



April 19, 2009

Shaky deals cost Detroit pension funds \$90 million

Adrian Anderson advised public boards on investments, but costly collapses have some asking: Did he earn his \$1-million fees?

*BY JENNIFER DIXON and TINA LAM
FREE PRESS STAFF WRITERS*

When trustees for Detroit's two public pension funds considered investing more than \$700 million of retirees' money, they asked Adrian Anderson of North Point Advisors to research the deals.

- [Closure of meeting draws scrutiny](#)
- [Warning signs went unnoticed](#)
- [Persistence, skepticism key in due diligence, experts say](#)
- [FROM THE ARCHIVES: Pensions in Detroit out more than \\$2 billion](#)

Within two years, three of those investments collapsed, costing the pension funds \$90 million, with other deals in jeopardy. And questions remain about how well Anderson vetted these and other pension board investments, deals that were rife with red flags.

A Free Press review of his investment reports shows he wrote approvingly of businesses and people with:

- Well-documented histories of failing to pay their bills.
- Lawsuits accusing them of cheating other investors.
- Unsubstantiated claims of sizable wealth or revenue.

Since 2006, North Point of Oakland, Calif., has collected more than \$1 million in fees from the two pension funds – one for police and fire retirees, the other for general city workers.

Anderson's investment research – known as due diligence – is noteworthy, however, for what investment experts call a lack of detail and thoroughness.

In some cases, Anderson's reports parrot the very language of the investment pitch he is being paid to vet, are sprinkled with grammatical errors and typos, or don't address allegations of fraud or other red flags that could have been found on the Internet and in public records.

Taxpayers who live or work in Detroit eventually could be forced to cover overall pension losses if the stock market doesn't recover over the next three years, actuaries have said.

Anderson won't talk about his work, citing a confidentiality agreement he said he has with the boards not to discuss investments. On April 9, he ducked out a side door of the pension boards' conference room to avoid reporters' questions.

While pension trustees continue to assign work to Anderson's firm, only a few supporters on the

boards were willing to talk about him. They defended Anderson as reputable and professional, noting that not all of the investments he vetted have flopped.

Police and fire trustee Barbara-Rose Collins, a Detroit City Council member, called him "a wonderful person."

However, longtime trustee George Orzech, a firefighter, said Anderson has repeatedly failed to warn trustees of lawsuits and other problems that might suggest trouble.

"I've lost all confidence in him," Orzech said.

Flopped investments filled with red flags

Some say consultant can't be blamed, but others not so sure

Part one of two parts

In June 2006, investment adviser Adrian Anderson boarded a plane for St. Croix in the U.S. Virgin Islands.

Just outside the pastel buildings of Christiansted, in a commercial center known as Gallows Bay, were the offices of Miller & Jacobs Capital LLC.

Anderson had arrived on a reconnaissance mission.

His clients, Detroit's two public pensions, had taken a shine to the company's Acadia Fund as a possible investment opportunity. There were risks, to be sure, as Anderson later noted in a document known to investors as a due-diligence report.

The Acadia Fund, registered in the Cayman Islands, had high fees and steep debt. Anderson wrote that a key official at Miller & Jacobs had been there a short time, and the firm had never before offered this kind of investment, called a collateralized loan obligation — a complicated debt security backed by a pool of commercial loans.

Despite the concerns, Anderson concluded that Acadia was "a reasonable offering" and that projections it could reap returns of 10%-15% for the pension systems were "not unreasonable."

Detroit's pension funds invested \$40 million.

Within a year, Acadia ran into trouble. And the two pensions lost everything.

The Acadia Fund is among dozens of deals that Anderson of North Point Advisors of Oakland, Calif., researched for Detroit's retirement systems.

Red flags overlooked

While his firm has collected more than \$1 million in fees since 2006, Anderson's due-diligence reports have at times set aside or failed to address problems that might have given investors pause — such as lawsuits or liens for unpaid bills. A quick search of public records could have turned up many of these warning signs.

In some cases, Anderson's reports repeat the very sales pitch used by the businesses seeking pension fund money.

Records obtained by the Free Press show that Detroit's retirement system – which oversees pension investments for police and fire and general retirees – has lost \$90 million on just three deals Anderson vetted. Other deals are teetering.

Anderson remains the primary investment adviser on non-real estate investments for the police and fire pension system, handling most of its due-diligence assignments while doing some work for the general retirement fund.

Anderson said confidentiality agreements he has with the pension boards prevent him from talking about his work.

In a November letter to police and fire trustees, Anderson acknowledged losses in some investments but said a \$150-million investment by both boards last summer in a new Pittsburgh casino has the potential to earn 150% in seven years.

Investments vetted by Anderson aren't the only ones that lost money for the pension systems.

The Free Press detailed in February at least \$81 million the funds lost in risky deals unrelated to Anderson or North Point.

Defenders praise him

A dozen current or former pension fund trustees declined comment or did not return calls, making it difficult to determine whether Anderson offered trustees more detailed or skeptical advice about investments beyond his written reports.

The pension funds' lawyer, Ronald Zajac, would not talk either. "I have no quotes," he said.

Former general fund trustee Monica Conyers – now Detroit City Council president – declined to address Anderson's work, but said through a spokeswoman that trustees are ultimately responsible for investment decisions.

Her spokeswoman, Denise Tolliver, said Conyers "questioned a lot" of pension decisions and thought some trustees had not taken advantage of business training offered to them at the Wharton School of the University of Pennsylvania, giving them background to help assess investments.

The Rev. Wendell Anthony, a longtime general retirement trustee, defended Anderson's work, calling him "a reputable, professional person" and said he can't be blamed when a business offers misleading information or its principals break promises.

Anderson does "the best professional job he can," Anthony said, "and when companies decide to do something different or dishonest, then anyone can fall victim to that."

In a November letter to a new pension trustee, Anderson said his firm follows a "trustee-directed approach" and has "been told not to interject our opinion about an investment unless such investment is clearly imprudent or we have been asked for our opinion by the Trustees."

Anderson added that "if you can avoid drastic mistakes and excessive risk, one can achieve desired investment results."

Experts on investment research say due-diligence advisers such as North Point have a duty to look beyond the promises of the people pitching an investment.

"It's not what a firm tells you that matters, it's what they don't tell you," said Ken Springer, a former

FBI agent who now is president of Corporate Resolutions Inc. in New York City, which investigates people and businesses for large investors and hedge funds.

"In this day and age, you need to make sure you know who you're doing business with," Springer said. "You need to look at the guy; looking at the firm is not enough."

GVCwinstar given positive review

North Point Advisors vetted GVCwinstar, a Detroit telecommunications company, for Detroit pension trustees and on Oct. 25, 2006, reported that:

> We find the principals of GVC reputable and proficient in the business of customized telecommunications systems for large organizations

GVC collapsed, and the pension trustees lost their \$20-million investment. In a November 2008 memo to pension trustees, attorneys with the Couzens Lansky law firm suggested GVC had committed fraud.

that time period in order to make the systems to account for monies. We believe this is clear evidence of fraud and have forwarded this information and a copy of the financial statement to the DOJ as

Federal tax lien present

GVC founder Kirkland Dudley had a federal tax lien pending against him when North Point Advisors was conducting its due diligence on GVC.

The image shows a 'Notice of Federal Tax Lien' form. A callout box points to the name 'KIRKLAND DUDLEY' on the form. Another callout box points to the 'Unpaid Balance of Assessment' field, which contains the value '34500.22'. The form includes a section for 'IMPORTANT RELEASE INFORMATION' and a table with columns for 'Kind of Tax', 'Tax Period', 'Identifying Number', 'Type of Assessment', and 'Lien Disposition'. The 'Unpaid Balance of Assessment' is also noted as '34500.22' at the bottom right of the form.

Deals gone bad

In a December 2008 report, the police and fire fund's outside auditors, Plante & Moran, urged trustees to track the performance of consultants they hire to vet non-publicly traded investments, which tend to be risky.

Anderson's assignments typically include these so-called alternative investments.

According to an internal document obtained by the Free Press, North Point investigated 10 of 12 proposed investments in 2008 for police and fire trustees. In 2007, North Point scrutinized 26 of 34 investments in which the trustees sought due diligence.

It's too early to determine how many of the investments Anderson researched will pan out.

But some deals are notable for what was overlooked:

- In an October 2006 report on GVCwinstar, a Detroit communications company founded by Detroit businessman Kirkland Dudley and his wife, Tedra Dudley, Anderson called GVC's principals "reputable and proficient" and the business model "reasonable." His report failed to note liens and judgments against Kirkland Dudley and a Dudley business. The pension boards lost their entire \$20 million.
- Anderson called a \$30-million investment in TradeWinds Airlines, pushed by Alabama businessman Donald Watkins and his financial adviser, Donald Stukes, risky. Still, he said Watkins, who guaranteed the loans and was buying a majority share in the airline, was a "well-known and highly successful ... entrepreneur," even though in his report, Anderson never delved into Watkins' finances or past business dealings. The airline has since filed for bankruptcy, and the pension funds say the \$30-million loans are in default.
- Anderson's report on a proposal to buy beachfront property in Turks and Caicos through relatives of the islands' premier failed to mention that the British government was investigating the premier and unscrupulous sales of crown lands in the British territory.

A Bermuda deal

In addition, Anderson went to Bermuda in 2007 to talk to the officers of the Finch Fund Ltd., a hedge fund based in the Cayman Islands, for police and fire trustees, who ultimately invested \$10 million.

In his report, Anderson praised Finch's investment process and risk controls.

In December, Finch revealed it was a victim of now-convicted money manager Bernard Madoff's Ponzi scheme and shut down. Pension trustees don't know how much money they'll get back.

George Orzech, a firefighter, trustee on the police and fire board for nearly 21 years and critic of Anderson's work, said North Point repeatedly failed to find – or tell trustees of – obvious warning signs.

Orzech's skepticism toward Anderson and his company often has put him at odds with other trustees.

Jon Stokes, a director at the global CFA Institute Centre for Financial Market Integrity, which sets voluntary standards for the international investment industry, said pension trustees must share blame for bad deals.

He said safeguarding assets is the trustees' most important duty – and that includes scrutinizing investment advisers.

The Detroit funds, which cover benefits for 20,000 retirees, lost \$2.5 billion, or 30%, of their value from June 2007 through December 2008 through a combination of stock market losses and soured investments.

By comparison, a survey by Pensions & Investments magazine found last January that the nation's 1,000 largest public and private funds had an average loss of 23% from Sept. 30, 2007, through the end of 2008.

Anderson's work

Anderson first became acquainted with Detroit's police and fire trustees as an employee of Watson Wyatt, a global investment, benefits and pension consultant based in Arlington, Va., that worked for the fund.

He then went to work for Atlanta-based pension consultant Gray & Co. He came "highly regarded," according to Gray President Larry Gray.

"I never had a problem with his due diligence," Gray said.

Anderson started North Point in 2004. The company lists offices in Oakland, Calif., San Francisco, New York and Detroit.

It's not clear how many clients Anderson has outside Detroit's pension funds.

In a filing last month with the U.S. Securities and Exchange Commission, Anderson said he provides investment advisory services to between one and 10 clients. Neither the filing nor Anderson's Web site names them.

But the City of Detroit is the "foundation of our success," Anderson acknowledged in a letter last November to a police and fire trustee.

Stokes, the CFA Institute expert, said private equity investments require aggressive probing of the company's officers, their past business deals and litigation.

"The more the investment is tied to the principals, and the less transparent it is, the more interested you would be in finding out as much as you can about that principal," he said.

Peter Henning, a law professor at Wayne State University and former federal prosecutor, said flawed due diligence is not necessarily a crime. But the bad investments tied to Anderson raise questions about why he remains the pension funds' adviser.

"You would expect a series of poor decisions would result in termination," Henning said.

Contact JENNIFER DIXON: 248-351-2993 or jbdixon@freepress.com Contact TINA LAM: 313-222-6421 or tlam@freepress.com.

Additional Facts

Adrian Anderson

Title: Chief executive officer, North Point Advisors of Oakland, Calif., and San Francisco, Detroit and suburban New York City. Anderson has three employees, according to his Web site, and between one and 10 clients, according to a Securities and Exchange Commission filing.

Age: 54

Education: Bachelor's degree, Virginia Commonwealth University; law degree, George Mason University.

Work experience: Anderson established North Point Advisors in 2004 after leaving Gray & Co. of Atlanta, an investment consulting company. He worked at Watson Wyatt, a global consulting firm; as executive director of the District of Columbia Retirement Board, and as comptroller, United Mine Workers Health and Retirement Funds. He said he has advised Detroit's police and fire pension fund since 1996.
