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Dan Walters: Mysterious things happening behind CalPERS' curtain of secrecy

**By Dan Walters - dwalters@sacbee.com
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Something is happening at the nation's largest pension fund, the Sacramento-based California Public Employees' Retirement System, which has nearly a quarter-trillion dollars in investments ranging from real estate to stocks.

With that much money and a governing board dominated by politicians and union representatives, there have been hints that factors other than pure fiduciary responsibility often drive decisions.

Some of those other motives have been advertised – investment in low-income housing or environmentally pure ventures, for instance – while others have been all but virtually impossible to divine, since CalPERS has been a very tight-lipped shop.

The processes by which CalPERS chooses investment bankers, investment advisers, real estate developers and others who seek profitable pieces of the huge investment fund are, for example, known only to those who make the decisions.

Over the past few weeks, some rather unsettling events at CalPERS – related or not – have raised eyebrows in global investment circles.

One involves the pension fund's plunge into speculative real estate investments in the 1990s, including the riskiest such form of gamble, undeveloped land.

It seems that CalPERS joined with other investors to sink nearly a billion dollars into thousands of undeveloped acres north of Los Angeles about a year ago, hoping to cash in on the then-booming housing market. With the market's implosion, it and others may have to give the land to the venture's creditors.

CalPERS officials are dismissing the looming loss as small potatoes in the fund's \$20-billion-plus real estate portfolio. But it's a warning that as it pursued higher returns from riskier investments, CalPERS has been playing financial roulette with the taxpayers' money. Major shortfalls in its earnings must be covered by state and local government treasuries.

We got a big jolt when CalPERS blithely assured state politicians a decade ago that it could absorb a huge boost in pension benefits to state workers without incurring any extra contributions because of its earnings in the high-flying stock market. But when the market tanked in 2000, the state was stuck with a couple of billion dollars in additional costs – not counting those imposed on local governments.

Another indication that something may be amiss at CalPERS is the recent departure of its chief investment officer, Russell Read, followed within days by an announcement by its chief executive, Fred Buenrostro that he was retiring – just weeks after Christy Wood, who managed more than half of the fund's investments, left for a new job.

CalPERS officials dismiss all of this as coincidence, but the financial press has been full of informed speculation – albeit without hard evidence – that top pension fund managers have run afoul of the governing board on some sticky issues.

It's been reported, for instance, that union-affiliated board members want CalPERS to compel developers who accept its investment to impose what are called "project labor agreements" on construction projects that would, in effect, require all union workers. Bloomberg LP, a financial news service, cited that factor in Buenrostro's abrupt departure, but he and CalPERS denied it.

Buenrostro said it was his decision to "retire from public service" and the speculation about union pressure is "unwarranted and incorrect," but, of course, he'd say that whether it was true or not.

In a better world, the Legislature would be holding hearings on the exercise of fiduciary responsibility at CalPERS to let the public in on its secrets, especially since its investments have a direct effect on the bottom line of a deficit-ridden state budget. But since the Legislature is dominated by ideological soul mates of the pension fund board, that's highly unlikely.

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