



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 BOOSTS TRANSPARENCY BY POSTING KEY DOCUMENTS ONLINE**

*October 2010* – The CalPERS Board votes to post on the CalPERS website travel costs and statements of economic interests submitted by Board Members and key staff personnel. The travel information will be posted online within one month of the date of reimbursement. The statements of economic interests – Form 700 – will be posted by the end of the month following the month in which the filing is received by CalPERS. The new policy takes effect January 1, 2011.

**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.