California pension funds paid millions to former insiders working as middlemen investors

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The California Public Employees' Retirement System (CalPERS), the largest pension fund in the US, revealed last Thursday that $125 million was paid out to intermediary investors known as placement agents, several of whom turned out to be former CalPERS board members.

Placement agents are essentially middlemen whose purpose is to direct investments for the pension fund. These agents presented investment options to CalPERS and received a commission, usually at a rate of between 1 and 5 percent, for business deals.

The pension fund made the information public after a state Public Records Act request was made by the *Los Angeles Times* and other news agencies. The 5,000 pages of documents released provide strong evidence that there is, as the *Wall Street Journal* described it on January 15, a "revolving door" between CalPERS and major financial firms. This relationship allows those who previously presided over the multibillion-dollar retirement institution to cash in on their insider knowledge and become placement agents directing the investment of workers' pensions into well-connected banks.

CalPERS is worth upwards of $200 billion. Its value exceeds the respective gross domestic product of all but 41 of the world's countries.

At least four ex-CalPERS board members were among the placement agents named in the documents, including former State Treasurer Matt Fong, who consulted with Wetherly Capital, an equity firm that won a total of $5.9 million in deals made with the pension fund. One of its agents, Julio Ramirez Jr., pleaded guilty in a New York pension fund corruption case last spring.

Also included was former CalPERS President William Crist, who consulted for the London-based Governance for Owners. Crist made $800,000 for Governance when they won an investment from CalPERS while he was Governance's board chairman.

"My value to them, I suppose, was that my friends at Calpers knew I wasn't going to sell them a bill of goods," said Crist in an interview with *Bloomberg* news service. "To suggest that I somehow convinced them to make an investment without doing due diligence doesn't give those people much credit," he insisted.

Pat Macht, the director of CalPERS's external affairs, told *Bloomberg.com* that the $125 million made by the top 10 placement agents only represented a "large majority" of the money made by all investment agents, and that her agency had no estimate of the true grand total.

The top earner who won the most money from investing into CalPERS was Alfred Villalobos, who, as head of Arvco Financial, made $58.9 million since leaving CalPERS in 1993. Villalobos has been the subject of an investigation launched by the pension fund since last October. The documents released by CalPERS also shows that Apollo Management, one of Arvco's biggest clients, paid $11 million in fees in the 1990s to Donaldson Lufkin and Jenrette (DLJ), an investment firm at which Villalobos also worked. This money is not included in the nearly $59 million that Villalobos officially made off CalPERS.

Nicholas Smith is another CalPERS board member turned placement agent. Once a deputy controller who served as former State Controller Steve Westly's "designee" at CalPERS board meetings, he now works for Gold Bridge Capital, led by Democratic lobbyist and fundraiser Darius Anderson. Gold Bridge Capital was one of the top 10 earners listed by CalPERS, winning fees worth more than $1 million.

Additionally, Anderson and his brother, Kirk Anderson, along with Smith, worked as placement agents securing $200,000 in CalPERS money for New York-based Psilos Group Managers.

During the 2008-2009 fiscal year, CalPERS lost nearly 23% of its value, putting the retirement benefits of 1.6 million former employees and their families at risk. After teetering on bankruptcy in 2008 and receiving emergency aid from California's "rainy day" fund, it recovered somewhat late last year due to the upturn in the market. CalPERS was hit hard by the economic crisis because so much of its money had been directed toward investments in real estate and speculative finance. The recklessness of investors' activities was in part driven by the fact that the fund is sustained by injections from taxpayer money and local municipalities. In the event of serious losses, it was assumed that a government bailout would protect investors.

The placement agents and investment firms who made money off CalPERS resemble pigs at the trough, consuming as much as they could while gambling away the pensions and livelihoods of hundreds of thousands of ordinary people.

As a result of the ongoing revelations of impropriety at CalPERS, the pension fund has passed a rule requiring investment firms to disclose when they hire placement agents, what services they perform, and how much they are paid. Firms must repay whatever fees they were paid if they fail to disclose their relationships. Last October, California Governor Arnold Schwarzenegger signed a law requiring placement agents seeking state and local pension fund money to disclose their business dealings. It also lengthened the time a former pension board member must wait before becoming an agent at least one year to two years.

These measures, which cannot even be described as toothless, will do nothing to prevent future abuses of power by pension fund managers or protect the retirement savings of California's public servants.