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Late last summer, analysts were high on Peregrine Investment Holdings, a ten-year-old investment bank that grew from a specialized company to one of Asia's top stock underwriters and equity brokerages.

Anne Gardini, head of research at ABN AMRO Hoare Govett Asia in Hong Kong, noted that the firm was trading at 9.3 times forecasted 1997 earnings.

The Wall Street Journal wrote: "The surge in Hong Kong and Chinese stocks has some analysts and investors figuring that the Chinese year of the ox may be the year of the bull market for Peregrine Investments Holdings."

Earlier in the summer, Mark G. Holowesko, president and chief investment officer of the venerable Templeton Global Equity Group, topped up his holdings in Peregrine stock, prompted by the firm's "fantastic job" of building China-related business. Then the bottom fell out.

The Real Story

On a cold night in early February, Gary Greenberg, the defunct Peregrine's former chief investment officer, shared with Traders Magazine the real story behind Peregrine's collapse in a telephone interview from his home in Hong Kong:

"What happened to Peregrine? Peregrine blew up because it was not able to manage the transition from the old world of broking to the new world, from the club system to the corporate system of financial services," Greenberg said, between coaching his son in Super Mario Brothers (the popular children's video game).

Peregrine apparently had the dubious distinction of being entrenched in the big stakes game played by the more entrenched big boys of brokerage without really "belonging," Greenberg said.

"Peregrine was only able to compete within the new, much tougher environment by taking risks that others were hesitant to take. That's one aspect," he added.

One U.S.-based trader familiar with Peregrine's business agreed. Steven Klein, director of global equity trading at American Century in Kansas City, said Peregrine had to be a risk taker to compete with other major Asian outfits.

"As it ratcheted up successes in those last 18 months or two years that they were really flying, it became very public, very prominent," Klein said. "It was a heavily competitive global environment for a firm the size of Peregrine."

Klein described American Century's relationship with Peregrine as "lengthy and strong," dating back to Peregrine's infancy. American Century executed equity business with Peregrine's brokerage arm in Asia.

Initially, the fund dealt with them directly through Peregrine's traders in New York, and then, after American Century opened its Singapore office, it dealt through Peregrine in Hong Kong.

Klein says Peregrine had about half-a-dozen sales traders in the Hong Kong office. "It was a significant operation, one of the very largest brokers in that region," he said.

As negative rumors started to swirl last fall around many firms based in Asia, Klein was hopeful that Peregrine would escape unscathed.

"We had been dealing with them within a week or two of when the disaster befell them," he said. "Only the week before, a persistent story began to develop that had credibility."

American Century immediately bowed out of its relationship with Peregrine for fiduciary reasons. When the crash came, American Century had no exposure to Peregrine.

"Rumors were that it had a really significant exposure in the Indonesian capital markets, which it had hoped to move out of very quickly, but got stuck," Klein said, adding that he never did learn the full story.

A Flat Organization

Greenberg knows what happened. "The Merrill Lynchs and the Goldman Sachs are just more conservative than Peregrine ," he said. "They have higher risk control, more layers of management. That's such a buzz word. Today, everybody's looking for firms that are entrepreneurial,' that don't have a lot of layers. Well, Peregrine was the ultimate in that a flat organization with very few layers of management. And, the problem is that if you allow inexperienced people to rise too quickly, you get into trouble.

"So what happened at Peregrine was an inexperienced person rose to very near the top of the organization, relatively quickly. Well, I don't know how quickly. I don't know exactly how old Andre Lee is, probably in his mid-thirties, young thirties. But Lee did not have a lot of experience in managing."

As Greenberg tells it, Lee went from trading at investment-banking giant Lehman Brothers to global head of fixed income at Peregrine. "And pretty soon Lee had 240 people reporting to him, and he in turn reported to the chairman of the company Peregrine ," Greenberg said. "All of a sudden, he went from ten layers over him at Lehman to only one at Peregrine, which apparently was perhaps too lean and mean. In retrospect, it was anorexic. So there just weren't enough layers in management."

Traders Magazine spoke with several people answering the phone at Peregrine's office in Hong Kong, and another person in the former British colony, working out of the office of Peregrine's liquidator, Price Waterhouse. They were not able to locate Andre Lee for comment.

Press Accounts

According to press accounts, Peregrine went under because of a large loan, of which John Lee no relation to Andre Lee , Peregrine's risk controller, was not aware. The recipient was Steady Safe, an Indonesian transportation company. The company was said to be well-connected with Indonesia's power elite, including one of President Suharto's daughters.

Even with the crisis in Asia, the loan wouldn't have looked so bad back then. "This was last summer, and the thinking was that Thailand had problems, Malaysia had problems, but Indonesia really was a better-managed economy," Greenberg said.

He recalled: "Peregrine, which had successfully avoided the Thai and Korean meltdowns, was feeling pretty clever and was sure that Indonesia didn't represent the same kind of risk." John Lee apparently knew there was exposure to Indonesia, but didn't appreciate the size of it until it was too late, because it was being written "in dribs and drabs," Greenberg said.

"At the peak, $250 million was outstanding to Steady Safe, representing at one point approximately 28 percent of Peregrine's capital of $850 million in equity. Not really good risk control," Greenberg said. He said no one would have approved the loan if it was more transparent to upper management. But it happened "two million here and two million there" coming out of Andre Lee's fixed-income department. The loan was backed by bonds. "So, the controller was out of the loop," Greenberg said.

Of course, the loan, believed to have been made in August, preceded the Asian currency meltdown over September and October, during which the exchange rate of the Indonesian rupiah plummeted from 2,300 rupiah to 16,000 rupiah for one U.S. dollar.

"It was pretty unbelievable," Greenberg recalled. "You don't normally have currencies that drop 90 percent. So that pretty much destroyed the company."

Greenberg said there was a lot of other Indonesian paper on the books besides that loan. The debacle of the $250 million loan to Steady Safe must be seen, however, in this context: the huge dive in the lender's assets on paper as the rupiah took its unmerciful plunge. Greenberg gave this explanation.

"Think in terms of a balance sheet," he said. "The assets stay in the local currency and the liabilities in the foreign currency. So your assets shrink, in dollar terms, while your liabilities stay the same.

"Consequently, what happened to all Indonesian companies with dollar debt, was this: though they looked good before the devaluation, they were effectively bankrupted after the currency crisis. So all of corporate Indonesia effectively went bankrupt.

"Peregrine, which had a good amount of exposure to Indonesian corporate paper, was unable to get its banks to rollover their lines of credit to the company."

Leverage

Ironically, Peregrine was not heavily leveraged, compared to most American investment banks. But given the crisis of confidence and, perhaps most critically, the lack of deep-rooted relationships with their lending banks (First National Bank of Chicago, a unit of First Chicago NBD Chicago reportedly was the first to pull the plug) the combination spelled disaster.

The next move? A white knight. There were rumors that the Bank of China was willing to step in and that Peregrine chairman and co-founder Philip Tose nixed it in favor of a more blue-chip investor, namely Switzerland's Zurich Insurance Company.

Greenberg declined to comment. But he did say that Zurich was just about to make the deal when some of the lenders decided not to rollover their loans and the deal fell through, forcing Peregrine into liquidation. The Hong Kong and China Equity Team was sold to Banc Nationale de Paris and the remainder of the equity team was sold to Banco Santander, in Spain.

If there was a defining moment for Greenberg, it was on that Friday morning in January when he arrived at his office and heard that the Zurich deal collapsed at 5:30 a.m.

"Everybody sort of went numb," he said, "because they all expected the Zurich deal would succeed. No one told anyone typical mushroom management. However, we heard through rumors that things had not gone well. By 6:30 p.m. that evening, the call came from the chairman that we were going into default.

"Actually, I was summoned to a last-minute meeting prior to that on that same day, with a large U.S. institution, a prospective white knight to try to pull us out. But they weren't prepared to make such a big decision within six or eight hours."

Eventually, Greenberg accepted an offer from one of Peregrine's larger clients, Van Eck Global. He's joining Van Eck as managing director of Van Eck Global Asia and chief investment officer of its affiliated international equities business. The new post will see him move back to New York by year's end after a nine-year absence. Greenberg, who hails from Chicago's South Side, is happy again. "I'm going back to my roots. And, yes, you should get me a beer at Harry's in Hanover Square in lower Manhattan get me several," he said.

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