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Harvard invested heavily in Harken

By Beth Healy and Michael Kranish, Globe Staff, 10/30/2002

It was a moment of deep embarrassment in 1991 when Harvard University's prestigious endowment fund admitted it had just experienced its worst loss ever. Jack Meyer, Harvard Management Co. president, said at the time he hoped the fund would never again take such a big hit, a $200 million write-down.

Back then there was relatively little focus on one major reason for the loss: Harvard Management's large and ill-timed bet on little-known Harken Energy Co., whose board included George W. Bush, then the son of the US president and now the president himself. Even as losses mounted, Harvard Management bailed out the troubled company, first by splitting up Harken and then by sheltering Harken's liabilities in a partnership.

Indeed, even as Bush was dumping the bulk of his Harken holdings - about $848,000 in stock sold to a buyer whose name has never been disclosed - Harvard Management plowed millions more into the firm.

Several former Harvard Management officials said in interviews that they wanted to pull out of the Harken deal, but they said one man in particular - Harvard Management executive and Harken director Michael Eisenson - resolutely insisted he could turn around the investment by pumping more money into it.

Interviews and reviews of documents by the Globe showed that Harvard's stake in Harken-related investments was, in the end, nearly two-thirds larger than the university has ever previously acknowledged, about $50 million. The Texas-based energy company was, in 1990, the seventh-largest stock holding in Harvard's portfolio, bigger even than the university's stake in Exxon Corp. In all, Harvard Management risked 1 percent of the university's endowment in the small, struggling company, a surprisingly large bet by any measure, but particularly given Harken's dismal prospects.

The Globe review also found no evidence to support the contention by some critics of Harvard Management and some adversaries of Bush that its deep involvement in Harken was a political favor to the Bush family.

Meyer, who previously has said only that the Harken investment was profitable and appropriate, acknowledged in his first in-depth interview about the matter that the deal was hardly Harvard Management's finest hour.

"This clearly did not work out as well as we had hoped," said Meyer, who has run the endowment since September 1990. "In our recollection, the presence or absence of Mr. Bush

had no bearing on these investment decisions."

The controversy over Harvard Management's dealings with Harken - a controversy kicked up in large measure by student and faculty allegations about what they view as questionable endowment investments - began with what would prove to be a bad bet on the direction of oil prices.

It was in 1986 that the board of Harvard Management, a subsidiary established by the university to manage its endowment, decided to pursue investments in the energy industry aggressively. Led by Robert G. Stone Jr., an influential director with experience in the energy business, the board reasoned that oil prices had hit rock bottom and were poised to rise, Meyer said. The group directed that the endowment invest some 5 percent of its $5 billion in assets in private oil and gas companies, to take advantage of the low prices and to stash some money in investments that might rise in value should the stock market falter.

One of the investments chosen by the Harvard fund was Harken. Meyer and former Harvard fund officials said it was a ripe target because it was a small, depressed energy stock.

Some critics have suggested that Harvard made its investment in Harken solely because the son of then-Vice President Bush was on the board. Harvard's initial investment in Harken was made within a month of Bush's joining the company, but Harvard officials say Bush was not on the Harken board when the university made its investment.

A half-dozen former top Harvard Management officials, several of whom said they are no fans of Bush, said his presence was not a factor for them. To the contrary, several former Harvard Management officials dismissed Bush as an out-of-touch board member whose value was overrated. Eisenson, who had control over the investment, declined to talk about it.

Most suggestive to critics is the way Harvard Management poured more money into Harken after the initial investment - and after Bush's father became president in 1988. Harvard bailed out Harken several times and poured millions into the company in 1989, 1990, and 1991, all while Bush's father was president and his son still a director of the firm.

In particular, questions have been raised for years about whether Stone - who was in the Texas oil business and knew the elder Bush - influenced the investment. Stone, while acknowledging that he favored the energy investment strategy, vehemently denied suggesting Harken.

"I never recommended Harken. I didn't know anything about them," Stone said in a telephone interview from his New York City office in what appears to be his first interview about the matter. "I don't tell them what to invest in." He said that at the time of Harvard's investment, he knew then-Vice President George H.W. Bush "very, very slightly."

"I was at Harvard the same year he was at Yale. I met him a few times, and that was that," Stone said. "I had nothing to do with his administration."

As for Bush's son, a graduate of Harvard Business School, Stone said, "I don't know the current president at all."

So who brought the Harken deal to the Harvard fund?

Donald Bartlett, a spokesman for President Bush, said the conduit was an employee of Harken named Gary Vibbard. The White House had not previously identified the go-between,

and Vibbard could not be reached for comment. Vibbard worked with Harken's chairman at the time, Alan Quasha, who came to Boston to meet with Harvard Management officials about the deal.

Harvard's Meyer offered this elliptical summary: "There were not too many degrees of separation between Stone and Quasha."

Quasha, a Harvard alumnus, declined comment.

Harvard Management officials said Bush's presence at the company meant little, and they deemed him "not a serious player," as one former top Harvard fund official put it.

Eisenson, by contrast, was clearly a serious player. The Harvard Management investment executive served on Harken's board and often formulated company policy. He also owned at least 10,000 shares of Harken stock, which led the Harvard Crimson in 1991 to question whether he had a conflict of interest.

By January 1990, it appeared that Harvard's investment in Harken might pay off when the company got the rights to drill for oil in the Persian Gulf nation of Bahrain. But by May 1990, it was clear the company was in deep trouble. Led by Eisenson, the Harken board approved a plan to split off two entities, a natural gas firm and a gas station chain, as part of a stock-rights offering. Around the same time, Bush needed money to pay off a loan he used to invest in the Texas Rangers baseball team. On June 22, 1990, Bush sold 212,140 of his 317,152 shares at $4 apiece and received about $848,000.

The sale has raised questions for years because the stock price dropped to $1.25 in the following six months.

The name of the purchaser has never been disclosed.

"Harvard Management Company did not purchase Mr. Bush's Harken shares. We do not know who did purchase the shares," Meyer said when asked whether anyone connected to Harvard Management or Eisenson bought the shares.

Two months after Bush sold his stock, the company was still in serious financial trouble and the stock price was dropping. Once again, Harvard Management came to the rescue. Eisenson developed a plan to create a joint Harvard-Harken entity known as the Harken Anadarko Partnership. Bush, as a member of the Harken board, made the motion to approve the proposal on Aug. 29, 1990. Under the deal, Harvard put $64.5 million worth of unrelated energy properties into the partnership, while Harken contributed $26 million in drilling operations. The benefit to Harken was that the deal took $20 million in liabilities off the company books.

The Anadarko deal was risky for Harvard. It pushed the endowment's total stake in Harken to more than $50 million, exceeding 1 percent of the total endowment, Meyer said.

The goal at the time, Meyer said, was to separate the drilling assets from the rest of Harken, which was seen as troubled. Harvard wanted to focus on drilling assets, rather than gas stations or other oil-related businesses, he said. "We weren't interested in pumping more money into that."

Meyer had much at stake personally. One of the first things he did when he took over the endowment in September 1990 was insist that the private equity portfolio be valued by a third

party and be accurately reflected on the endowment's books. That meant taking the heat for a $200 million write-down, the worst in the university's history. Nearly half of the fiscal 1991 write-down, or $92 million, was related to oil and gas investments, including ailing Harken. Most of the other losses were in real estate.

Eisenson, former colleagues say, was dogged in his efforts to save Harken. There was his ego on the line, as well as his own stake in the company and his Harvard paycheck. Meyer had instituted a system of paying endowment managers handsomely, but only if certain benchmarks were met.

Meyer said Eisenson did what any serious institutional investor does with a deal that's in trouble: "If he had not put in all that work, we would have lost money with certainty."

Harvard, in the end, made just shy of $20 million on Harken, according to an executive who worked on the deal. That is a slim return considering that more than $50 million was invested over a period of 12 years. It wasn't until 1997 that Harvard cashed out 50 percent of its shares at a profit, Meyer said.

The Harvard fund's decision to invest in energy, including Harken, "was a pretty good strategy," Meyer said. "But it was a decade too early."

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