

latimes.com/business/la-fi-calpers23-2009oct23,0,4695528.story

# latimes.com

PENSION FUNDS

## CalPERS reviewing tie with Apollo Management after steep losses

By Marc Lifsher

October 23, 2009

Reporting from Sacramento

The California Public Employees' Retirement System is reviewing its relationship with private equity firm Apollo Management in the wake of steep losses on investments placed with the New York asset manager.

The review began in May and is focused on reducing administrative and management fees, said Pat Macht, a spokeswoman for the Sacramento agency known as CalPERS, which manages \$200 billion in retirement assets -- the country's largest pension fund -- on behalf of current and former state and municipal employees.

Macht said the review, being conducted by Los Angeles consulting firm Houlihan Lokey, "has nothing to do" with a controversy that emerged last week when CalPERS disclosed that Apollo had paid about \$46 million in fees to Alfred Villalobos, a former CalPERS board member who now works as an intermediary helping Apollo and other funds market their investment products to institutional investors such as CalPERS.

In all, Villalobos received almost \$53 million in fees in seven years from Apollo and two other private equity firms that did business with CalPERS, the fund said.

CalPERS has hired a Washington securities lawyer to conduct an internal probe of Villalobos' work as a so-called placement agent.

The reevaluation of Apollo being carried out by Houlihan Lokey is one of a number of reviews the pension agency is conducting of managers of its so-called alternative investments, which include real estate and hedge funds as well as private equity, Macht said.

"We're reevaluating relationships with everybody," she said.

CalPERS invests most of the assets it manages in publicly traded stocks and bonds. But it holds a significant amount of alternative investments, including \$21 billion in private equity.



The pension agency has invested or committed to invest \$4 billion with Apollo, which was founded by financier Leon Black. In 2007, CalPERS bought a 9% ownership stake in Apollo itself.

CalPERS continues to have "full confidence in Apollo," Macht said. "They are a good partner."

Many of the pension fund's Apollo investments suffered severe losses in the bear market that ended in March but have rebounded since then.

For example, the Apollo Investment Fund VII, which was formed in 2008, lost 60% of its value by March 31 but was down only 16% on June 30, CalPERS reported.

CalPERS said it expected to report further improvement in its Apollo portfolio in the third quarter.

A document that CalPERS gave to Houlihan Lokey outlining the Apollo review calls for developing "alternative courses of action" for the Apollo funds.

CalPERS last month announced it had adopted a set of principles to govern its relationships with private equity firms.

The principles seek, among other things, to eliminate "excessive" management fees.

[marc.lifsher@latimes.com](mailto:marc.lifsher@latimes.com)

Copyright © 2009, [The Los Angeles Times](#)