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The Billionaire's Apprentice: The Rise Of The Indian-American Elite And The Fall Of The Galleon Hedge Fund



THE RISE OF THE
INDIAN-AMERICAN ELITE
AND THE FALL OF THE
GALLEON HEDGE FUND



Synopsis

Just as WASPs, Irish-Catholics and Our Crowd Jews once made the ascent from immigrants to powerbrokers, it is now the Indian-American's turn. Citigroup, PepsiCo and Mastercard are just a handful of the Fortune 500 companies led by a group known as the "Twice Blessed." Yet little is known about how these Indian emigres (and children of emigres) rose through the ranks. Until now...The collapse of the Galleon Group--a hedge fund that managed more than \$7 billion in assets--from criminal charges of insider trading was a sensational case that pitted prosecutor Preet Bharara, himself the son of Indian immigrants, against the best and brightest of the South Asian business community. At the center of the case was self-described King of Kings, Galleon's founder Raj Rajaratnam, a Sri-Lankan-born, Wharton-educated billionaire. But the most shocking allegation was that the Ã©minence grise of Indian business, Rajat Gupta, was Rajaratnam's accomplice and mole. If not for Gupta's nose-to-the-grindstone rise to head up McKinsey & Co and a position on the Goldman Sachs board, men like Rajaratnam would have never made it to the top of America's moneyed elite. Author Anita Raghavan criss-crosses the globe from Wall Street boardrooms to Delhi's Indian Institute of Technology as she uncovers the secrets of this subculture--an incredible tale of triumph, temptation and tragedy.

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Customer Reviews

This is not a novel but it is every bit as gripping as any thriller you are likely to pick up. It was just a question of time before someone wrote a book about these historical business events and Anita Raghavan just happened to be the first. I am sure that there will be other books, possibly many other books but they will have a high bar to cross because Raghavan's book is so darn good - meticulously researched and compellingly written. There is no doubt that the business events discussed are highly significant. The former head of the world's premier consulting firm, who was on the board of many blue chip firms including the pre-eminent financial juggernaut, freely giving privileged information to a shady hedge fund operator - this is not an everyday scenario. Or maybe it is but it was certainly a deep secret and no other comparable case has surfaced as yet. This is an important business story by any yardstick. But there is a sub-text - many of the principals came from India, Pakistan, Sri Lanka and Bangla Desh so it also a story of South Asians and how they have risen from obscurity and hard-scrabble roots to the very top of establishment America. I am South Asian myself so this resonated deeply in a bitter sweet way. Yes, those convicted were South Asian, but so were those who prosecuted them and held them legally accountable for their transgressions. A true tale of immigrant progress. Raj Rajaratnam, a scrappy Sri Lankan born trader, started a hedge fund called Galleon Group and built it into one of the world's biggest and most influential. He managed billions of dollars and became a billionaire himself. He also lived the high life with private jets flying important customers to choice Super Bowl seats and exotic paid ladies at orchestrated events. For more on this see "The Buy Side" by Turney Duff. His enormous success owed much to a network of informers who fed him confidential information that he used brilliantly to juice his outsize returns. Rajaratnam had strong street smarts and a penetrating insight into human foibles that he used to ruthlessly manipulate persons. For example, Anil Kumar was a McKinsey Director and former classmate at Wharton. McKinsey directors live well but don't own private islands and helicopters to take them there. Rajaratnam commiserated with Kumar about his inadequate compensation, extolled his acumen and analytical abilities and then paid him a million dollars to make use of his "skills". This money was funneled through a foreign bank account in the name of his housekeeper - an arrangement both flimsy and illegal and this came back to haunt Kumar. Gradually it became clear to Kumar that the "skills" Rajaratnam needed was the information he was

privity to in his capacity as a McKinsey consultant. He balked, but by then he had accepted the money and the trap was sprung and he started coughing up the information sought. The grand panjandrum was Rajat Gupta the thrice elected global head of consulting giant McKinsey who was perhaps one of the most respected executives in the world. He was on the board of Goldman Sachs, Procter & Gamble, American Airlines and firms of that caliber. The CEOs of both Gillette and P & G have said that the merger of the two firms would not have happened without mediation by Gupta who was both liked and trusted by both sides. He was very wealthy, but not wealthy beyond the dreams of avarice. Full disclosure: Rajat Gupta was a guest speaker at my course in Columbia Business School and what he said was so honest and inspirational that I also invited him to speak at my class at London Business School. He outlined a view of business behavior that resonated deeply with students and that I believe business badly needs. I am still struggling to reconcile what he said and his career at McKinsey with what he was accused - and convicted - of doing later. Rajat Gupta started several ventures with Rajaratnam some of which were successful and some which were not. Wire taps on Rajaratnam's phone showed that Gupta called him seconds after important board meetings - such as at the time of financial turmoil when Warren Buffet agreed to invest five billion dollars in Goldman. Rajaratnam's firm then made significant and highly profitable trades. A lot of circumstantial evidence but enormously strong and convincing to the jury which convicted him. Rajat did enormous good in many fields and was the force behind the Indian School of Business - one of the premier business schools in India. He was the iconic role-model of many Indians including those like Sanjay Wadhwa who, as deputy chief of the SEC's Market Abuse Section, investigated and built the case against him. Quite possibly Gupta also paved the way for South Asians like Preet Bharara, the US Attorney for the Southern District of New York, to reach the high positions they occupied. Bharara was the one who eventually convicted Gupta. Raghavan takes a Ken Follett approach in her book. If you read "Eye of the Needle" you will recollect that it goes back and forth in time and gradually ties all the characters together. Similarly Raghavan begins with a White House dinner for the visiting Indian Prime Minister, goes back to colonial India and Gupta's father's role in the freedom struggle, back to the US and Gupta's legal travails, back to India during the turmoil and bloodshed of partition and how Wadhwa's parents were caught up in it and so on. I just happen to like this approach and found that Raghavan converted a tale of high level business chicanery into a gripping narrative. The unanswered question is WHY? Why did Gupta, as accomplished and successful an executive as you can find, consort with persons of the ilk of Rajaratnam and readily give away confidential information? Rajaratnam's brother Rengan was quoted in the press as saying "For years these guys were sitting around in sports clubs and

exchanging information. That wasn't a crime. And now we immigrants do the same thing and it is?" Presumably Rajaratnam believes this. Does Rajat Gupta also believe it? We do not know much about the rarefied circles in which Rajat mingled so comfortably. Was his behavior the outlier? Or the norm and his misfortune was that he got caught? I am waiting for the book that will shed light on this.

The title is misleading. There was no apprentice just a kautilyan who cottoned on to the game that the billionaires in capital markets all over the world play in order to outperform the growth rate of the economy and used the Indian American community as his team to beat them at their own game. His model was perfected at Needham. There was no 'honor amongst thieves' just the professional secrets of a criminal profession which would have no profitability above that of a plain vanilla fixed income instrument that anyone could buy off the counter if purged of insider trading. Raj was never an innovator. Insider trading had been an integral part of the stock market and all other markets until its practice in the stock market had been criminalized. The criminalization of insider trading made it possible for a select group of insiders to demand a premium to maintain relations with the investment profession along which information that enabled the outperforming of the market could flow undetected. Raj was no great thinker either. He had no creativity. He did have IQ on his side which meant that his mental processes worked faster than those of the average human. Too fast and too focused to look at the wider context and the possible implications of his actions so that this speed often led to his own undoing. In that sense he could at times be the proverbial bull in the China shop and there have been times when it would not be unkind to describe his brash actions as foolishness. The billionaires club stood no chance against this charging ball of energy that resembled nothing as much as a bull in heat broken free from its paddock. Outfoxed the billionaires were forced to change the rules of the game and allow wire taps using the investigation into Rajaratnam's suspected links with terrorism as justification. This change in the rules of the game selectively culled the club of billionaires and changed the industrial model. The insiders drew closer to each other to avoid the wiretaps and the outsiders were thrown into jail. The "Edge" that was THE philosophers stone of the industry sought after by every so called 'researcher' was the magic that the industry thrived on and Rajaratnam paid big bucks to use it each time it came his way. The edge was never passed on through phone calls and this was a lesson Raj and his Indians refused to learn. There is nothing so big and boisterously noisy as the ego of the Indian male and nothing so deviously slinky as the ego of the Indian female. To understand this and to be forewarned is to be forearmed. The fall of Gupta was the fall of Indian pretensions to western scientific ethics. None of

the accused saw themselves as being guilty because in terms of their kautilyan ethics they were not. Kautilyan India saw neither right nor wrong, only expediency. Raj to this day even in the face of the wiretaps maintains his innocence. The gulf between Indian relativism and western absolutism widened. The picture of Indians as sneaky little liars and crooks who were not to be trusted took on new color. The celebrated Indian tactic of separating lifestyle from culture established its place. Wharton and values were just lifestyle while deep under the primitive relativism with its opportunistic expediency reigned supreme. Raj saw himself as beating the billionaires at their own game and judge Holwell recognized this in his judgement when he said that it represented a virus in our business culture that needs to be eradicated. Raj would always beat anyone at any game and typically Raj would not for a minute pause to consider if the game itself was a legitimate one or not. Raj never bothered with geo politics and he never appreciated the impact the India fund he was planning would have on the Indian economy by attracting the massive cloud of black money hanging over India and extending to south east Asia, Africa and the Middle East. Raj as a king of kings may have been entertaining but Raj as a kingmaker and keeper and deployer of this horde of black coins was not acceptable, and so he had to go. The skeletons in the closet - effectively deployed by deft handlers - that drove his nemesis, successfully showed him the door and it seems unlikely that he will survive his sentence to answer questions and reveal hidden connections and explore the deep dungeons beneath the floor. Raj will go down in history as a criminal and an outstanding criminal in a profession that is founded on criminality for its existence he most certainly is; as will easily be seen if all hedge funds are monitored through real time access to the content of their communications. As for me I will remember him as that bull headed boy who would always fight his way to the frontline by outperforming his peers. Nothing creative, nothing innovative no finesse or finish, just more of the same corse and brutal scramble to make a few dollars more. To suggest that the Rajaratnam family had any resemblance to the mafia is puerile. Raj did not have the psychological skills required to build an underworld organization. He was not a killer. His aggression was channeled into competition and not into control. He did not have the required organizational skills or the patience. Galleon may have been a pirate but its captain was no mafioso. Rajat of course was the son of his father and of a nation founded on the kautilyan premise so clearly set out in the Indian literary heritage, that cheating was permissible and could in fact form the foundation of honor and recognition seen to this day embodied in the lives of its political elite. In his genes the ghost of Aswini and the demon of Kautilyan nationalism live on as they do in the life of the Indian nation for ever generating feelings of guilt, anger and shame and an enduring inability to claim the legacy of science and technology and become part of the movement towards automation

openness and honesty.

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