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# Westridge Got $21.3 Million From School Weeks Ago (Update1)

By Katherine Burton and Gillian Wee - Feb 27, 2009

Feb. 27 (Bloomberg) -- The University of Pittsburgh invested $21.3 million with hedge-fund managers Paul Greenwood and Stephen Walsh less than three weeks before they were arrested for allegedly misappropriating $554 million in client funds.

The university's endowment, valued at $2.33 billion as of June 30, had $65 million with the pair's Westridge Capital Management Inc., according to a complaint filed against the firm by the school and Carnegie Mellon University. Pitt began investing with the Santa Barbara, California-based firm in November 2002, while Carnegie Mellon, which had $49 million with Greenwood and Walsh, first invested in April.

Both Pittsburgh schools were introduced to Westridge by Wilshire Associates Inc., a Santa Monica, California-based investment consultant. Wilshire may face lawsuits from investors that it steered to Westridge, including the retirement funds of the state of Iowa and Kern County, California, lawyers said.

"The viable claims are against the third-party adviser for not doing proper due diligence, especially in this post-Madoff environment," said Ross Intelisano, a lawyer at New York-based Rich & Intelisano LLP, referring to the alleged $50 billion Ponzi scheme run by Bernard Madoff.

Wilshire should have been suspicious of Westridge because it served as its own administrator and broker-dealer, Intelisano said. That was also the case with Madoff and Sam Israel's Bayou Group LLC, said Intelisano, who represents clients invested in Madoff and Bayou against third parties. Israel pleaded guilty to fraud in 2005 after admitting he hid hundreds of millions of dollars in losses from a Ponzi scheme at Stamford, Connecticut- based Bayou.

Wilshire Defense

Wilshire defended its due diligence.

“Our manager research process entails evaluating the investment strategy and the money managers relative to their peers,” Kim Shepherd, a spokeswoman for Wilshire, said in an e- mail response to questions. “We review the organizational structure, trading processes and systems, resources dedicated to the investment strategy and the experience and expertise of the portfolio managers and analysts.”

The firm also reviews audited financial statements and regulatory filings. It said all clients received audited financial results from Deloitte & Touche, and custodial statements from trustee banks showing Westridge’s trading.

Carnegie Mellon hires consultants to provide expertise and perform substantial due diligence, said Ken Walters a spokesman for the school. “In this case, this investment was “highly recommended” to the university by Wilshire, he said. He declined to comment further on the consultant.

Trading Strategy

Madelyn Ross, a spokeswoman for the University of Pittsburgh, didn’t immediately respond to requests for comment.

Walsh and Greenwood told investors they were using a trading strategy called index arbitrage that would yield from 1 to 4 percentage points more than the London interbank offered rate, a benchmark for the money market. In index arbitrage, a manager buys an index such as the Standard & Poor’s 500 Index and simultaneously sells short related futures. In a short sale, investors sell borrowed stock in the hope of repurchasing it later at a lower price and pocketing the difference.

Walsh and Greenwood were suspended by the National Futures Association, a regulatory body that oversees Westridge, on Feb. 12 for failing to cooperate with an audit. At that time, both schools became concerned about their investments. They contacted the U.S. Commodities Futures Trading Commission and the U.S. Securities and Exchange Commission.

Paul Lawrence, the University of Pittsburgh’s assistant treasurer, and Amy Marsh, its chief investment officer, asked Westridge President James Carder on Feb. 13 about getting their last investment back, which had been sent in the week before. Carder never called back as promised, according to the complaint, filed in U.S. District Court for the Western District of Pennsylvania.

Asset Numbers

Lawrence and March also asked Carder why the NFA listed Westridge’s assets at $1.3 billion instead of the $2.8 billion that Greenwood had cited in a Jan. 21 meeting with the school. Carder told them the correct number was $1.8 billion.

Edward Grefenstette, Carnegie Mellon's chief investment officer, and Charles Kennedy, its senior investment manager, made repeated calls to fund officials, including Carder, who told the two men on Feb. 15 that he was "devastated" by the apparent actions of Greenwood and Walsh and their refusal to cooperate with regulators, according to the complaint.

Carder said he had not spoken to the two money managers since the NFA had begun an audit on Feb. 5. Carder is also named as a defendant in the schools' suit.

On Feb. 16, Kennedy visited the offices of the Westridge fund in Greenwich and Jersey City, New Jersey, to try to locate the school's money. In Greenwich, he was met by attorney Maxine Sleeper, who told Kennedy that her firm, Cooley Godward Kronish LLP represented the firm, though not Greenwood or Walsh, according to the complaint.

When Mr. Kennedy asked Ms. Sleeper who was in charge, she said the answer was "tricky."

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