



Case & Project Experience

NERA's Role in *Weaving Capital (UK) Ltd. and Anr v. Peterson and Ors*

Background

Weaving Capital (UK) Limited ("WCUK") was a London-based investment manager that acted as the investment adviser to the Weaving Macro Fixed Income Fund Limited (the "Macro Fund"). WCUK and the Macro Fund collapsed in 2009 amidst allegations of fraud. WCUK's liquidators sued the company's former Chief Executive and Managing Director, Mr. Magnus Peterson, and three other WCUK directors and employees. The liquidators sought compensation for the hundreds of millions of dollars in losses incurred by investors in the Macro Fund.

The civil case, brought before London's High Court of Justice – Chancery Division, focused on interest rate swap agreements with a reported value of more than \$600 million between the Macro Fund and British Virgin Islands-based Weaving Capital Fund ("WCF"), a company majority owned and entirely controlled by Mr. Peterson. WCUK's liquidators claimed that the interest rate swap agreements were "sham" transactions used by Mr. Peterson to manipulate the Macro Fund's reported asset values and to give investors the impression that the fund was performing well. Mr. Peterson claimed that the interest rate swaps were legitimate commercial transactions and were part of a hedging strategy employed by the Macro Fund.

NERA's Role

NERA Senior Vice President Dr. Chudozie Okongwu was retained to provide expert economic analysis and testimony on behalf of WCUK's liquidators. Dr. Okongwu's analysis demonstrated that the cash flows exchanged between the

Macro Fund and WCF in relation to the interest rate swaps were not consistent with the economic value of the transactions. Dr. Okongwu provided evidence that the valuations ascribed to the interest rate swaps were incorrect and did not take account of the counterparty risk associated with WCF. Dr. Okongwu's analysis included a detailed review of the Macro Fund's exchange-traded positions over a sample period in December 2008, and showed that they not only failed to act as hedges to the interest rate swaps, but actually increased the sensitivity of the portfolio to changes in the level of interest rates. On the witness stand, Dr. Okongwu refuted testimony from the defendants in the case.

The High Court judge presiding over the case, Sonia Proudman, cited Dr. Okongwu in her decision. She described his report as "the opposite of superficial, dealing with all relevant matters in considerable detail and great clarity." Commenting on the credibility of his testimony, she stated, "[h]e considered all questions put to him carefully and courteously and his answers were neither partisan nor dogmatic."

The Result

On 30 May 2012, Justice Proudman issued a judgment on behalf of the liquidators, terming the interest rate swaps "shams" and finding Mr. Peterson liable for fraud and the other three other defendants liable for negligence. All four defendants were also found to be in breach of their duties to WCUK. Justice Proudman awarded damages of \$450 million against the defendants.

Expert Involved

Dr. Chudozie Okongwu, Senior Vice President

Dr. Okongwu heads NERA's European Finance, Litigation, and Dispute Resolution Group. As an expert in securities economics, finance, and valuation, he provides both litigation and advisory support to clients. Dr. Okongwu has testified and consulted on matters involving the valuation of various derivatives, fixed income and equity products, and exotic financial structures. He has provided expert testimony in numerous court cases in Europe and North America, and in arbitrations before FINRA, the NYSE, the NASD, the American Arbitration Association, the ICC International Court of Arbitration, and the ICSID.

Dr. Okongwu has led engagements involving the risks and profitability of hedge fund trading strategies and the effects of alleged mismarking of hedge fund portfolios on investors. He has directed projects involving the analysis of best execution practices and has been retained in numerous matters involving mutual funds, including civil and regulatory matters concerning allegations of portfolio mismarking, market timing, and late trading. Dr. Okongwu has also worked with clients on engagements that focused on the forced liquidation of securities positions, the termination of OTC derivative positions, insider trading, and market manipulation. Prior to joining NERA, Dr. Okongwu was a member of Banque Paribas's Fixed Income Emerging Markets team in London and New York.

About NERA

NERA Economic Consulting (www.nera.com) is a global firm of experts dedicated to applying economic, finance, and quantitative principles to complex business and legal challenges. For over half a century, NERA's economists have been creating strategies, studies, reports, expert testimony, and policy recommendations for government authorities and the world's leading law firms and corporations. We bring academic rigor, objectivity, and real world industry experience to bear on issues arising from competition, regulation, public policy, strategy, finance, and litigation.

NERA's clients value our ability to apply and communicate state-of-the-art approaches clearly and convincingly, our commitment to deliver unbiased findings, and our reputation for quality and independence. Our clients rely on the integrity and skills of our unparalleled team of economists and other experts backed by the resources and reliability of one of the world's largest economic consultancies. With its main office in New York City, NERA serves clients from more than 25 offices across North America, Europe, and Asia Pacific.

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