

## Gupta's name dragged in mud

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Jurors weighing the insider trading case against Raj Rajaratnam in a Manhattan federal courtroom are hearing almost daily about Rajat Gupta, the former head of McKinsey & Company.

They have listened to a phone tap on which he confided to Rajaratnam that the Goldman Sachs board, on which he sat, had discussed acquiring Wachovia or American International Group.

They have watched Goldman Sachs chief executive Lloyd Blankfein testify that Gupta violated the company's ethics code for directors.

Prosecutors have called Gupta, who has not appeared as a witness, an unindicted co-conspirator, and the US Securities and Exchange Commission (SEC) has filed an administrative action against him for his alleged role in the scandal.

Still, nothing explains why Gupta, once one of the world's most trusted advisers to companies, would risk his reputation by sharing confidential information with a hedge fund manager, Bloomberg Businessweek reported in yesterday's edition.

Gupta, 62, led McKinsey, the global consulting firm, from 1994 to 2003. He sat on the boards of some of the largest multinationals, including Goldman Sachs and Procter & Gamble (P&G).

He raised millions of dollars for charity, hung out with the prime minister of India, and attended US President Barack Obama's first state dinner at the White House.

Yet Gupta had grander ambitions. After stepping down from the top job at McKinsey, he pursued a second career as a deal maker.

The man chief executives turned to for his expertise and sound judgement made questionable decisions as he invested with Rajaratnam, the co-founder of the hedge fund Galleon Group.

The SEC has accused Gupta of sharing confidential information on earnings at P&G and Goldman Sachs, and Warren Buffett's \$5 billion (R34.2bn) investment in Goldman Sachs. Those tips generated more than \$17 million in illicit profits or avoided losses for Galleon, the SEC said.

Gupta's lawyer, Gary Naftalis, has called the allegations "totally baseless".

Gupta was orphaned as a teenager. He worked his way from lower middle class roots in Kolkata to Harvard Business School and joined McKinsey in 1973. His big leap came in 1994 when McKinsey appointed Gupta the firm's first managing director born outside the US.

He served for three three-year terms, the maximum allowed under McKinsey's corporate constitution.

Gupta remained at McKinsey as a senior partner until 2007. By then, financial markets were booming, and private equity and hedge fund managers were New York's new elite. Many of the chief executives he had counselled were finding positions in this lucrative world.

He figured he could leverage his own contacts and add to his wealth, said a senior executive at a company where Gupta was a director until last month. He loved gathering Wall Street rumours and analysing them in his professorial way, the executive said.

Gupta liked the idea of doing eight or 10 deals a year – making introductions between executives and investors, and leaving the details to others, said the executive, who did not want to be named because his conversations with Gupta were private.

That is also how Rajaratnam saw him.

“Your value added is not to do cash flows,” Rajaratnam told Gupta in a July 2008 wiretapped phone conversation submitted at the trial. “Your value added is to bring people together, deals together, at the right time to make the call.”

Several wiretapped conversations indicate Gupta coveted a role at Kohlberg Kravis Roberts (KKR), one of the largest private equity firms. He knew Henry Kravis, KKR’s co-chairman, from his philanthropic work and through some clients.

“He’s enamoured with Kravis, and I think he wants to be in that circle,” Rajaratnam told Anil Kumar, a McKinsey consultant at the time who pleaded guilty to insider trading, in a taped call on August 15, 2008.

“That’s a billionaire’s circle. I think here he sees an opportunity to make \$100m over the next five or 10 years without doing a lot of work.”

Gupta began doing business with a group of men who, like him, had connections in the US and India: Parag Saxena, Victor Menezes, and Rajaratnam. All three had had trouble with regulatory authorities.

In 2006, he co-founded a fund called New Silk Route Partners with Saxena and Menezes. Rajaratnam contributed \$50m to the fund, which eventually raised \$1.3bn to invest in India and other emerging economies.

Saxena had paid the SEC a \$250 000 fine in 1994 to settle civil claims that he received pre-initial public offering stock at big discounts. He subsequently recommended the stocks to his clients at Chancellor Investment Management after they went public.

In 2006, Menezes, a former Citigroup senior vice-chairman, paid the SEC \$2.7m in a fine and disgorged profits after he dumped his Citigroup stock ahead of an announcement of bad news from a subsidiary in Argentina.

And in 2005, before Rajaratnam’s current indictment, Galleon Group paid \$2m in a fine and disgorged profits to settle claims that it had made improper trades.

Some of his associates worried about Gupta.

“I told him once, ‘If you are in a herd of pigs, you’ll also smell like a pig’,” Bala Balachandran, a business professor who has known Gupta for three decades, said in an interview last year.

In 2007 Gupta joined Rajaratnam and a third man to form the GB Voyager Multi-Strategy Fund, contributing \$10m of his own money.

The \$40m fund “invested in numerous Galleon Group hedge funds, including those that traded on Gupta’s illegal tips”, the SEC charged.

Gupta’s deal making career never took off.

The New Silk Route fund had not turned a profit on any of the investments it has made so far, said research firm Venture Intelligence.

The Voyager Fund was wiped out in the 2008 financial crisis, costing Gupta his \$10m investment, his attorney said.

Gupta’s civil case is scheduled to be heard by an SEC administrative judge in July. The worst punishment he can receive is a fine and a consent decree barring him from serving on company boards.

Naftalis has filed a suit for him to get the case transferred to a federal court, where it would be heard by a jury.

Even if Gupta was not sanctioned, “he’ll never recover the pristine reputation he had before”, said Georges Ugeux, the chief executive of Galileo Global Advisors.

“Whether he’s fined or indicted is secondary to the fact that many people have lost respect for him.” – Bloomberg