Having wealthy friends paid off

BUSINESS TIES REAPED RICHES FOR VILLALOBOS

By Dashi Kalister

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By DAVID KASIER

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CalPERS: Several probes of industry under way

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That was a rare miss for Villalobos. From his perch in Las Vegas, Nev., at Lake Tahoe, Villalobos has earned at least $60 million in fees off CalPERS investments since leaving the board in 1995, according to documents released by the pension fund.

The disclosure of such hefty commissions paid to a former board member has tarnished CalPERS' reputation, said Edward Siedle of Benchmark Financial Services, a Florida consulting firm specializing in pension issues.

"They're supposedly the old standard of pension governance," he said.

Middlemen's role reviewed

Last month CalPERS hired law firm to run a "special review" of Villalobos and other placement agents — the middlemen hired by investment firms to pitch deals to public pension funds.

CalPERS isn't the only entity taking a hard look at placement agents. The Securities and Exchange Commission, California Attorney General Jerry Brown and New York Attorney General Andrew Cuomo are all conducting investigations into the industry.

Cuomo already has issued a lawsuit, charging New York political operative Hank Morris in a kickback scheme involving that state's public pension fund. Ripples from the indictment have spread west, without admitting wrongdoing, Pacific Corporate — the CalPERS adviser to one-time Villalobos client — repaid the New York pension fund $2.1 million to resolve a probe by Cuomo.

Court records say the firm on a $750 million investment from the New York fund for one of its executives secretly agreed to give Morris a fee of the deal. The executive, who wasn't identified, had left Pacific Corporate, didn't tell his colleagues about Morris' role.

Pacific Corporate said in July it agonized with Cuomo "to make the public whole for the improper actions of a former executive."

Spokeswoman Pat Macht said CalPERS "is troubled" by Pacific Corporate's activities in New York. She wouldn't elaborate on the fund's concerns about its adviser and fund manager.

2 Villalobos firms targeted

While CalPERS is reviewing its dealings with placement agents in general, the fund has said its focus initially is on Villalobos' two companies, Arvco Capital Research and Arvco Financial Ventures. Arvco's clients have won at least $3 billion in CalPERS investments in the past decade, far more than any other placement agent.

As The Bee has reported, Villalobos hosted the 2006 wedding of then-CalPERS Chief Executive Fred Buenrostro at his Lake Tahoe mansion. Buenrostro, who says he reimbursed Villalobos for the costs, now works for Villalobos.

Villalobos also paid expenses for a 2006 trip he took with CalPERS board member Charles Valdes to London, Dubai and Hong Kong. Valdes said he reimbursed Villalobos.

Villalobos has cultivated relationships in other ways. Two retired state senators who once represented Los Angeles- and San Bernardino counties: Democrat Richard Polanco and Republican Bill Campbell, who now lives in Granada Hills, worked on deals with Villalobos, according to documents released by CalPERS.

And in 2005, Villalobos teamed with Parsky and Bower to form an organization called the Capital Markets Advisors Council, a Nevada nonprofit.

The organization is a think tank devoted to pension issues, according to its articles of incorporation. Parsky is president, Villalobos is secretary-treasurer and Bower is trustee.

Although Nevada records show Capital Markets has renewed its incorporation every year, the organization is inactive, said Dan Huley, a spokesman for Bower's firm. "The board never met, and operations never commenced," he said in an e-mail.

The three men formed Capital Markets the same year that Parsky's firm, Aurora-Capital Group of Los Angeles, hired Villalobos to obtain the first of two CalPERS investments totaling $550 million. Those deals earned Villalobos a string of commissions totaling $5.9 million, with the final payment due in January 2011, according to records released by CalPERS.

Parsky, who couldn't be reached for comment, is a former chairman of the University of California Board of Regents. He ran former President George W. Bush's 2004 re-election campaign in California, and was appointed by Gov. Arnold Schwarzenegger in 2007 to chair a blue-ribbon commission studying California pensions. Recently, he led a state commission on taxes. Villalobos couldn't be reached for comment. In his only public comment last month, he denied any influence at the giant pension fund where he once sat on the board.

"Arco doesn't make recommendations to CalPERS or any other investors," he said. "We introduce and present investment opportunities to them."

Lucrative ties to Apollo

His résumé says Villalobos founded Arvco in 1978 as an investment banking firm. A graduate of Whittier College, he took graduate courses at Pepperdine University's business school in the late 1970s but didn't get his business degree, said Pepperdine spokesman Douglas Gore.

After several years in banking and economic development, Villalobos in 1993 became Los Angeles' deputy mayor in charge of economic development. Five months into his tenure, he resigned after the Los Angeles Times reported he had filed for bankruptcy protection and racked up huge gambling debts.

In 1993, he was named to the State Personnel Board and became its designated representative on the CalPERS board. He left CalPERS in 1995 and spent the next two years at the Donaldson Lufkin & Jenrette investment bank, according to his résumé.

In 1997, Villalobos was back at CalPERS. This time he was acting as a placement agent for Dallas investment firm Hicks Muse Tate & Furst, which was seeking a $100 million deal.

Villalobos' work was legal because he'd left CalPERS more than a year before. But the deal was controversial. In a very rare move, the CalPERS board ignored staff advice and agreed to the deal with Hicks Muse.

According to media reports at the time, the board was guided in part by a recommendation from Pacific Corporate's managing partner, Leon Black, who provided legal advice. Black is a financier and survivor of the Drexel Burnham Lambert junk-bond era with his reputation intact. Apollo hired Villalobos eight times to win CalPERS money, generating $421 million in commissions.

Since spring, CalPERS has been reviewing its relationship with Apollo. It says review isn't connected to Villalobos controversy.

Call The Bee's Dale Kasler (916) 321-3069, Read his columns at sacbee.com, blog at Home Front, at www.sacbee.com/blogs.

WHO'S A PLACEMENT AGENT?

Placement agents are hired by investment firms to help-market investment proposals to public pension funds such as CalPERS. Agents generally work on commission, usually earning 1 percent to 2 percent of the investment.

THE WORLD OF ALFRED J. VILLALOBOS

Villalobos, a former CalPERS board member, is a placement agent hired by investment firms seeking dollars from public pension funds. He has earned more than $50 million in commissions marketing investments to CalPERS.

Gerald Parsky, an influential California businessman, is paying Villalobos $5.9 million in commissions. Parsky and Villalobos co-founded a nonprofit corporation dedicated to pension research and education.

Christopher Bower, the JoJla financier, advises CalPERS and has hired Villalobos to propose deals to CalPERS. He also co-founded the nonprofit with Parsky and Villalobos.

Leon Black, billionaire New York investor, is Villalobos' biggest client, paying him $42 million for CalPERS work.

Antony Ressler is co-founder of Ares Management, Villalobos' client.

Richard Ressler is head of real estate firm CIM Group, another Villalobos client. Antony and Richard Ressler are brothers; Leon Black is their brother-in-law.