”), as set forth below.

**III.**

On the basis of this Order and Treadway’s Offer, the Commission finds<sup>1</sup> that

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<sup>1</sup> The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

## **Respondent**

1. Stephen J. Treadway, age 59, resides in New York, New York. Treadway was the Chief Executive Officer and a managing director of PA Distributors LLC from May 1996 until July 28, 2004. Likewise, from May 1996 until June 30, 2004, Treadway was the Chief Executive Officer and a managing director of PA Fund Management. Also during this time period, Treadway was Chairman of the Board of Trustees for the PIMCO Funds: Multi-Manager Series (“MMS Funds”)<sup>2</sup> until he resigned from that position on May 19, 2004. On July 28, 2004, Treadway resigned as a trustee for the Board of Trustees for the MMS Funds (“MMS Board”). On this same date, Treadway resigned his position as a managing director at Allianz-Dresdner Asset Management of America, LLP. Treadway received a J.D. from Columbia Law School in 1972.

## **Related Entities**

2. PA Distributors LLC (“PAD”), during the relevant time period, was a wholly owned, indirect subsidiary of Allianz-Dresdner Asset Management of America, LLP (“ADAM”). PAD was a Delaware limited liability company located in Stamford, Connecticut and a broker-dealer that had been registered with the Commission under the Exchange Act since 1989. PAD served as the distributor and underwriter for the PIMCO Complex of Funds.

3. PA Fund Management LLC (“PAFM”), during the relevant time period, was a wholly owned, indirect subsidiary of ADAM. PAFM was a Delaware limited liability company located in New York, New York that had been registered as an investment adviser with the Commission since 2000. PAFM was the investment adviser and administrator for the MMS Funds, a registered investment company comprised of separate series of mutual funds. PAFM was responsible for managing the investment activities of the MMS Funds either directly, or through others selected by it.

4. PEA Capital LLC (“PEA”), during the relevant time period, was a wholly owned, indirect subsidiary of ADAM. PEA was a Delaware limited liability company located in New York, New York that had been registered as an investment adviser with the Commission since 2001. Treadway, on December 31, 2001, in his capacity as CEO of PAFM, signed a Portfolio Management Agreement with PEA whereby PAFM engaged PEA, as a sub-adviser, to act as the portfolio manager to ten funds within the MMS Trust, including, PEA Growth, PEA Growth & Income, PEA Opportunity, PEA Target, PEA Innovation, PEA Value and PEA Renaissance Funds. Although PEA was subject to the supervision of PAFM and the MMS Board, PEA had full investment discretion, made all determinations with respect to the investment of these

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<sup>2</sup> From January 2000 through July 31, 2003 (the “relevant time period”), there were two trusts within the PIMCO Complex of Funds: the MMS Funds and the Pacific Investment Manager Series (“PIMS”) (collectively “the Funds”). Each trust was a registered investment company and consisted of separate series, each of which was functionally a separate investment company. Each trust had a separate board of trustees. The PIMS Funds are not a party to this proceeding.

MMS Funds' assets and directed the MMS Funds' portfolio transactions to broker-dealers for execution.

### **Overview**

5. This matter involves the failure of Treadway to disclose the conflict of interest that arose from PAD's arrangements with nine broker-dealers for increased "shelf space" within the broker-dealers' distribution systems. The shelf space arrangements were designed to promote the sale of all Funds distributed by PAD, not just the MMS Funds, and provide heightened visibility at the brokerage firms, including greater access to registered representatives and placement on preferred lists (hereinafter "Shelf Space arrangements"). PAFM and PAD encouraged PEA to direct brokerage commissions on the MMS Funds' portfolio transactions to certain broker-dealers in order for PAD to receive credit for part of the cost of these Shelf Space arrangements.

6. Treadway approved of PAD's participation in the Shelf Space arrangements and negotiated the terms of some of the arrangements. Because Treadway was aware that PAD was receiving credit for PEA's directed brokerage, Treadway enabled PAD to partially avoid using its own assets to pay for these distribution services and benefits. By encouraging PEA's use of fund assets to benefit, and in fact defray, the expenses of PAD, a third party to the MMS Funds, Treadway created a conflict of interest that Treadway, as CEO of PAFM and PAD and the individual who addressed the MMS Board, should have disclosed.

7. Treadway, however, when acting on behalf of PAFM and PAD, failed to disclose to the MMS Board this conflict of interest. In particular, during the annual reviews of the investment advisory and distribution agreements and during the quarterly presentations regarding the marketing of the MMS Funds, Treadway did not advise the MMS Board that the MMS Funds' brokerage commissions were being used to offset part of the cost of PAD's Shelf Space arrangements.

### **PAD's Shelf Space Arrangements with Broker-Dealers**

8. Between 2000 and 2003, PAD was a party to nine Shelf Space arrangements with broker-dealers pursuant to which broker-dealers promised that the Funds sold and distributed by PAD would receive increased visibility within the broker-dealers' distribution systems; in return, PAD agreed to pay broker-dealers. PAD entered into these Shelf Space arrangements to further the sale of Funds that it sold and distributed. PAD negotiated the Shelf Space arrangements for PAFM and PAD's benefit. PAFM and Treadway knew of and approved the arrangements. Although the Shelf Space arrangements were negotiated by PAD, PAFM and PAD were functionally the same entity and shared the same CEO, Treadway; it was mere convenience that PAD was the entity that negotiated the shelf space arrangements.

9. The broker-dealers promised PAD that it would receive various distribution services in connection with these Shelf Space arrangements, including, but not limited to: participation in meetings with registered representatives, such as annual attendance at broker-

dealers' sales and marketing conferences; the opportunity for the Funds distributed by PAD to be mentioned in communications with broker-dealers' customers, such as prominent placement on the broker-dealers' websites; and most often, placement on preferred or focus lists at the broker-dealers.

10. Although Treadway was involved in the negotiations with certain broker-dealers for the Shelf Space arrangements, PAD's employees conducted the majority of the negotiations. Because of his position as CEO of PAFM and PAD, PAD's employees sought and obtained Treadway's approval of each arrangement they negotiated and how PAD would pay for them.

**Treadway Asked PEA to Direct Brokerage Commissions which  
PAD then Used to Satisfy its Shelf Space Obligations**

11. Although most broker-dealers preferred Shelf Space payments to be made in cash (i.e., "hard dollars"), many broker-dealers accepted payments in the form of brokerage commissions on portfolio transactions. While hard dollars were paid from PAD's assets, the brokerage commissions were paid from the MMS Funds' assets.

12. Beginning in late 2000, Treadway and employees of PAFM and PAD discussed the possibility of helping PAD obtain "Shelf Space" for the MMS Funds through PEA directing brokerage commissions on the MMS Funds' portfolio transactions.

13. After Treadway approved the concept of using brokerage commissions to pay for Shelf Space arrangements, he and other members of PAD approached PEA, the sub-adviser to the largest MMS equity funds, to discuss whether PEA would be able to direct brokerage commissions to certain broker-dealers whom PAD selected.

14. Treadway did not tell PEA that he and PAD were asking PEA to direct trades to these broker-dealers to reduce PAD's cash payments for Shelf Space arrangements. He instead simply told PEA that trading with these firms would "benefit" PAD.

15. Initially, in late 2000 and 2001, Treadway and PAD requested that PEA direct trades to three broker-dealers, which PEA did. At that time, there was no formal communication between PAD and PEA about the amount of brokerage commissions directed to each broker-dealer. By 2002, however, the process was more formalized and PEA advised PAD, in response to PAD's request, that \$5 million in brokerage commissions would likely be available to direct to distributing broker-dealers. At the same time, PAD increased, and Treadway approved, the number of Shelf Space arrangements in which brokerage commissions would be used to reduce PAD's cash payments from three to nine broker-dealers.

16. PAD subsequently divided the available commissions among the nine broker-dealers with whom it had Shelf Space arrangements and who had agreed to give PAD credit for the directed brokerage commissions. PAD then assigned a target amount of brokerage commissions to be directed to each broker-dealer and provided such targeted amounts to PEA.

PAD or PEA then reduced these targeted amounts to a written list. The head trader at PEA then provided this list to the other traders.

17. PEA's traders sought to execute portfolio transactions for the MMS Funds with such broker-dealers in the amounts requested by PAD, subject to best execution. At the end of the trading day, after the trades had been executed, the traders designated certain commissions for Shelf Space arrangements.

18. Treadway was aware that PAD occasionally received invoices from some of the nine broker-dealers that reflected the amounts that were due under the Shelf Space arrangements. The amounts due were based on an agreed upon basis point formula and the level of sales and aged assets for the period. The invoices reflected how much credit PAD had received as a result of the trading through PEA and requested that any difference between the amount owed and the credited commissions be addressed with a cash payment. Treadway approved PAD's cash payments to satisfy these invoices.

**Treadway Failed to Disclose to the MMS Board the Alternatives for Satisfying Shelf Space Arrangements and the Conflict of Interest that Existed**

19. As a fiduciary, PAFM had a duty to disclose to the MMS Board any conflict of interest created by the use of fund brokerage commissions to satisfy Shelf Space arrangements or defray the expenses of a third party, yet it failed to do so. As CEO and the individual through which PAFM addressed the MMS Board, Treadway was responsible for ensuring that PAFM met this duty.

20. Treadway did not disclose to the MMS Board that MMS Funds' brokerage commissions were being directed to reduce PAD's payments for the Shelf Space arrangements or that a corresponding conflict of interest existed for PAFM and PEA.

21. Further, although Treadway, on behalf of PAFM disclosed to the MMS Board information regarding PEA's use of brokerage commissions for research and other services, he did not disclose the use of the brokerage commissions to satisfy Shelf Space arrangements. Treadway also did not inform the MMS Board that PAD had the option of paying for these arrangements completely from its own assets and that, by receiving a credit for certain brokerage commissions, PAD avoided using its own assets to pay for the services obtained under the Shelf Space arrangements. Although Treadway had knowledge of the Shelf Space arrangements and had opportunities to disclose this information to the MMS Board, he did not disclose this information to the MMS Board and did not ensure that anyone else disclosed this information.

22. As a result of the conduct described above, Treadway willfully aided and abetted and caused PAFM's violation of Section 206(2) of the Advisers Act, which provides that it is "unlawful for any investment adviser, by the use of the mails or any means or instrumentality of interstate commerce, directly or indirectly . . . to engage in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client."

#### IV.

In view of the foregoing, the Commission deems it appropriate and in the public interest to impose the sanctions agreed to in Respondent Treadway's Offer.

Accordingly, pursuant to Sections 203(f) and 203(k) of the Advisers Act, it is hereby ORDERED that:

- A. Treadway is censured.
- B. Treadway shall cease and desist from committing or causing any violations and any future violations of Section 206(2) of the Advisers Act.
- C. Within 30 days from the date of entry of the Order, Treadway shall pay a civil money penalty in the amount of \$75,000 to the United States Treasury. Such payment shall be: (A) made by United States postal money order, certified check, bank cashier's check or bank money order; (B) made payable to the Securities and Exchange Commission; (C) hand-delivered or mailed to the Office of Financial Management, Securities and Exchange Commission, Operations Center, 6432 General Green Way, Stop 0-3, Alexandria, VA 22312; and (D) submitted under cover letter that identifies Treadway as a Respondent in these proceedings, and the file number of these proceedings, a copy of which cover letter and money order or check shall be sent to Daniel M. Hawke, District Administrator, Philadelphia District Office, Securities and Exchange Commission, Mellon Independence Center, 701 Market Street, Suite 2000, Philadelphia, PA 19106.

By the Commission.

Nancy M. Morris  
Secretary