

SEC's Adit Case Maps 5 Fault Lines In Pre-IPO Funds

By **Ben Dubin** (September 8, 2026)

When the U.S. Securities and Exchange Commission announces an enforcement action involving sought-after formerly private companies such as SpaceX and Klarna, the marquee names naturally attract attention. But the more important subject of the SEC's Aug. 10 complaint against Adit Ventures Management LLC, CEO Eric Munson and three affiliated general partners is the machinery between the investor and the shares.



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The SEC alleged in SEC v. Munson, filed in the U.S. District Court for the Southern District of New York, that, from at least April 2019 through December 2024, the defendants used misrepresentations to raise capital, diverted or borrowed fund assets, executed undisclosed principal transactions, collected unauthorized acquisition fees, pledged client securities for general partner debt, and improperly relied for years on the venture capital adviser exemption. Adit Ventures Management allegedly oversaw more than 60 funds with more than 1,000 investors, and between \$123 million and \$563 million in regulatory assets under management during the relevant period.[1]

The complaint asserts claims under the anti-fraud provisions of the Securities Act, the Securities Exchange Act and the Investment Advisers Act, including the Advisers Act's principal-transaction and pooled-vehicle fraud rules, along with a registration claim against the management company and control-person and aiding-and-abetting claims against Munson and the manager.[2]

According to the SEC, the defendants consented, without admitting the allegations, to proposed judgments that remain subject to court approval. The proposed relief includes permanent injunctions, disgorgement and prejudgment interest, and civil penalties in amounts to be determined; Munson also agreed to a forthcoming associational bar, with a right to seek reentry after three years.[3]

The case has not been adjudicated, yet it offers fund counsel, limited partners and private market intermediaries a useful map of where a pre-initial public offering vehicle can fail.

The case is especially instructive because it fits the commission's current enforcement vocabulary. In April, the SEC described its program as refocused on fraud, market manipulation and abuses of trust, and on individual accountability, rather than novel legal theories.[4]

The Adit case fits squarely within that stated focus. Its lesson for pre-IPO special purpose vehicles are inherently suspect is that familiar fiduciary and anti-fraud principles become operational only when someone verifies who owns the asset, what it cost, where the cash went and who benefited at each step.

1. An allocation is not an asset.

The complaint's clearest allegation concerns a more than \$15 million investment in a vehicle that the SEC alleges was represented as already owning 32,000 Klarna shares when its anticipated share source had withdrawn from the sale.

The complaint further alleges that a redacted share transfer agreement was presented as proof of acquisition, that requests for stock certificates went unanswered or drew misleading explanations, and that the full position was not acquired until after the investor threatened legal action, although it was acquired before Klarna's IPO.[5]

For diligence purposes, this is the difference between access and ownership. A manager may have a relationship with a seller, an anticipated allocation, an executed purchase agreement subject to conditions, a beneficial interest in an upstream vehicle or settled ownership of the underlying shares. Those are not interchangeable states.

Preclosing verification should identify the instrument, record and beneficial owners, share quantity, acquisition date, settlement conditions, transfer restrictions, required issuer consents, and any intervening entities. Sponsor-provided evidence should be corroborated, where feasible, through an issuer, transfer agent, custodian, upstream administrator or counterparty.

A subscription agreement can establish a contractual representation; it cannot independently prove that the asset exists in the vehicle on the funding date.

2. Investor price is not an acquisition basis.

The SEC next alleges that affiliated general partners repeatedly acquired pre-IPO interests and resold them to client funds at higher prices. The complaint identifies more than 150 alleged transactions from April 2019 through November 2023 in which a general partner sold pre-IPO interests to client funds without the written capacity disclosure and client consent required for principal transactions under Section 206(3) of the Advisers Act.[6]

One example involved an interest equivalent to approximately 13,100 SpaceX shares. According to the complaint, a fund acquired the interest at about \$420 per share, transferred it at cost to its general partner and the general partner then sold the equivalent interest to another client fund at about \$498 per share, retaining approximately \$1.02 million. Subscription documents identified \$498, not \$420, as the "Original Purchase Price," which concealed the markup, according to the complaint.[7]

A spread between sponsor cost and investor price is not necessarily impermissible. The questions are whether it was authorized and accurately disclosed, whether fiduciary obligations were satisfied, and, when Section 206(3) applies, whether the adviser made written disclosure and obtained valid consent before completion.

That last requirement is transaction-specific. SEC examination staff has stated that blanket disclosure and consent do not satisfy Section 206(3), and has identified instances in which a conflicted committee did not provide effective consent for a pooled vehicle.[8] Fund documents should specify who can approve a principal transaction, how independence will be established and which facts must be disclosed, including sponsor cost, investor price, the dollar spread, affiliates and additional fees.

The practical control is a price bridge for each acquisition. It should reconcile the third-party seller's proceeds to the sponsor's or fund's acquisition basis, the price charged to the investing vehicle, transaction expenses, acquisition fees, and any other affiliate compensation. Labels such as "original purchase price," "investor price" and "all-in cost" should be defined rather than assumed.

3. A promissory note does not cure a conflicted use of cash.

The complaint also illustrates why document diligence and cash diligence must be performed together.

The SEC alleges that a retirement plan investor contributed \$5 million to a diversified fund after being told that Munson would invest approximately the same amount and that the capital would generally be put to work within 30 days. According to the complaint, the investor's money instead arrived in an affiliated general partner's account and was immediately used to purchase Flexport shares for that general partner. The shares were allegedly sold about a month later for approximately \$6.8 million, with the general partner retaining the roughly \$1.8 million gross profit.[9]

The SEC further alleges that, after \$5 million was transferred into the intended fund, the general partner borrowed the full amount back through two notes signed by Munson for both borrower and lender. More broadly, the complaint describes more than 50 fund-to-general-partner loans involving tens of millions of dollars, as well as fund-to-fund loans. The SEC alleges that many were unauthorized, unsecured, below market, undisclosed or unpaid for extended periods, in conflict with fund agreement provisions requiring each general partner to use the fund's "credit and assets solely for the benefit" of the fund.[10]

A note does not establish that the agreement authorized the loan, the transaction served the lending fund, the terms were fair, the conflict was approved, interest was paid or necessary liquidity remained available.

Sponsors need entity-by-entity treasury controls that block transfers lacking documented authority, conflict approval and correct accounting. Limited partner reporting should reconcile each vehicle's bank, custody and investment records, and identify related-party receivables, interfund transfers, outstanding interest and aging. A manager-level schedule can conceal what an entity-level reconciliation would reveal.

4. "Venture capital" is a regulatory test, not a marketing description.

From April 2016 until March 2024, Adit operated as an exempt reporting adviser and claimed the Advisers Act's venture capital fund adviser exemption. The SEC alleges that the firm did not qualify because it advised funds that did not meet the regulatory definition, and that Munson knew by at least May 2022 that the firm did not qualify.[11]

The exemption is narrower than the industry label. An adviser must act solely for venture capital funds. Among other conditions, each qualifying fund generally may hold no more than 20% of aggregate capital contributions and uncalled committed capital in nonqualifying investments, excluding specified short-term holdings. A qualifying investment generally must be an equity security acquired directly by the fund from a qualifying portfolio company, subject to limited exchange-related provisions.[12]

That direct-acquisition requirement is particularly important for secondary strategies. Shares acquired from employees, early investors, other funds or secondary platforms generally enter the nonqualifying basket unless a specific rule provision applies. A vehicle can provide genuine exposure to a private technology company and still fail the Advisers Act's definition of a venture capital fund.

Advisers using the exemption should maintain a classification ledger for every fund and asset, recalculate the 20% basket when required, apply one permitted valuation method

consistently, and test every advisory client. Registration analysis should be revisited when strategy drifts, a new special purpose vehicle structure appears or secondary activity expands.

Nor should exemption be confused with immunity. The SEC's fiduciary interpretation states that Section 206 applies to registered advisers, state-registered advisers and advisers exempt from registration. Rule 206(4)-8 likewise reaches advisers to pooled investment vehicles regardless of registration status.[13] Registration affects examination and compliance obligations; it does not switch core anti-fraud duties on for the first time.

5. Ownership can exist while the asset is unavailable.

Finally, the SEC alleges that, after staff began asking about fund loans, two affiliated general partners obtained a \$10 million line of credit at a 17% annual rate and pledged assets belonging to multiple client funds. Under the alleged collateral-sale-and-buyback structure, millions of pre-IPO shares were transferred to the lender's custodial account, remained under its control and could have been liquidated upon a general partner default. The affected funds and investors were allegedly not told, and the encumbrances remained for about a year before being removed following further SEC inquiries.[14]

This is a distinct diligence problem. Even proven title does not establish that an asset is unencumbered or available for distribution. A portfolio schedule should therefore be matched to custodian statements and collateral schedules, with direct confirmation of liens, control arrangements, securities lending, guarantees and other restrictions. A representation that the fund owns shares is incomplete if a creditor controls them or may liquidate them for another entity's debt.

Conclusion: The Control Framework

Taken together, the allegations point to six questions that should be answerable for every pre-IPO fund or special purpose vehicle before capital is wired and throughout the holding period:

- What exactly does the vehicle own, and what independent record verifies it?
- What did the asset cost at every step in the chain, and who retained each spread or fee?
- Which agreement, side letter or approval authorizes each payment, transfer, loan or pledge?
- Which bank and custody accounts received and held the investor's capital and securities?
- What related-party transactions or encumbrances remain outstanding?
- Why is the adviser registered, exempt or otherwise permitted to operate under its actual strategy?

No single document answers all six. The operating agreement establishes authority; the subscription agreement and side letter establish investor-specific promises; the purchase and assignment documents establish the acquisition chain; bank and custody records show

performance; and regulatory filings reveal how the adviser has classified itself. Effective diligence reconciles them.

The Adit complaint is not yet a merits decision. But it shows, in unusually concrete detail, how an attractive cap-table name can distract from the legal and operational questions that determine whether the investor receives the exposure it was promised.

In pre-IPO investing, the strongest diligence does not stop with access. It follows the shares, the money and the conflicts all the way through the structure.

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[1] SEC v. Eric L. Munson et al., No. 1:26-cv-06800, Complaint ¶¶ 1, 18, 22–32 (S.D.N.Y. filed Aug. 10, 2026), <https://www.sec.gov/files/litigation/complaints/2026/comp26605.pdf>.

[2] Complaint ¶¶ 150–82.

[3] U.S. Securities and Exchange Commission, "SEC Charges Private Fund Adviser Adit Ventures Management, Its CEO and Affiliated General Partners in Alleged Fraud," Press Release No. 2026-73 (Aug. 10, 2026), <https://www.sec.gov/newsroom/press-releases/2026-73-sec-charges-private-fund-adviser-adit-ventures-management-its-ceo-affiliated-general-partners>.

[4] U.S. Securities and Exchange Commission, "SEC Announces Enforcement Results for Fiscal Year 2025," Press Release No. 2026-34 (Apr. 7, 2026), <https://www.sec.gov/newsroom/press-releases/2026-34>.

[5] Complaint ¶¶ 34–50.

[6] Complaint ¶¶ 94–97, 161–64; Investment Advisers Act of 1940 § 206(3), 15 U.S.C. § 80b-6(3).

[7] Complaint ¶¶ 98–113.

[8] SEC Office of Compliance Inspections and Examinations, "Investment Adviser Principal and Agency Cross Trading Compliance Issues," at 1–3 (Sept. 4, 2019), <https://www.sec.gov/files/OCIE%20Risk%20Alert%20-%20Principal%20and%20Agency%20Cross%20Trading.pdf>. The alert reflects staff views and has no independent legal force.

[9] Complaint ¶¶ 51–70.

[10] Complaint ¶¶ 27, 71–93. See also SEC Office of Compliance Inspections and Examinations, "Observations from Examinations of Investment Advisers Managing Private Funds," at 2–5 (June 23, 2020), https://www.sec.gov/files/Private%20Fund%20Risk%20Alert_0.pdf (discussing

allocation, cross-transaction, fee and expense deficiencies). The alert reflects staff views and has no independent legal force.

[11] Complaint ¶¶ 140–49, 169–72.

[12] Exemptions for Advisers to Venture Capital Funds, Private Fund Advisers With Less Than \$150 Million in Assets Under Management, and Foreign Private Advisers, Advisers Act Release No. IA-3222, at 18–31 (June 22, 2011), <https://www.sec.gov/files/rules/final/2011/ia-3222.pdf>; 17 C.F.R. § 275.203(l)-1.

[13] Commission Interpretation Regarding Standard of Conduct for Investment Advisers, Advisers Act Release No. IA-5248, at 2 n.3, 5–9 (June 5, 2019), <https://www.sec.gov/files/rules/interp/2019/ia-5248.pdf>; Prohibition of Fraud by Advisers to Certain Pooled Investment Vehicles, Advisers Act Release No. IA-2628, at 5–6 (Aug. 3, 2007), <https://www.sec.gov/files/rules/final/2007/ia-2628fr.pdf>.

[14] Complaint ¶¶ 128–39.