

# Investigation: CalPERS bribery case involving Tahoe man cost fund millions

By Dale Kasler, Sacramento Bee

The bribery scandal at CalPERS likely cost the pension fund tens of millions of dollars, a lawyer hired by CalPERS to investigate the matter concluded today.

Washington securities lawyer Philip Khinda, in a 56-page report to the CalPERS board, said former board member Alfred Villalobos effectively corrupted top officials at the fund, notably former Chief Executive Fred Buenrostro, to steer investments to his clients. Khinda named four other CalPERS officials close to Villalobos: former board members Charles Valdes, Kurato Shimada and the late Robert Carlson, and former investment officer Leon Shahinian.

Villalobos and Buenrostro have been sued by the California attorney general on corruption charges. Federal prosecutors are investigating the matter, according to CalPERS documents.

Khinda said the affair created a perception in the investment industry that one needed close ties to CalPERS, as Villalobos had, to get the pension fund's attention.

"Maybe I should change my last name to Villalobos to insure that I get a call back," a financier named Dan Weinstein once told Shahinian, according to Khinda's report.

Reacting to the report, CalPERS pledged to continue its reform efforts. "Let this episode in our history never be forgotten," President Rob Feckner said.

Khinda said Buenrostro was "unfit to serve" as CEO and was ousted in 2008. At the time, CalPERS said he had retired.

Buenrostro went to work for Villalobos right after.

As he was leaving, he signed dubious statements claiming CalPERS knew of Villalobos' fees. Otherwise, Villalobos would have been denied \$20 million in fees by his top client, Apollo Global Management.

Khinda said Buenrostro tried to pressure the staff to direct investments to Villalobos' clients, who became known around CalPERS as "friends of Fred."

The staff didn't bend, and made investments on their merits, Khinda wrote. But when it came to negotiating terms of the deals, CalPERS was "made to overpay" the fees it gave its investment partners, probably by tens of millions of dollars.

Villalobos' clients paid him commissions totalling \$50 million for securing CalPERS investments. Khinda said some firms likely inflated the fees they charged CalPERS to make up for the money they secretly paid Villalobos. In effect, if CalPERS knew of the money Villalobos was making, it could have struck a harder bargain with its investment partners.

Khinda has subsequently obtained \$300 million in discounts for CalPERS, mostly from Villalobos clients.

Much of the Khinda report, which will be presented to the CalPERS board Tuesday, contains information that's already been made public, including Villalobos' alleged bribery of Buenrostro, Valdes and Shahinian. All have denied any wrongdoing.

But the Khinda report does contain striking details.

David Snow, CEO of Medco Health Solutions, a New Jersey drug benefits firm seeking a CalPERS contract, met Villalobos and Buenrostro at Villalobos' Lake Tahoe home in 2004. Later Medco paid Villalobos \$4 million to help win the contract, Khinda said.

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