

**STATE OF ILLINOIS  
SECRETARY OF STATE  
SECURITIES DEPARTMENT**

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IN THE MATTER OF: HESSE, ERIC  
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)  
FILE NO. C1500350

**NOTICE OF HEARING**

TO THE RESPONDENT: Eric Hesse (CRD# 5500897)  
4536 N. Sheridan Rd., Unit Loft  
Chicago, Illinois 60640

CITIGROUP GLOBAL MARKETS, INC. (CRD# 7059)  
ATTN: Bogdana Sokolov, Sr. Compliance Officer  
Registration Department  
540 Crosspoint Parkway  
Getzville, New York 14068

U.S. BANCORP INVESTMENTS, INC. (CRD# 17868)  
ATTN: Jeffrey Walter, Chief Compliance Officer  
60 Livingston Avenue  
EP-MN-WN3C  
Saint Paul, Minnesota 55107

You are hereby notified that pursuant to Section 11.F of the Illinois Securities Law of 1953 [815 ILCS 5/1] (the " Act") and 14 Ill. Adm. Code 130, Subpart K, a public hearing will be held at 69 West Washington Street, Suite 1220, Chicago, Illinois 60602 on the 28th day of November, 2018 at the hour of 10:00 a.m. or as soon as possible thereafter, before, James L. Kopecky, or such other duly designated Hearing Officer of the Secretary of State.

Said hearing will be held to determine whether an Order shall be entered against Eric Hesse, revoking and/or permanently prohibiting him from offering and selling securities and/or providing investment advice in the State of Illinois and/or granting such other relief as may be authorized under the Act including but not limited to the imposition of a monetary fine in the maximum amount pursuant to Section 11. E(4) of the Act, payable within ten (10) business days of the entry of the Order.

The grounds for such proposed action are as follows:

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### BACKGROUND FACTS

1. Respondent Eric Hesse ("Hesse") was registered in the State of Illinois as an investment adviser representative and salesperson with U.S. Bancorp Investments, Inc. ("USBI") from March 12, 2012 through September 28, 2015. Respondent Hesse is registered as an investment adviser representative and salesperson with Citigroup Global Markets Inc. from October 29, 2015 to the present.
2. Complainants are residents of the State of Illinois.
3. A unit investment trust (UIT) is a registered investment company that buys and holds a generally fixed portfolio of stocks, bonds or other securities and has a stated date for termination that varies according to the investments held in its portfolio. "Units" in the trust are sold to investors (unit holders) who receive a share of principal and dividends (or interest). When these trusts are dissolved, proceeds from the securities are either paid to unit holders or reinvested in another trust.

### CT

4. At the time Complainant CT met Respondent Hesse she was approximately 59 years old and retired. Her investment objective was income and she considered herself to be a moderate conservative investor. Complainant CT's annual income was reported as between \$20,000 and \$35,000. Her estimated net worth was listed as approximately \$300,000 to \$600,000, excluding her primary residence. Her liquid net worth was allegedly between \$200,000 and \$500,000.
5. According to Complainant CT, in or around May 2014, she was referred to Respondent Hesse by her local personal banker at U.S. Bank to discuss investment options for money she had in savings.
6. Complainant CT states that on or about May 9, 2014, she met with Respondent Hesse at U.S. Bank where he sketched a graph/chart explaining possible investment options for her in "principal protected, tax exempt municipal bonds" and would earn \$230.00 per month if she invested \$45,000.00 or \$128.00 per month if she invested \$25,000.00 for fifteen months.
7. Complainant CT states that she was attracted to the tax-exempt feature of the UIT.
8. According to complainant, she was told by Respondent Hesse that she would be purchasing shares in two different UITs totaling \$40,000.00.

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9. Despite this fact, on or about May 9, 2014, Respondent Hesse recommended and effected in Complainant CT's USBI brokerage account the purchase of 3884 shares in one Invesco UIT for \$39,992.72.
10. Over the course of the investment, approximately \$3,000.00 was distributed from the UIT account to Complainant CT.
11. According to Complainant, periodically she spoke with Respondent Hesse who assured her that the fluctuations in the balance of the account would bounce back no matter how far the account balance dropped and that the initial principal investment would be protected.
12. According to Complainant, Hesse assured her that she would minimally receive back her investment minus withdrawals.
13. On or about July 2, 2015, Complainant CT's UIT shares matured incurring a loss of approximately \$2,974.43.

### SS

14. At the time Complainant SS met Respondent Hesse, she was approximately 66 years old and unemployed. SS's investment objective was preservation of capital and she considered herself to be conservative investor. Complainant SS's annual income was reported as less than \$20,000. Her estimated net worth was listed as approximately \$150,000 to \$300,000. Her liquid net worth was allegedly between \$200,000 and \$500,000.
15. In or around May 2014, Complainant SS met with Respondent Hesse to discuss investment options.
16. At this meeting, according to Complainant SS, Respondent Hesse recommended she purchase shares in Invesco UIT which would protect her principal investment and provide monthly interest payments.
17. According to Complainant SS, Respondent Hesse told her that she would receive monthly interest payments from the investment and full return of principal when the UIT matures.
18. Complainant SS's USBI investment switch acknowledgement dated May 21, 2014 specifically indicates that complainant wanted to increase income without depleting principal value.
19. On or about June 3, 2014, Respondent Hesse recommended and effected in Complainant SS's USBI account the purchase of 17,423 shares in Invesco UIT for \$176,165.47.

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20. USBI's suitability results indicated that Complainant SS's purchase of the UIT was flagged because the complainant's purchase was potentially inconsistent with the client's objective; the "order exceeded the threshold for large orders of this type of product in either amount and/or quantity and/or percentage of the client's holdings; the total dollar amount to the order is significant in relation to the client's liquid net worth; and the total dollar amount to the order is significant in relation to the client's net worth. These flags were overridden.
21. Additionally, after receiving a number of "interest" payments from the UIT, Complainant SS contacted Respondent Hesse concerned with the continual decreasing balance of the UIT. According to Complainant SS, Respondent Hesse assured her that her principal investment was safe.
22. Over the course of the investment, approximately \$27,625.00 was distributed from the UIT account to Complainant SS.
23. On or about April 20, 2016, Complainant SS's UIT shares matured with her incurring a loss of approximately \$11,653.37.
24. Representative Hesse earned a commission of \$4,667.62 from the sale of the UIT to Complainant SS.

### COUNT I

**815 ILCS 5/12.F violation: Respondents engaged  
in practices in connection with the sale of securities  
that worked a fraud or deceit  
on the purchaser thereof**

- 1-24. The Illinois Secretary of State re-alleges and incorporates paragraphs 1 through 24 above, as paragraphs 1 through 24 of this Count I.
25. Section 12.F of the Illinois Securities Law of 1953, 815 ILCS 5/1 *et seq.*, states that it shall be a violation of the provisions of the Act for any person to "engage in any transaction, practice, or course of business in connection with the sale or purchase of securities which works or tends to work a fraud or deceit upon the purchaser or seller thereof."
26. The Respondents did not have a reasonable basis for believing that the recommendations were suitable for these customers based upon information provided to them about the customers' investment objectives, risk tolerance, investment experience and financial situation and needs.
27. The respondents recommendations resulted in an over concentration of the complainants' assets in income and capital appreciation-oriented equity

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investments and exposed these retired individuals to a more significant exposure to a high risk of loss of principal than was appropriate for these customers.

28. By virtue of the foregoing, Respondents violated Sections 12.F of the Act.

### COUNT II

**815 ILCS 5/12.G violations: Respondents obtained  
Complainants' money by making  
untrue statement of material fact  
and omission to state a material fact**

- 1-24. The Illinois Secretary of State re-alleges and incorporates paragraphs 1 through 24 above, as paragraphs 1 through 24 of this Count II.
25. Section 12.G of the Illinois Securities Law of 1953, 815 ILCS 5/1 *et seq.*, states that it shall be a violation of the provisions of the Act for any person to "obtain money or property through the sale of securities by means of any untrue statement of a material fact or any 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."
26. The Respondents misled CT and SS into believing that their principal used to purchase the UITs was guaranteed or protected investments. In fact, Respondent Hesse told complainants CT and SS that no matter how far the balance of the UIT dropped, it would bounce back if you kept the funds in the UIT for the duration of the trust.
27. By virtue of the foregoing, Respondents violated Sections 12.G of the Act.

### COUNT III

**815 ILCS 5/12.J violation: Respondent acting  
as an investment adviser employed a  
scheme to defraud in connection  
with the sale of securities**

- 1-24. The Illinois Secretary of State re-alleges and incorporates paragraphs 1 through 24 above, as paragraphs 1 through 24 of this Count III.
25. That Section 12.J of the Act provides, *inter alia*, that it shall be a violation of the provisions of the Act for any person to "when acting as an investment adviser, investment adviser representative, or federal covered investment adviser, by any

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means or instrumentality, directly or indirectly: (1) To employ any device, scheme or artifice to defraud any client or prospective client; (2) To engage in any transaction, practice, or course of business which operates as a fraud or deceit upon any client or prospective client; or (3) To engage in any act, practice or course of business which is fraudulent, deceptive, or manipulative.

26. Respondents intentionally misled complainants CT and SS into believing their principal investments were safe or guaranteed with the purchase of a UIT and ignoring or hiding the fact that a large percentage of the close-end funds in the portfolios were classified as "non-diversified" in all of the UITs purchased by the complainants and as a result these funds may be more susceptible to volatility.
27. By virtue of the foregoing, Respondents violated Sections 12.J of the Act.


You are further notified that you are required pursuant to Section 130.1104 of the Rules and Regulations (14 Ill. Adm. Code 130) (the "Rules"), to file an answer to the allegations outlined above within thirty (30) days of the receipt of this notice. A failure to file an answer within the prescribed time shall be construed as an admission of the allegations contained in the Notice of Hearing.

Furthermore, you may be represented by legal counsel; may present evidence; may cross-examine witnesses and otherwise participate. A failure to so appear shall constitute default, unless any Respondent has upon due notice moved for and obtained a continuance.

A copy of the Rules, promulgated under the Act and pertaining to hearings held the Office of the Secretary of State, Securities Department are available at the Department's website: <http://www.cyberdriveillinois.com/departments/securities/abtil.html>.

Delivery of Notice to the designated representative of any Respondent constitutes service upon such Respondent.

Dated: This 11<sup>th</sup> day of October 2018.



JESSE WHITE  
Secretary of State  
State of Illinois

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Attorney for the Secretary of State:  
Felicia H. Simmons-Stovall  
Office of the Secretary of State  
Illinois Securities Department  
69 West Washington Street, Suite 1220  
Chicago, Illinois 60602  
Telephone: (312) 793-3384

Hearing Officer:  
James L. Kopecky  
Kopecky Schumacher Rosenberg PC  
120 N. LaSalle St., Ste 2000  
Chicago, Illinois 60602  
Telephone: 312-380-6552