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1MDB scandal. Cayman assets

Malaysian state fund's Caribbean connection falls under scrutiny

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Amid a web of dealings, more than \$2.3bn is said to have been held in the offshore haven

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It is a mystery featuring tropical islands, a Saudi oil company and the fate of billions of dollars of Malaysian state investment fund money.

It is also a central enigma in a scandal that has engulfed Malaysia and left Najib Razak, prime minister, fighting for his political life.

At the heart of the web of dealings lies the question: what is the story of the more than \$2.3bn said to have been held in the Caymans on behalf of 1MDB, the Malaysian-state-owned company?

An Australian court case and documents compiled by Malaysia's auditor-general raise questions about why the Caribbean investment was set up, how it was run, and how much holdings in it were worth.

1MDB, which is trying to cut more than \$11bn of debt, is adamant that an internal probe into its past dealings has uncovered no evidence of crimes.

The storm has spawned a campaign to oust Mr Najib, who drove the fund's development from 2009 and chairs its advisory board. In July it emerged that almost \$700m had been transferred into a bank account in his name. Mr Najib insists the money was not linked to 1MDB but was a political donation from an unnamed Middle East source.

The broader 1MDB affair has sparked probes at home and overseas, including in the US and Switzerland.

The 1MDB Cayman story began in the fund's early days, when it agreed a joint venture with PetroSaudi.

That tie-up – contentious in itself – ended in 2012 after a complex chain of deals, according to a section of a draft report by Malaysia's auditor-general completed in June and seen by the FT. 1MDB said it sold equity and debt interests linked to the PetroSaudi venture to a company called Bridge Partners International Investment, generating \$2.32bn of proceeds, according to the auditor-general's report.

The proceeds were in the form of promissory notes. 1MDB used these to buy, via a subsidiary known as Brazen Sky, portfolio investments in a Cayman-registered vehicle called Bridge Global Absolute Return Fund SPC. Bridge Global had been incorporated a month earlier, in August 2012.

An alarm about the Cayman dealings came from KPMG, 1MDB's auditor, according to the auditor-general's draft report. The firm was unhappy because 1MDB would not give it documents to help it assess the



The Cayman Islands assets of 1MDB are the focus of concerns. Below: Malaysian prime minister Najib Razak – Getty Images

ownership of the investments, their value and Bridge Global's financial standing.

On New Year's Eve 2013, 1MDB sacked KPMG as its auditor, having cut loose Ernst & Young over another dispute three years earlier. The fund's 2012-13 accounts were finally signed off by Deloitte instead. KPMG, Deloitte and EY declined to comment.

Questions hang over what 1MDB's Cayman assets were, how they were invested, and what Bridge Global's credentials were. Bridge Global did not obtain a Cayman mutual fund licence until November 2013, more than a year after the 1MDB deal. Even Bridge Global's website is defunct: as of December 2014, it claimed to have "in excess of \$2.5bn under management".
Nick McDonald,

who answered a Hong Kong number for Bridge Global and confirmed he was a director of the group, said he could not comment. He referred questions to another business in Hong Kong named Bridge Partners, which he said was the ultimate manager of the funds whereas Bridge Global had only "oversight" responsibility.

Bridge Partners did not respond to questions about its background and alleged involvement with 1MDB. Its

An Australian court case has raised questions about why the investment was set up and how it was run

website says it is active across financial services.

Asked in Malaysia's parliament last year about Bridge Partners Hong Kong, Mr Najib did not dispute that it had a relationship with 1MDB.

1MDB has declined to give full details of its Cayman arrangements.

Arul Kanda, who was brought in to tackle a crisis of cash flow, insists that all the Caribbean money is accounted for. 1MDB has said it recouped almost \$1.4bn in cash by November 2014, with the balance of almost \$1bn of fund units then being sold in January to Aabar, a United Arab Emirates state investment fund, for a deferred payment.

Mr Kanda told the FT: "These are facts. These are not things I'm making up for your benefit."

But doubts on 1MDB's Cayman dealings have not gone away. The Malaysian

central bank said this month it had recommended that the attorney-general press criminal charges against the fund for allegedly inaccurate or incomplete disclosures between 2009 and 2011 in relation to its Caribbean assets.

Malaysia's attorney-general – appointed after Mr Najib removed his predecessor in July – retorted 1MDB had no case to answer. The central bank has ordered the bulk of the Caribbean funds to be repatriated.

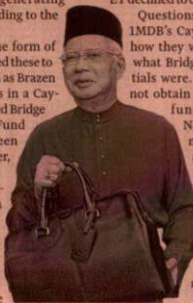
More concerns have sprung from a legal action in Australia, where a federal judge has appointed provisional liquidators from Deloitte to investigate Avestra Asset Management, a Queensland-based business linked to Bridge Global of Cayman.

The Australian Securities and Investments Commission says Avestra, which did not respond to a request for comment, is being probed to find out if there were suspected breaches of the law or potential losses to investment scheme members.

An affidavit filed by Glenn Childs, a senior securities commission investigator, says Avestra owned a stake in Bridge Global as of March last year. Other records show that the two businesses share directors. No other entity of a similar name to Bridge Global is listed in Cayman Islands Monetary Authority records.

1MDB would not confirm or deny whether the Bridge Global in the Avestra case was the manager of its billions. Since 1MDB was not mentioned in the Australian case, the fund argued, it was unable to offer any comment.

Additional reporting by Peter Wells



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