



California Public Employees' Retirement System
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FACT SHEET

CalPERS Toughens Ethics, Accountability

A Track Record of Reforms and Actions

OVERVIEW

CalPERS has taken aggressive steps to implement policies and reforms that strengthen the pension fund's accountability and ethics, and to ensure full transparency. These actions have included:

- Strong disclosure policies and rigorous regulation of placement agents
- Tough rules for communication between Board Members and staff about investment proposals
- Authority to discipline Board members who violate policy
- The pursuit of information and a special review to ensure CalPERS has not been victimized by placements agents
- A ban on gifts to employees from business partners and potential business partners

The actions are aimed at providing CalPERS members, employers and the public complete confidence in the System's investment decision-making process and ensure the CalPERS Board is meeting its fiduciary duty.

CALPERS ACTIONS

INVESTMENT DECISIONS DELEGATED TO CHIEF INVESTMENT OFFICER

March 2009 – CalPERS Board adopts a revised delegation of authority that includes a provision that requires the CEO to delegate to the Chief Investment Officer (CIO) the authority to negotiate and execute investment transactions approved by the Board, or within those discretionary areas delegated from the Board to staff. The delegation further provides that the CEO shall have no reservation of right over such matters delegated (i.e., the authority delegated to the CIO to negotiate and execute investment transactions). For this reason, only the CIO, not the CEO, has authority to negotiate and execute investment transactions.

LIFTING THE VEIL ON PLACEMENT AGENTS

May 2009 -- CalPERS Board of Administration adopts a policy requiring external money managers to disclose fees and other information about placement agents that the external managers have hired to seek CalPERS business. The placement agents also are required to register as broker-dealers with federal agencies. The Board also asks money managers it has previously done business with to voluntarily disclose whether they used a placement agent to gain CalPERS business, and, if so, how much they paid in fees. The policy was prompted by improper activities between placement agents and New York State and City pension fund.

June 2009 -- CalPERS Board directs staff to ask its investment partners to disclose the names of placement agents used currently or in the past when seeking CalPERS business and the amount of fees that the investment partner paid to the placement agent.

CALPERS POLICY SERVES AS MODEL FOR STATE LAW

September 2009 --- CalPERS internal policy requiring disclosure of placement agent names and fees paid by investment managers serves as a model for state legislation (AB 1584) introduced by Assemblyman Ed Hernandez, D-West Covina and supported by CalPERS. AB 1584 also requires disclosure of campaign contributions by placement agents to retirement board members; prohibits board members from selling investments to other public pension funds; and increases the time that former board members and pension fund executives must wait before they can represent third parties before CalPERS.

CALPERS TAKES STEPS TO ENSURE IT WAS NOT VICTIMIZED

October 2009 -- CalPERS hires Steptoe & Johnson, a Washington, D.C., law firm, to conduct a special review of the fees paid by its external managers to placement agents to ensure CalPERS has not been victimized by placements agents. The review was prompted by CalPERS disclosure that a company headed by former Board Member Alfred Villalobos, who served from 1993-95, received more than \$50 million in placement fees over a five-year period.

STAFF BAN ON GIFTS STRENGTHENS ETHICS

November 2009 – CalPERS CEO Anne Stausboll establishes an employee ban on gifts of value including money, services, loans, entertainment, tickets, food or beverages from any person or entity doing business with CalPERS or seeking to do business with CalPERS or any registered lobbyists, lobbying firms, associations, businesses or interest groups seeking, or advocating for or against legislation.

CALPERS SEEKS STRONGER LAWS ON PLACEMENT AGENTS

November 2009 -- CalPERS Board President Rob Feckner announces the fund will pursue legislation requiring placement agents to register as lobbyists under the California Political Reform Act. The legislation also would prohibit placement agents from collecting contingency fees based on the outcome of any CalPERS investment decision. Soon after, CalPERS, state Controller John Chiang and state Treasurer Bill Lockyer sponsor AB 1743 by Assemblyman Ed Hernandez, D-West Covina that would require placement agents to register as lobbyists under the California Political Reform Act. CalPERS Board President also asks fellow Board members not to meet with placement agents until the special review conducted by Steptoe & Johnson is complete.

CALPERS BOARD TIGHTENS ITS OWN RULES

December 2009 -- CalPERS Board votes to tighten its ethics policies, creating new rules for communication between Board Members and staff concerning investment proposals and giving the President authority to discipline Board members who violate policy. Board Members also will be required to attend annual training sessions detailing their responsibilities to fund participants and beneficiaries.

CALPERS ENHANCES REVIEW OF STATEMENT OF ECONOMIC INTEREST

December 2009 -- CalPERS General Counsel and Office of Enterprise Compliance implements a new enhanced process requiring the review of Form 700's by the filer's supervisor, manager, or contract manager for the purpose of identifying any potential conflict of interest. The process extends to all CalPERS Board members and representatives that file with the California Fair Political Practices Commission.

CALPERS BECOMES FIRST PUBLIC PENSION FUND TO DISCLOSE PLACEMENT AGENT DATA

January 2010 -- CalPERS releases more than 600 placement agent disclosures obtained by the fund from its external managers. The pension fund receives 100% compliance with all its managers responding to the request. The disclosures show that about 80 percent of managers did not use a placement agent when seeking CalPERS business. They also showed that money management firms paid 10 placement agent companies more than \$125 million in fees over a period of more than a decade.

CALPERS BOARD SUPPORTS ENHANCED BOARD CANDIDATE CAMPAIGN REPORTING

March 2010—CalPERS Board votes to support Senate Bill 1007 sponsored by California's State Controller John Chiang that would require CalPERS six elected Board members and the three elected board members of CalSTRS to file routine campaign reports and maintain related records after an election is concluded consistent with the requirements for state officials.

NEW DEALS END USE OF PLACEMENT AGENTS AND SHARPLY CUT FEES

April 2010—CalPERS strikes a new strategic relationship with Apollo Global Management LLC that calls for Apollo to reduce its fees by \$125 million over the next five years. Apollo also agrees not to use placement agents when seeking business from the pension fund in the future.

June 2010 – Relational Investors LLC and Ares Management LLC agree to cut their fees by \$30 million and \$10 million, respectively, over the next five years. The two firms also agree not to use placement agents when seeking CalPERS business.

October 2010 – CalPERS investment partner CIM Group agrees to cut its fees by \$50 million over a five-year period. CIM also agrees not to use placement agents when seeking business from CalPERS.

CALPERS LAUNCHES ETHICS HELPLINE TO IDENTIFY POSSIBLE FRAUD AND WASTE

September 2010 – CalPERS launches an Ethics Helpline enabling individuals to report concerns about possible workplace misconduct, including allegations of fraud, waste, abuse, conflicts of interest, safety violations, harassment and other potential misdeeds. The new Ethics Helpline operates 24 hours a day, online and on the phone.

CALPERS-SPONSORED LEGISLATION RESTRICTING PLACEMENT AGENTS SIGNED INTO LAW

October 1, 2010 – Legislation requiring placement agents who solicit pension fund business to register as lobbyists is enacted into law. The new law, AB 1743, also bans placement agents from receiving fees contingent on whether CalPERS invests with the external money managers who hire them. AB 1743 was authored by Assembly Member Dr. Ed Hernandez,

D-Baldwin Park, and co-sponsored by CalPERS, State Treasurer Bill Lockyer and State Controller John Chiang.

CALPERS REQUIRES CONTRACTORS TO DISCLOSE BUSINESS CONNECTIONS

November 2010 – CalPERS will now require contractors to disclose whether they’re using agents to seek pension fund business. Contractors also must disclose how much they paid the agents in fees and whether the contractors have financial or familial relationships with current or former Board Members. They also must generally identify payments, gifts, loans and other items of value offered to Board Members or CalPERS staff. The policy takes effect December 1, 2010.

CALPERS APPROVES SERIES OF MEASURES FROM SPECIAL REVIEW

February 2011 -- The CalPERS Board approves a series of measures to put in place recommendations made by Steptoe & Johnson, the law firm that conducted the special review on placement agents. They included:

- CalPERS Office of Audit Services will conduct periodic audits to ensure compliance with CalPERS policies and regulations that none of the fund’s money is directly or indirectly used to pay placement agent fees.
- CalPERS Investment Office will continue to review the fitness of external money managers who have used placement agents. Management and other fees will also continue to be reviewed by the Investment Office as part of the realignment effort. CalPERS already has obtained \$215 million in fee concessions from a number of its external managers, with these managers agreeing not to use placement agents when seeking CalPERS business in the future.
- CalPERS Investment Office will examine protocols concerning outside consultants and staff with respect to current and potential investments. The special review recommended that outside consultants be permitted to fulfill only one of two roles – either offering opinions on the merits of an investment proposal or assisting in the monitoring of the investment once CalPERS makes it. The review also recommended that investment consultants be precluded from performing money management functions and a consulting role. The Board asked the Investment Office to propose new policies or procedures to address the issue.
- The Investment Office will seek greater transparency from investment partners about the cost of advisory board and annual meetings. The Board also requested that, in the case of sole accounts, CalPERS staff require external money managers to hold business meetings at either their offices or at CalPERS.

CALPERS RELEASES SPECIAL REVIEW REPORT ON PLACEMENT AGENTS

March 2011 – CalPERS releases an 18-month special review of fees paid by its external managers to placement agents that considered more than 70 million pages of information collected from more than 400 custodians within CalPERS, and more than 140 interviews. In speaking about the review Rob Feckner, President of the CalPERS Board, condemned the apparent misconduct and apparent ethical breaches contained in this report, “On behalf of the CalPERS Board of Administration and every individual that works here to protect the interests of all of our members, we condemn in the strongest possible way the apparent misconduct described in this report. We commissioned the special review to find out what happened and we now have many answers. We have institutionalized more than a dozen new reforms and policies to guard against future wrongdoing, and the special review has identified additional policy changes that will be coming. Today we dedicate ourselves to pursuing all of the appropriate policy changes and all of the remedies available to us to both hold accountable the wrongdoers and prevent future misconduct. Let this episode in our history never be forgotten, that this report should remind today and tomorrow’s stewards of CalPERS that ours and theirs is a sacred trust, one that should never be allowed to be compromised for personal gain or outside interests.”

CALPERS POSTS TRAVEL COSTS, FORM 700 FORMS ONLINE

April 2011 -- In another move to expand openness, CalPERS began posting on its website travel costs and statements of economic interests submitted by Board Members and key executives. The travel information is posted online within one month of the date of reimbursement. Out-of-state travel by CalPERS Board Members must be approved by the full CalPERS Board. The statement of economic interests – known as Form 700 – is posted by the end of the month following the month in which the filing is received.

NEW ONLINE TOOL SIMPLIFIES REQUESTS FOR PUBLIC RECORDS

May 2011 – CalPERS launches a new online application tool that makes it easier for members of the public to file a Public Records Act request. Individuals seeking information through the Public Records Act can now detail their request by filling out a form on the CalPERS website and submitting it online. The request is then routed through the CalPERS Office of Stakeholder Relations, which will track it through to completion.

CALPERS BOARD ADOPTS GOVERNANCE REFORMS

September 2011 – CalPERS Board adopts ten sweeping governance reforms in an effort to further strengthen accountability, transparency and ethics. The changes provide a framework for supporting new policies and practices to improve the effectiveness of the 13-member Board, its committees and governance processes. The Board adopted six Principles for Effective Public Pension Fund Governance that reflect each Board Member’s commitment

to be effective and capable fiduciaries; ethical leaders; open and accountable to CalPERS stakeholders; risk intelligent and insightful in their decisions; focused on a long-term view for the needs of our members, retirees and their families; and committed to continuous learning, while being flexible for changing environmental, political and economic conditions.

The governance reforms also call for:

- Each Board Member to sign a statement acknowledging their fiduciary responsibilities in conjunction with fiduciary training and self-assessment processes.
- An independent third party to assess Board performance once every two years.
- New roles and responsibilities for the Board President, Vice President, Committee Chairs and Vice-Chairs.
- A new Powers Reserved structure for the Board and its committees that outlines responsible parties for approvals, standards of conduct, strategy, policy and performance.
- Certification of a “no undue influence” document to be signed by all senior executives and investment officers.
- Adoption of a new confidentiality policy that will assist in guiding Board conduct.