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Harvard Students Say School May Have Profited by Fund's Short Selling of Enron

By BETH HEALY and DAVID ABEL, The Boston Globe

Boston hedge fund that manages part of Harvard University's endowment appears to have reaped millions of dollars in profits by shorting shares of Enron Corp., or betting the stock would fall, starting last summer.

The hedge fund, Highfields Capital Management, in August held 1.2 million Enron put options worth \$ 58.8 million, according to a filing with the Securities and Exchange Commission. Such options give an investor the right to sell shares at a future date, and make money on a stock's drop in value. In a November SEC filing, Highfields reported another round of bets that Enron would fall, with 2.3 million put options worth \$ 62.6 million. It's not clear how much Highfields gained on its bets, but Enron shares plunged 15 percent to \$ 49 in the second quarter of last year and slumped by nearly 50 percent in the next three months, to \$ 27. The embattled Houston energy trading company filed for bankruptcy protection last month, wiping out the value of its stock for most shareholders, including its own employees.

A Harvard student watchdog group, HarvardWatch, yesterday estimated Highfields gained at least \$ 50 million on its short selling. The group alleged Highfields and the university may have improperly profited because of connections to a member of Enron's board, Herbert S. Winokur Jr.

Winokur, who runs a Greenwich, Conn., investment firm, holds three Harvard degrees and is one of seven members of the university's highest governing board. He also sits on Enron's board and chairs its finance committee. He has been asked to testify before a Senate subcommittee investigating Enron's collapse.

Emma Mackinnon, a freshman at Harvard who works with HarvardWatch, said the group has urged Harvard president Lawrence Summers to suspend Winokur from the governing board, and to investigate whether he shared insider information with Highfields. Mackinnon said the group has no evidence that Winokur tipped off Highfields to Enron's troubles. But the well-timed short selling seems "quite a coincidence," she said, "particularly given Winokur's fiduciary responsibility to Harvard."

Neither Winokur nor Highfields executive Richard Grubman could be reached at work late yesterday. A story in the Globe last month detailed an April conference call in which Grubman, who suspected trouble, challenged Enron's former chief executive, Jeffrey Skilling, on the company's financial state. A Harvard spokesman said the university had not yet studied HarvardWatch's allegations but stood by Winokur.

"Mr. Winokur is a valued member of the Harvard corporation," said Joe Wrinn, the spokesman. "We understand that he is assisting in the Enron investigations now underway. The university is reviewing the situation for any developments that have a genuine bearing on Harvard."

Wrinn said the Harvard Management Co., which oversees Harvard's total endowment, does not

participate in investment decisions made by Highfields, "including its Enron investments."

It's not clear how much Harvard may have benefited from Highfields's Enron bets. Highfields manages more than \$ 4.8 billion in total assets. Harvard's \$ 18 billion endowment first invested \$ 500 million with start-up Highfields in 1998 and has since invested more.

HarvardWatch also alleged in its report yesterday that Harvard's Kennedy School of Government had been swayed to do policy work on Enron's behalf after receiving large contributions from Enron executives. Harvard declined to comment on the allegation.