The Case Of Wilbur Ross' Phantom $2 Billion

[Dan Alexander]
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Anthony Kwan/Bloomberg

Fresh off a tour through Thailand, Laos and China, United States Secretary of Commerce Wilbur Ross Jr. picked up the phone on a Sunday afternoon in October to discuss something deeply personal: how much money he has. A year earlier, Forbes had listed his net worth at $2.9 billion on The Forbes 400, a number Ross claimed was far too low: He maintained he was closer to $3.7 billion. Now, after examining the financial-disclosure forms he filed after his nomination to President Donald Trump's Cabinet, which showed less than $700 million in assets, Forbes was intent on removing him entirely.

Ross protested, citing trusts for his family that he said he did not have to disclose in federal filings. "You're apparently not counting those, which are more than $2 billion," he said. When asked for documentation, the 79-year-old demurred, citing "privacy issues." Told that Forbes nonetheless planned to remove him from the list for the first time in 13 years, he responded: "As long as you explain that the reason is that assets were put into trust, I'm fine with that." And when did he make the transfer that allowed him to not disclose over $2 billion? "Between the election and the nomination."

So began the mystery of Wilbur Ross' missing $2 billion. And after one month of digging, Forbes is confident it has found the answer: That money never existed. It seems clear that Ross lied to us, the latest in an apparent sequence of fibs, exaggerations, omissions, fabrications and whoppers that have been going on with Forbes since 2004. In addition to just padding his ego, Ross' machinations helped bolster his standing in a way that translated into business opportunities. And based on our interviews with ten former employees at Ross' private equity firm, WL Ross & Co., who all confirmed parts of the same story line, his penchant for misleading extended to colleagues and investors, resulting in millions of dollars in fines, tens of millions refunded to backers and numerous lawsuits. Additionally, according to six U.S. senators, Ross failed to initially mention 19 suits in response to a questionnaire during his confirmation process.

Nearly a week before this article went to press, both Ross and his team at the Commerce Department were sent a detailed list of questions. "Secretary Ross has filed all required disclosures in accordance with the law and in consultation with both legal counsel and ethics officials at the Department of Commerce and Office of Government Ethics. As we have said before, any misunderstanding from your previous conversation with Secretary Ross is unfortunate." They declined to provide further answers on the record.

But Ross' questionable assertions to Forbes, combined with a recent controversy about a multimillion-dollar stake in a shipping company that does big business with close associates of Vladimir Putin, paint a clearer picture of the commerce secretary's tactics. His slippery statements during his confirmation hearings--"I intend to be quite scrupulous about recusal and any topic where there is the slightest scintilla of doubt"--came as no surprise to those who have known Ross for decades.

"Wilbur doesn't have an issue with bending the truth," says David Wax, who worked alongside Ross for 25 years and served as the No. 3 person in his firm. Another former colleague, who requested anonymity, was less circumspect: "He's lied to a lot of people."

Listen to Wilbur Ross apparently lie to Forbes:

TWENTY-SIX YEARS before Donald Trump was elected president of the United States, Wilbur Ross disappeared. It was 1990, corporate America was sick on junk bonds, and Ross was a top bankruptcy negotiator. But one November day, he failed to show up at an important meeting to brief bondholders in a furniture company's bankruptcy. They didn't know where he had gone.

Until they went home and turned on the television. There was Ross, with Donald Trump, announcing a deal to recapitalize Trump's Taj Mahal casino, which was then careening toward bankruptcy. They were technically adversaries, with Ross representing one group of bondholders--at one point Trump asked them to fire Ross after he dismissed a Trump proposal to keep 100% of his equity, saying, "It's too early for Christmas." But Ross eventually brokered a deal among Trump, debt holder

Carl Icahn and Ross' own clients that allowed Trump to keep a 50% stake. "I think [Ross] is very talented, a fantastic negotiator," Trump said at the time.

The son of a judge, he always has been. He grew up in New Jersey, attended Yale and then Harvard Business School and eventually wound up as the bankruptcy work-out specialist at the investment bank Rothschild, where he was known for his ability to quickly distill complex situations. "He was very, very sharp," says someone who worked with him back then. "Very tough." By the early 1990s, his unit was bringing in around $18 million a year, with Ross personally pocketing more than a third of that.

Ross was an extremely well-paid professional, but he yearned for the big money and big spotlight that come with having your own shop. "People knew of him," says another former colleague, "but not on his own." At first, he worked within Rothschild, raising $200 million for an internal private equity fund that would leverage his bankruptcy expertise to pick up companies on the cheap. Three years later, in 2000, he bought out the fund and slapped his name on the door. At 62, when most investment bankers start dabbling in golf and vineyards, Ross was poised to claim some glory for himself. Says Wax: "He viewed it as an opportunity to have a pulpit, to name something after himself and to potentially make a lot of money."

Ross quickly accomplished all three of those things. In 2002, his firm invested in the bankrupt steelmaker LTV. According to a Harvard Business School case study, LTV had put $1.2 billion into new plants and equipment but laid off 7,500 union employees and faced a $3.4 billion pension burden. As a master of work-outs, Ross knew he could get the federal government to take over the pensions. According to people who worked at the firm then, Ross told the unions he'd buy the business if they let him hire back just 3,500 workers. Figuring 3,500 jobs were better than none, the union agreed, and WL Ross picked up most of LTV's assets, without the pension headaches, for $135 million and about $165 million in annual environmental liabilities.

Ross' timing was impeccable. One week later, President George W. Bush issued a stiff tariff on steel imports, sending U.S. prices soaring and making Ross look like a genius. He rolled up several more steel companies, including Bethlehem Steel, into International Steel Group, which filed for an IPO in 2003.

Ross was technically the beneficial owner of nearly $1 billion worth of the stock. But most of that belonged to his investors, not Ross personally. In 2005, Indian billionaire Lakshmi Mittal bought the business for around $4.5 billion in cash and stock.

Ross personally invested only about $3 million in his firm's first two funds, according to former employees. Buoyed by International Steel Group, he roughly tripled that money, but the bigger payout came from carried interest--the manager's cut of overall profits, typically 20%. In all, Ross made an estimated $260 million.

A huge score, yes, though not nearly enough to be one of the 400 richest people in America. But when a Forbes reporter reached out to Ross, apparently crediting him with his investors' money, the future commerce secretary did nothing to clarify the situation, according to notes at the time.

"I just spoke to Ross," the reporter wrote. "He's one of the easiest new guys I've put on [The Forbes 400] in a while. Very low-key, said he didn't really want to be on, but at the same time wasn't going to fight success. He says he doesn't want to juice up his numbers at all."

"I told him we're going to start him at $1 billion," added the reporter, who no longer works at Forbes . "And he said 'Yep, fine, thank you.' "

Ross appeared on The Forbes 400 for the first time in 2004, with a net worth listed at $1 billion. It was nearly four times as much as he was likely worth. "Everyone that I knew that worked with Wilbur knew it wasn't true," says a former colleague of Ross. A legend was born, and like most legends, this one had its roots in a myth.

WITHIN DAYS OF that fateful issue of Forbes, Ross married for the third time at a beachside church in Southampton, New York. His bride, Hilary, 12 years younger, had spent much of her life in the Hamptons and Palm Beach, two of the East Coast's most famous billionaire playgrounds. "She brought him a certain kind of prominence, socially," says David Patrick Columbia, who publishes Hilary's musings on his website, New York Social Diary. "It was a perfect merger." Adds another contemporary: "She wants her husband to be on The Forbes 400."

Life began to change for Ross. Once known for quirky suspenders, he now wore impeccable suits. A workaholic for most of his career, he began spending much of the year outside of New York. He started flying private, built up a collection of paintings by the Belgian artist René Magritte and bought a Palm Beach estate for $13 million.

His fundraising kept pace with his spending. In 2005, he raised a $1.1 billion flagship fund, his largest yet. The next year, he sold WL Ross & Co. to the publicly traded investment-management company Invesco for $100 million up front and the ability to earn an additional $275 million, depending on how much money he was able to raise in later funds.

With Invesco and a big incentive behind him, Ross raised a massive $4.1 billion fund in 2007, putting roughly $70 million of his own money into that one and the 2005 predecessor, according to three former employees. His net worth at this time was likely around $400 million, thanks to the sale of WL Ross & Co. But when contacted by Forbes that year, he gave valuations for his firm's investments as if the money belonged to him. The myth, with Forbes compounding it based on our original mistake and Ross' exhortations, got bigger. Now Forbes listed Ross with a net worth of $1.7 billion.

That wasn't enough. "I would say the total now is a bit more than $2 billion," Ross wrote in a 2011 email, according to notes taken at the time. In 2013, a different Forbes reporter realized that prior estimates seemed to include not just Ross' money but that of the investors in his funds. Ross strung us along, leading us to believe he would provide evidence of his assets, but never did. Just months later, he was insisting that he was even richer, and Forbes continued to largely fall for it. "2.75 [billion] is a bit low but probably close enough," he wrote in an email around the start of 2014. In September, he was arguing for a valuation of $3.45 billion but begrudgingly accepted a smaller figure: "3.1 [billion] is low, but I understand why you wish to be conservative."

Why wouldn't Ross be satisfied with $400 million? "You're talking about someone as egotistical as they come," Wax says. Five other former employees add a more tangible reason: The more money Ross appeared to be worth, the more money investors seemed willing to give him. "Really, for us, it was a bet on him, " says Sam Green, who helped put $300 million into Ross' funds on behalf of the Oregon Public Employees Retirement Fund, citing his personal wealth as one factor. "I don't know of any better indicator of future success than having been successful in the past." Ross had seemed to figure out how to make fake numbers generate real assets.

IN 2010, ROSS set out to raise a new private equity fund, hoping to come up with another $4 billion. It was an audacious goal in the wake of the financial crisis, far more than many of his partners thought would be possible. After two years of fundraising, Ross closed it with just $640 million of investments. Still, he told the media he had raised $2.2 billion. Technically true but also misleading. Most of the other $1.6 billion or so came from other funds or accounts that paid little or no fee to Invesco. Given that shareholders might assume that the firm had an extra $2.2 billion of assets generating fees for its private equity arm, which was not true, Invesco later clarified the matter on an earnings call.

There were also charges related to transparency inside the funds. In August 2016, the SEC announced a settlement with Invesco-owned WL Ross after investigating whether the firm had charged its investors improper fees from 2001 to 2011. WL Ross agreed to pay a $2.3 million fine, without admitting or denying the findings of the investigation. It also agreed to refund $11.8 million to investors. And that was small potatoes: Buried in its 2015 annual report, Invesco disclosed that it had paid an additional $43 million in reimbursements and regulatory expenses associated with its private equity business in the previous two years. The filings don't explicitly connect that money to WL Ross--and these payments have never before been reported--but four former employees said they were all tied to Wilbur Ross' firm. Invesco declined to comment for this story.

In 2012, Ross' longtime No. 2, David Storper, left the firm but said he retained interests in many of the funds. Three years later, Storper alleged in a lawsuit that the firm sent him inaccurate financial information after his departure and that Wilbur Ross stole his interests outright. Ross denied the allegations, and the lawsuit remains ongoing. A few years earlier, a vice chairman of WL Ross sued Wilbur Ross for more than $20 million, alleging that Ross tried to cut him out of interest and fees he had been promised. The parties had reached a settlement by 2007, which former employees say cost about $10 million.

The Storper case has other ex-employees looking back to be sure they were sent proper information. Joseph Mullin, a former member of WL Ross' 15-person investment team, filed his own suit against WL Ross & Co., also alleging that Ross took his interests after he left. The firm filed a motion to dismiss in February, but the case remains active. A third ex-colleague, who is not in litigation, argues that Ross' tactics went beyond hard-nosed negotiating: "Everybody does some cheating, everybody does some lying. Not everybody steals from their employees."

ON NOVEMBER 8, 2016, the night that upended American politics, Wilbur Ross was with Donald Trump, his family and top backers in New York City. The relationships inside this inner sanctum ran deep. Billionaire Phillip Ruffin, the president's Las Vegas partner who had Trump serve as best man at his wedding, was there. So was Icahn and apparently Richard LeFrak, the real estate tycoon who was part of the Palm Beach circle that included Trump and Ross.

But Ross was the only one who left his day job to join Trump in government. "I'd rather hang myself," Ruffin told Forbes earlier this year. "I don't know why Wilbur took it."

But viewed in the context of Ross' career arc, it makes perfect sense. The steel deal made him rich, but his returns have been mediocre since, so much so that WL Ross filed documents to raise a sixth flagship fund last year, but nothing seemed to come of it. Trump, the guy he kept afloat 26 years before, offered his fellow attention-seeking dealmaker a lifeline to relevance.

Ross' appointment as secretary of commerce came with one catch: He had to disclose his assets, providing evidence that he was not as rich as he had long claimed. In 2015, he sent Forbes a detailed breakdown of his supposed holdings, listing $1.25 billion in partnership interests, $1.1 billion in municipal bonds, $500 million in equities, $200 million in art, $110 million in real estate and $200 million in cash, for a fanciful total of $3.4 billion, according to notes taken at the time. We eventually listed him at $2.9 billion. Last year, Ross' assistant claimed $3.7 billion; we stuck with $2.9 billion.

His former colleagues saw the moment of reckoning coming as soon as he accepted a Cabinet role. "It was surprising because he would have to reveal to the world that he wasn't a billionaire," one ex-employee said. "I was surprised that he would take that risk."

But Ross was ready to double down, even while he was a Cabinet member, telling Forbes about the putative $2 billion asset transfer to his family members after the election. That opened up a storm of questions from ethics and tax experts. If Ross had owned $2 billion of additional assets before the election, wouldn't they have produced income that he was required to disclose, even if he no longer owned the assets? And why would someone apparently transfer $2 billion to his family, thereby triggering more than $800 million in gift taxes, especially with a president in the White House who was prepared to eliminate the estate tax and therefore much of the cost of transferring fortunes to later generations?

"I am aware of the ethics and tax rules and have complied with all of them," Ross wrote in an October email to Forbes . "Aren't you going a bit overboard on this? I have explained my situation to you and am surprised and disappointed by the seemingly accusatory tone of your email. For more than 50 years I have had a good relationship with your publication and with the Forbes family. And never have had a bad experience with either. In fact I was just the featured speaker at your magazine's hundredth anniversary CEO conference in Hong Kong."

After Forbes published an online story on October 16 laying out those questions, six Senate Democrats wrote a letter to the top ethics official in the federal government, asking him to figure out what was going on with Ross' finances. "It is imperative that Congress and the Office of Government Ethics know the full extent of Mr. Ross's holdings to ensure he is not putting personal gain ahead of the interests of the American people."

The Department of Commerce issued a statement saying the $2 billion gift never happened. "Contrary to the report in Forbes, there was no major asset transfer to a trust in the period between the election and Secretary Ross's confirmation."

The only problem with that statement: The person who told Forbes that the transfer had taken place, that it had happened after the election and that it had meant more than $2 billion of family assets weren't on the disclosure was none other than the sitting secretary of commerce, Wilbur Ross.

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Know something about the wealth of Wilbur Ross, other billionaires, tycoons or Trump administration officials? Reach us – anonymously and securely – at tips@forbes.com or via our SecureDrop site.