

## **IPERS' Investment in Westridge Capital Management**

### **What was the Westridge investment strategy?**

Westridge Capital Management (WCM) was hired in March 2007 to manage an enhanced index strategy within IPERS' U.S. stock portfolio. The objective of the strategy was to produce a modest investment return greater than the return on the S&P500 Index through the use of stock index arbitrage. WCM purchased S&P500 Index futures to establish a "long" position in the S&P500 stocks. After reserving some moneys for maintaining margin accounts for the futures contracts, WCM provided the remaining funds to WG Trading Company, L.P., a registered broker/dealer and commodity pool operator. WG Trading was to invest solely in stock index arbitrage trades in what were supposed to be hedged trades.

### **What is stock index arbitrage?**

Stock index arbitrage involves purchasing all five hundred stocks in the S&P500 Index while nearly simultaneously selling a similar amount of S&P500 Index futures contracts when mispricing between the two markets make it profitable to do so.

### **What due diligence was performed on this investment?**

- Extensive RFP process: Written proposals, follow-up questions, interviews
- Wilshire Associates had made on-site visits to both WCM and WG Trading in the past
- IPERS checked public fund client reference
- Wilshire Associates had other clients that had been in this strategy for many years, and Wilshire highly recommended the firm
- IPERS required that the firm receive a performance compliance certification prior to our investing
- The financial statements of WG Trading Company, which we believe were authentically issued by Deloitte & Touche, indicated clean audit opinions
- We did not find any past disciplinary actions against Greenwood, Walsh or Carder by the SEC
- WG Trading was regulated by the following:
  - ✓ U.S. Securities and Exchange Commission
  - ✓ U.S. Commodity Futures Trading Commission
  - ✓ New York Stock Exchange
  - ✓ National Association Of Securities Dealers
  - ✓ National Futures Association

## Timeline of Events

### **May 17, 2006**

IPERS staff met with Jack Reynolds from WCM at the IPERS office in Des Moines. During this timeframe, other portable alpha managers introduced their products to IPERS staff.

### **September 22, 2006**

IPERS issued RFP for “Enhanced Cash Portable Alpha” investment management services. The RFP stated that IPERS sought proposals from managers that could provide a bundled portable alpha product in which S&P500 Index futures would be used to “port” large cap U.S. equity exposure onto an actively managed portfolio of fixed income securities.

### **October 2006**

IPERS receives seven proposals. Wilshire Associates scores them and provides its usual evaluation report. Question arises about whether WCM’s proposal meets the requirements of the RFP. After much discussion, it is decided to amend the RFP to clarify that fixed income securities or any short-term U.S. cash equivalent investment strategy were permissible enhancement strategies. Deadline for submission of proposals was extended to November 14, 2006, and IPERS publicized the fact that the RFP had been amended and the deadline for submission of proposals had been extended. No additional proposals were received.

### **November–December 2006**

Wilshire Associates analysis of the proposals is used to determine top five proposals for evaluation committee and provided the evaluation committee with its evaluation of the proposals. WCM was one of the finalists. The evaluation committee then reviewed and scored the proposals.

### **January 17–18, 2007**

The top four scoring firms were interviewed at IPERS’ offices. The evaluation committee met and decided to recommend to the Investment Board that Western Asset, Smith Breeden, and WCM be hired subject to successful fee and contract negotiations.

### **February 16, 2007**

The Investment Board approved the evaluation committee’s recommendation.

### **March 15, 2007**

IPERS executes an investment agreement with WCM.

### **April 4, 2007**

The WCM mandate receives \$400 million in funding from IPERS.

### **March 28, 2008**

Paul Greenwood of WG Trading and James Carder of WCM make a routine manager presentation to the Investment Board describing the strategy and performance of the product. Investment Board approves recommendation of staff and Wilshire to increase the allocation to WCM through normal cash rebalancing activities so that the WCM account represents an equal weighting within IPERS’ enhanced cash portable alpha strategies.

- ✓ IPERS provides additional funding of \$50 million to WCM on October 20, 2008.
- ✓ IPERS provides additional funding of \$50 million to WCM on December 1, 2008,

**October 24, 2008**

Paul Greenwood and James Carder meet with IPERS staff to review account.

**February 13, 2009**

IPERS receives notice that the National Futures Association has suspended Paul Greenwood and Stephen Walsh from trading due to their unwillingness to cooperate in the NFA's audit.

IPERS' counsel contacted outside legal firms under retainer

CFTC contacted IPERS requesting documents (which have been provided starting on the 13<sup>th</sup> and subsequent days).

**February 16, 2009**

IPERS terminates WCM's contract and requests immediate return of its funds.

**February 18, 2009**

IPERS receives approximately \$29 million in margin account moneys that had been utilized to establish the "long" futures position at WCM.

**February 25, 2009**

The SEC and the CFTC file criminal and civil complaints against Greenwood and Walsh and allege that both men have engaged in securities fraud and an egregious investment fraud. Greenwood and Walsh are taken into custody.

**February 25, 2009**

Federal court enters a restraining order and appoints a receiver to take control of companies and protect assets.

**February 26, 2009**

IPERS Investment Board retains Ice Miller, LLP as part of legal team, along with the Des Moines office of Faegre & Benson.