

# The New York Times

## Western Funds Are Said to Have Managed Libyan Money Poorly

Bryan Denton for The New York Times  
An oil terminal fire in Misurata, Libya, in May.  
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Prominent American and European investment funds managed hundreds of millions of dollars in Qaddafi regime assets poorly, charging tens of millions of dollars in fees and producing low returns, according to a document obtained by the advocacy group Global Witness. The banks appeared to have taken advantage of a Libyan investment fund that was poorly managed and "a mess," according to a western official who spoke on condition of anonymity.

The document, a September 2010 summary of Libyan Investment Authority assets, showed poor performance by European and American money managers and a Libyan with close ties to the Qaddafi regime. Libyan Investment Authority officials complained that a \$1.7 billion investment they made in six different funds generated returns far below the industry benchmark.

"To date, we have paid in excess of \$18 million in fees, for losing us \$30 million," the report says at one point, referring to a fund reportedly managed by the son-in-law of the head of Libya's state oil company.

The report, prepared by the London office of the consulting firm KPMG, shows that a \$300 million Libyan investment in Permal, a hedge fund that is a unit of the Baltimore-based Legg Mason, lost 40 percent of its value from January 2009 to September 2010. At the same time, Permal received \$27 million in fees. "Consistently negative performance since inception," Libyan officials said in the report. "Very high fees for no value."

The Libyans voiced similar complaints about investments in funds managed by European firms that also lost value. Despite producing low returns, the Dutch firm Palladyne received \$19 million in fees, the French bank BNP Paribas earned \$18 million, Credit Suisse took \$7.6 million and the Swiss firm Notz Stucki had \$5 million. KPMG analysts also warned that the Libyan Authority's investment in such funds was too high compared with other types of investments.

Representatives for the firms declined to respond publicly or could not be reached for comment. KPMG declined to comment, but The New York Times was able to independently verify the document's authenticity.

An official at one firm criticized in the report, who spoke anonymously, blamed the poor investments on middlemen and denied that the firm had received high fees. "It's not as straightforward a picture as it perhaps should be," the official said.

In 2008, Goldman Sachs lost more than \$1 billion in Libyan Investment Authority money in currency and other trading, The Wall Street Journal reported in May. The Securities and Exchange Commission is

investigating whether an offer by Goldman to pay a \$50 million fee as part of a package to help the fund recoup its losses violated American bribery laws. Goldman has denied any wrongdoing and declined to comment on Thursday.

Doing business with Libya was legal for American companies from 2004 to 2011. American banks, oil companies and construction companies rushed to do business in Libya after Col. Muammar el-Qaddafi renounced terrorism and halted his attempt to develop nuclear weapons and the Bush administration lifted sanctions in 2004. The Obama administration reimposed sanctions in February after the Qaddafi regime began brutally repressing an uprising in the country.

The creation of the Libyan Investment Authority in 2006 set off a frenzy in banking circles. Leading financial firms scrambled for the opportunity to manage the authority's \$40 billion in assets.

Managing the sovereign wealth funds for oil-rich states - some of which are authoritarian - is an enormous business for Western banks. For example, the Libyan Investment Authority's total assets grew by \$10 billion over three months, to \$64 billion in September 2010 from \$54 billion in June, according to the newly released document.

The document also showed that the British bank HSBC became the Qaddafi regime's largest Western banking partner in September 2010, receiving \$1.4 billion in Libyan money. The document showed that the amount of Libyan state oil money managed by HSBC soared to \$1.42 billion in September 2010 from \$282 million in June 2010. The document also corroborated a document leaked by Global Witness in May showing that Goldman Sachs managed about \$45 million and JPMorgan Chase about \$173 million for the Libyan regime in 2010. Société Générale and other European banks also helped the Qaddafi regime manage oil proceeds.

Under current American and British law, the business relationships between sovereign wealth funds and Western banks can be kept secret. In a statement, Global Witness called for such dealings to be made public so that citizens of oil-rich and Western countries could understand what was taking place.

"Banking secrecy laws still mean that citizens are left in the dark about how their own state's funds are managed," said Robert Palmer, a campaigner at Global Witness. "We can't continue with a situation where information about how a state handles its assets is only made available once a dictator turns violently on his own people and information is leaked."

Evidence of cronyism appears in the report as well. The state fund invested \$300 million in a Palladyne fund managed by the son-in-law of the head of Libya's state oil company, according to The Wall Street Journal.

Forty-five percent of the \$300 million investment was held in cash, the report said. In addition to losing \$30 million while charging \$18 million in fees, the fund performed 39 percent below a worldwide index of similar funds.