

CalPERS: America's Misled and Misleading Pension Leader

Preliminary Forensic Investigation into Performative Transparency, Profound Conflicts of Interest, Hidden Excessive Costs, and Chronic Underperformance at the Nation's Largest Public Pension

Prepared by Benchmark Financial Services, Inc., for the Retired Public Employees' Association of California (RPEA) and made possible through the generous support of members and contributors committed to transparency and accountability in public pensions.

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I. Executive Summary

The California Public Employees' Retirement System (CalPERS) is not just another pension fund. It is the largest defined-benefit public pension system in the United States—by far—and arguably the most influential institutional investor in the world of retirement finance.

It is a powerful force—for good, or for evil—in investing for retirement security.

Despite decades of resisting public records requests, narrowing disclosure and lobbying against expanded transparency requirements, CalPERS boasts it is “the most transparent pension in America.”

As of June 30, 2025, CalPERS reports managing approximately \$556.2 billion in assets on behalf of more than two million active and retired public employees and their families. The financial health of the system directly affects the retirement security of public workers, the fiscal stability of California state and local governments, and the tax obligations of California residents.

“CalPERS is not sharing the limited partnership agreements. CalPERS is not sharing any side letters... We are extremely transparent... But frankly, private markets are private for a reason...”

- CalPERS CEO Marcie Frost, responding to questions about proposed participant investigation, CNBC Squawk on the Street.

But CalPERS' significance extends far beyond California.

Institutional investors tend to mimic the moves of others—much like a herd of animals moving together for safety. In public pensions, this so-called “herd instinct” can be especially pronounced.

Because of its size and notoriety, CalPERS acts as the leader of the herd.

Its investment strategies, fee arrangements, governance practices, and transparency standards influence not only other U.S. public pensions, but endowments, sovereign wealth funds, and even retail investors worldwide.

CalPERS could plausibly use its immense scale to demand lower fees, greater transparency, stronger governance rights and full cost disclosure.

CalPERS could be a powerful force for good.

On the other hand, when a pension fund of this size understates risk and costs, or overstates investment results, the consequences extend well beyond its own beneficiaries. Leadership magnifies impact—whether positive or negative.

Investors globally are harmed when the pension leader misleads.

This forensic investigation of CalPERS, conducted by renowned pension experts selected and commissioned by plan participants, represents an unprecedented effort to obtain independent scrutiny of the nation's leading public fund. Such an investigation is necessary amid growing concerns that the pension is no longer managed exclusively in the interests of its members and beneficiaries, consistent with applicable legal fiduciary standards. Disturbingly, as detailed in the report, CalPERS publicly announced—even before the investigation began—that it would oppose the expert review funded by its concerned participants.

The Executive Summary highlights Key Findings relevant to policymakers and outlines potential reforms, including, most importantly, establishment of an Inspector General (IG)—or a functionally equivalent independent oversight body—with real authority to investigate misconduct, waste, conflicts of interest, or systemic risks at CalPERS, independently of board or political influence.

The Key Findings include:

- **Lack of Comprehensive Regulation**

America’s public pension plans—with tens of millions depending upon them for retirement security—collectively hold over \$6 trillion in assets and heavily influence global bond, equity, real estate, private markets, and infrastructure asset prices.

Remarkably, such pensions, including CalPERS, are not protected by any comprehensive federal, or state law.

Unlike corporate or private pensions, public plans are exempt from the Employee Retirement Income Security Act (ERISA). As a result, participants in public funds lack many key federal safeguards that private-sector workers enjoy. Since federal protections do not apply, the products and services Wall Street crafts specifically for, and sells to, our nation’s public pensions often employ abusive business practices which are not acceptable, or are even prohibited, under ERISA—exposing state and local government retirement savers to additional dangers.

Many of the most significant issues related to managing public pension investments are not addressed in state statutes. Worse still, no federal or state regulator, or law enforcement agency, actively monitors or polices these plans. This regulatory gap creates an environment in which complex investment structures, outrageous conflicts of interest and opaque fee arrangements can proliferate with limited oversight or enforcement.

On Wall Street, public pensions are generally regarded as “the dumbest investors in the room,” due to the lack of comprehensive regulation and (as discussed below) lack of board investment expertise.

- **Political Influence in Pension Governance**

Public pensions, like CalPERS, are political entities, not simply rational investors. While these pensions are long-term financial commitments, politicians have short-term election cycles, face pressure to deliver immediate results (e.g. cut costs or increase benefits) and lack incentive to fully fund systems long after they will be out of office. This misalignment of incentives is one of the root causes of public pension underfunding.

Politicians have significant influence over public pensions and their decisions can have long-term impacts on pension funding, benefit levels, and plan sustainability. Politicians shape public pensions by setting pension benefits; controlling

contributions by employers; appointing board members and influencing asset allocation (e.g. push for Environmental, Social, Governance (ESG), fossil fuel divestment or local investments); promoting so-called pension reforms; and enshrining pension guarantees in state constitutions.

Politicians can benefit from public pension investment decisions both directly and indirectly through political influence, patronage, campaign support, or shaping policy agendas.

Political campaign financing all-too-often influences pension investment outcomes. Academic research indicates that private equity firms that donate to winning candidates who become pension board members are 10-times more likely to receive post-election investments from that fund than firms donating to losing candidates. Worse still, private equity funds in which public pensions invest through political connections exhibit a 5 percentage points lower abnormal internal rate of return. In short, political contributions lead to investment firms winning mandates from public plans, which indirectly raise total fees since those mandates are, inevitably, in higher-cost asset classes and net investment performance suffers.

These dynamics raise legitimate concerns that political considerations undermine fiduciary investment decision-making at CalPERS and other public pensions.

- **Board Lack of Investment Expertise**

The CalPERS Board of Administration oversees a massive, highly complex portfolio including private equity, private credit, infrastructure, and real assets.

Board members are not required to possess any financial or investment expertise whatsoever and are permitted only limited access to the fund's most complex investment records. Thus, the lay board members couldn't begin to understand the unique risks and expenses related to each of these investments—even if they had extensive expertise.

Most trustees are elected representatives of public employees or political appointees. Since CalPERS board members generally lack knowledge of investments, it follows that far-reaching investment decisions involving hundreds of billions in pension assets are made without the benefit of such knowledge or, at best, with heavy board reliance upon recommendations by pension staff and external Wall Street advisers—recommendations subject to a myriad of conflicts of interest which the lay board is utterly incapable of evaluating. Over the years, critics have argued unsuccessfully that the board should have more members with investment expertise.

We also note that serving on the board of the massive pension is a part-time position, which pays no compensation whatsoever—ensuring that the most qualified candidates will not seek the demanding position.

In short, CalPERS's board does not, and indeed cannot, in our opinion, make informed investment decisions because its members are simply not informed. An inexperienced, uncompensated, part-time board (with only limited access to investment documents) managing a massive pension—embracing ever-greater risk—is seemingly designed to fail.

Ironically, CalPERS's today invests the majority of its assets in risky, complex, illiquid funds restricted to “sophisticated” investors under federal and state securities laws. The board is not sophisticated. Further, the beneficiaries are not sophisticated yet their retirement savings are exposed to these opaque investments.

- **Precipitous Decline from “Gold Standard”**

For several decades, CalPERS was considered the "gold standard" for public pension systems in the America. Today, it is still extremely influential but it no longer has that sterling reputation. CalPERS now is more often seen as a cautionary tale of mismanagement, underestimating risks and fees, as well as failing to adapt governance structures in an increasingly complex and opaque investment environment.

Over the past two decades, the system has been plagued by a series of widely-publicized controversies involving governance, investment decisions, political influence, and ethical conduct. These controversies have raised serious questions about whether CalPERS has always acted in the best interest of its beneficiaries (consistent with its fiduciary duty)—or whether it has been distracted by politics, poor governance, and unaccountable strategies.

As a result of the numerous ethical controversies, longstanding investment underperformance, skyrocketing disclosed and undisclosed investment fees, and plummeting transparency, there has been a growing lack of confidence and trust in the pension. There have been recent calls by participants for CalPERS to have an Inspector General to investigate misconduct, waste, conflicts of interest, or systemic risks—independently of board or political influence.

- **Lack of Commitment to Transparency**

Of all pensions globally, America's public pensions—securing the retirement security of nearly 15 million state and local government workers, funded by workers and

taxpayers—are required under state public records (FOIA) laws to be the most transparent.

CalPERS has perfected a form of what can only be described as “performative transparency.” The fund excels at disclosing procedural, low-risk information—travel reimbursements, board agendas, webcast archives, rankings in so-called global transparency surveys—while resisting disclosure of the information that actually matters for fiduciary oversight: fund-level valuations, fee arrangements, Zombie investments, benchmark history, and manager agreements.

For example, prior to commencement of this participant-funded investigation, CalPERS CEO Marcie Frost on CNBC’s “Squawk on the Street,” responded to final questions from the host about an earlier *NBC News* report indicating a number of former employees and former board members had hired a forensic pension expert to investigate and provide clarity on the fund’s investments.

After smirking, Frost seized the moment to gratuitously reassure Wall Street listeners that the pension would not disclose any of its private market documents to its participants, i.e., would protect industry secrets—at a time when no one had requested any documents whatsoever. Frost’s comments were not necessary, responsive, or legally compelled. They were performative—aimed at reassuring private market counterparties in the CNBC audience that CalPERS leadership would defend their secrecy interests.

An independent Inspector General realigns incentives by ensuring CalPERS management’s real audience is the IG acting on behalf of beneficiaries, not CNBC, not General Partners, not consultants. Once executives know that emails, talking points, media appearances and disclosure decisions may later be reviewed by an IG with subpoena power and a public reporting mandate, tone changes immediately.

Smirks disappear.

Casual dismissals of transparency stop.

As a result of Frost’s disturbing comments evidencing a commitment to secrecy, as opposed to restoring accountability to CalPERS stakeholders, we immediately publicly invited the FBI, SEC and any CalPERS whistleblowers to assist in our impending investigation.

CalPERS includes a so-called “transparency rating” from a third party—a CEM Pension Transparency score—in its reports. The pension also uses CEM as one of its independent benchmarks for evaluating the costs incurred in running its investment

program. That is, CEM plays two distinct and conflicting roles at CalPERS. CalPERS investment cost disclosure, evaluated by CEM, is a key component in CEM's transparency assessments—posing an obvious conflict of interest and governance concern.

CalPERS staff cannot realistically monitor this conflict because the CEM transparency score is qualitative and proprietary. CalPERS' high rankings in transparency surveys are based on checklists of disclosures that do not require revealing the economic reality of private investments or the mechanics of performance reporting.

The public cannot evaluate the legitimacy of the CEM transparency rating because, ironically, the transparency reports upon which it is supposedly based are deemed confidential and withheld from public scrutiny. Meanwhile, watchdog groups and journalists repeatedly encounter delays, redactions, and litigation when seeking precisely such information.

CEM officials represent that CEM “is a fully independent, employee-owned third-party company.” On the other hand, McKinsey & Company has disclosed on its public website that it has a minority equity stake in CEM and touts that “By combining McKinsey's industry expertise with CEM's dataset, we help asset owners and managers benchmark their investment and non-investment performance and help inform the strategic moves they are looking to make.” (CEM does not appear to disclose on its public website the McKinsey ownership interest or reference any benefits provided to investment managers through the relationship.)

While McKinsey is not a private equity firm, it is deeply embedded in the private equity ecosystem. MIO, a subsidiary, is an SEC-registered investment advisor, a commodity pool operator registered with the Commodity Futures Trading Commission and a member of the National Futures Association. The majority of MIO's \$20 billion in assets are invested in alternative investments. Whether CalPERS knows the identities of all CEM financial backers, their economic interest or their influence on governance is unknown.

Due to its ownership structure, CEM is, in our opinion, subject to a conflict of interest with respect to the leading transparency issue facing public pensions today—private investment cost and risk disclosure.

CalPERS staff has no realistic way to independently map or monitor CEM's ownership and relationships. An independent IG would be better positioned than staff, but would still struggle.

The result is an institution that appears transparent while preventing meaningful oversight. Only an independent Inspector General, with subpoena authority and access beyond the Public Records Act gauntlet, could possibly bridge the gap between what CalPERS shows and what CalPERS hides.

- **National Effort to Undermine Participant Scrutiny**

The CalPERS investigation revealed—as prior investigations have—that participants who seek transparency and accountability at their state pensions are routinely secretly tracked and targeted by fund officials. That is, when pressing for reform, concerned participants are regarded by state officials overseeing their retirement savings as adversaries to be opposed—not beneficiaries owed a fiduciary duty.

By way of background, internal documents provided by Minnesota pensions in 2024, revealed an aggressive, preemptive, secretive, coordinated effort on the national level—including state pension officials in California, New York, Ohio, Rhode Island and Minnesota, as well as education unions and public pension industry allies—to undermine participant-funded investigations nationally. The documents indicated two private-sector conference-promoting allies—the National Council on Teacher Retirement and National Conference on Public Employee Retirement Systems (NCPERS)—had organized Zoom meetings with public pension officials in multiple states opposed to participant-initiated transparency reforms and secretly provided “opposition research” to media, as well as their dues-paying members.

Similarly, CalPERS disclosed limited documents related to this investigation, but refused to provide others, summarily claiming “the public interest in disclosure is clearly outweighed by the public interest in nondisclosure.” The pension rejected our demand for a legally-mandated “balancing analysis” supporting the supposed substantial public interest in nondisclosure.

CalPERS also provided records revealing its staff had participated in two Government Affairs Roundtable meetings where attendees from multiple public pensions were warned about the proposed participant-funded investigation, as well as other stakeholder and interest groups activities. At least one of the two meetings, led by Hank Kim, Executive Director & Counsel, NCPERS, had been recorded “primarily for NCPERS records.” When we requested, CalPERS responded it did not have any recording of any of the recorded meetings in which its officials had participated. (NCPERS’s proposed use of the recording—such as whether it could be shared with the organization’s dues-paying pension and investment manager members—is not disclosed.)

Since CalPERS has refused to disclose records related to its investigation of this participant review, we are prevented from determining whether any such information, created or collected by CalPERS, is accurate or defamatory. Ironically, the findings of this participant investigation of CalPERS have been made public—providing the pension ample opportunity to comment thereon—whereas information related to CalPERS’s efforts to undermine its participants’ transparency initiative have been withheld, precluding participant commentary.

An independent IG at CalPERS could investigate any CalPERS involvement with other public pension officials and their industry allies—and could recommend ending CalPERS’ involvement with such allies if the facts support it. The same fiduciary legal advisors that shape industry-wide positions through organizations like NCPERS have also advised CalPERS directly—raising legitimate questions about whether independent legal scrutiny of governance practices is structurally possible without external oversight.

If CalPERS officials coordinated with outside private organizations to discourage, discredit, or preempt participant-funded investigations, or used staff time, public funds, institutional influence, or shared platforms to assist such efforts, or participated in reputation-management or “opposition research” strategies aimed at plan participants, then an IG inquiry is not only appropriate—it is necessary.

Even absent criminal findings, the governance implications alone are significant.

- **“Endangered” Funding Status**

CalPERS currently reports a funded ratio of approximately 79 percent. In 2006, CalPERS reported a funded ratio in excess of 100 percent, only to see that figure collapse to approximately 61 percent during the Great Recession. The experience demonstrates the system’s high sensitivity to market downturns.

Although public pensions are not governed by ERISA, under the federal pension scheme, CalPERS—at its current funding level—would fall squarely into the Yellow Zone (Endangered) and would be required to implement a formal funding improvement plan aimed at increasing its funded ratio.

Since 2011, CalPERS has reduced its assumed investment rate of return from 7.75 percent to 7.5 percent, to 7 percent, to 6.8 percent. These changes underscore the difficulty the pension has had achieving its own performance targets over extended periods—even while taking on ever-greater risk. According to a recent study by the Reason Foundation, from 2001 to 2023, 99 percent of public pension funds failed to

meet their average assumed rates of return and CalPERS has fallen short by approximately 2 percent. A shortfall of approximately 200 basis points annually, when compounded over decades, is devastating to pension solvency.

In 2024, CalPERS unfunded actuarial liability was \$168 billion. However, public pensions generally use more aggressive (higher) discount rates than corporate pensions governed by ERISA, which makes public pensions appear better funded than they would under ERISA-style rules. For a plan as large as CalPERS, using a lower corporate discount rate could mean hundreds of billions more in reported shortfalls, causing the pension to fall within ERISA's Red Zone (Critical).

An independent IG at CalPERS could materially improve the credibility, durability, and governance of the funded-ratio narrative by addressing the very faults that make a 79 percent funded ratio fragile and potentially misleading.

- **Chronic Investment Underperformance**

As the figures below indicate, the nation's largest public pension ranks near the bottom of the public pension performance distribution.

This cannot be explained by cycles, timing, or transition. The analysis finds that CalPERS has persistently lagged transparent investable options over extended time horizons. Independent comparisons to a simple 70 percent global equity and 30 percent core bond portfolio indicate that the total fund has trailed this simple index strategy by roughly 100 to 150 basis points annually across long periods. At nearly \$600 billion in assets, small underperformance can add up to billions. A single tenth of one percent equals roughly \$600 million per year, while a one-percentage-point performance gap represents approximately \$6 billion annually. Over multi-year periods, these differences compound into tens of billions of dollars that cost taxpayers and ultimately determine the retirement security of millions of public employees. The total loss plausibly exceeds \$100 billion over time.

CalPERS vs. 16 California Public Plans

- 3-year: **14th of 16**
- 5-year: **15th of 16**
- 10-year: **14th of 16**

CalPERS vs. Top 50 National Plans

- 3-year: **43th of 50**
- 5-year: **46th of 50**

- 10-year: **48th of 50**

CalPERS vs. Entire PPD Universe (~230 Plans)

- 3-year: **bottom 20 percent**
- 5-year: **bottom 15 percent**
- 10-year: **bottom 15 percent**

Alternatives, i.e., non-public assets, are the main cause of the underperformance at CalPERS, and specifically the excessive fees in the secret no-bid alternative investment contracts. Pricy private equity, often referred to as “return engine” of the portfolio, has, in reality, underperformed low-cost index funds. Real estate relies heavily on appraised valuations that lag market pricing and artificially suppress measured volatility. Private credit reportedly is in a meltdown globally at this time and CalPERS has not received any significant cash flows from the asset class. Thus, returns based upon appraisals are suspect, and hidden losses likely.

The cumulative evidence suggests that increasing portfolio complexity, particularly the expansion of private equity, private credit, and real estate—has coincided with higher fees, greater opacity, and an actual drop in long-term net performance.

With some of the worst performance in the country, it is obvious that CalPERS needs to move away from alternatives and significantly toward lower cost transparent investments. However, the pension’s external investment advisers and consultants, as well as internal investment staff are heavily incentivized to oppose such sensible reforms.

- **Performance Benchmark Manipulation**

While CalPERS has some of the worst public pension investment performance in the country, it has created and utilizes benchmarks to measure its performance that make it appear better—i.e., average, or even above average. (These same “industry-friendly” benchmarks have been used to justify excessive staff compensation, as detailed below.) We attribute the bulk of the underperformance at the pension to alternatives—primarily private equity—where the benchmark engineering is acute.

An appropriate benchmark measures performance against a realistic, investable portfolio of securities with comparable risk and cost. However, the benchmarks CalPERS uses for private equity, private credit and real estate assets are not measured against investable transparent securities. CalPERS manipulates these “custom” benchmarks to transform underperformance into the appearance of success.

No fiduciary can invest in “FTSE All-World All-Cap plus 150 basis points.” No portfolio manager can purchase “CPI plus 400 basis points.” No trustee can allocate assets to a “weighted internal composite” that is itself built from other custom benchmarks that have been designed for internal evaluation rather than external comparability. These constructs are not opportunity-cost measures. They are scoreboards engineered to be beaten—both by external investment managers and CalPERS investment staff. Because they cannot be implemented in the real world, outperformance relative to them tells beneficiaries nothing about whether CalPERS added value, destroyed value, or simply moved more slowly than the markets it is implicitly compared to.

Pension investment consulting expert Richard Ennis’s research provides a numerical fingerprint of this system. Public pensions nationally, including CalPERS, underperform simple investable passive benchmarks by roughly 1.4 percent per year while simultaneously reporting modest outperformance relative to their own policy benchmarks, says Ennis. The gap between those two numbers is the imprint of benchmark engineering from the alternatives. Ennis, using a dog race analogy, refers to this as “chasing slow rabbits” and declaring victory.

CalPERS’s bogus benchmarks create “Artificial Alpha” as it systematically manufactures what appears to be investment skill out of what is, in reality, a set of mechanical reporting choices that have nothing to do with superior security selection, superior timing, or superior risk management. These benchmarks do not represent portfolios that beneficiaries could realistically hold. Thus, they fail to answer the core fiduciary question: whether retirement assets would have performed better in simpler, transparent alternatives available at lower cost.

An independent Inspector General would not change capital market outcomes at CalPERS but would change the standard of measurement. It would require regular reporting of Total Fund performance relative to transparent, investable public benchmarks constructed using returns-based exposure analysis.

- **Excessive Staff Compensation Driven by Bogus Benchmarks**

CalPERS appears to have some of the highest public pension investment staff salaries in the nation, as well as the highest investment performance bonuses. Given that investment performance is dismal, the lavish bonuses awarded to pension staff seem especially unwarranted. Bogus benchmarks drive this excessive compensation.

Compensation levels at CalPERS now extend far beyond the norms of public administration. The Governor of California earns approximately \$234,000 annually, yet dozens of CalPERS employees earn multiples of that amount. Four executives receive more than \$1 million per year; another four earn more than \$900,000, twenty-six earn between \$500,000 and \$900,000; and fifty-two earn between \$300,000 and \$500,000. In total, more than eighty non-C-suite employees occupy

compensation bands that rival or exceed those of top public officials and many pension chief investment officers nationwide. At the same time, CEO compensation increased from roughly \$406,000 in 2018 to more than \$1.24 million in 2024, an increase of more than 200 percent—far outpacing the wage growth of the public workers whose retirement security the fund exists to protect.

These excessive compensation levels are justified through a performance measurement system that is largely internally constructed and consultant-validated rather than independently verified against investable alternatives. Executive incentives rely heavily on CalPERS' custom policy benchmarks and discretionary organizational metrics rather than direct comparison to transparent market benchmarks. As a result, compensation can rise even during periods marked by leadership instability, governance controversy, and poor investment performance.

Governance concerns are further illustrated by a series of leadership controversies and oversight failures. These include unresolved questions regarding executive credentials, resume exaggeration by senior officers, legal conflicts in hiring processes, and repeated turnover in the Chief Investment Officer role. Compensation advisors benchmark CalPERS executives against private-sector investment professionals, despite fundamental differences in risk exposure, compensation volatility, and personal capital at risk inflating compensation bands while requiring no performance accountability.

In short, CalPERS pays higher than private sector salaries for investment performance that would result in termination in the private sector. An independent Inspector General would fundamentally alter the structure in which salaries are justified, evaluate the relationship between compensation escalation and measurable long-term net performance, as well as recommend claw back or deferral structures tied to realized economic outcomes rather than interim marks.

- **Failure to Monitor and Disclose Total Investment Costs**

Public pension fiduciaries, like the CalPERS board, have a duty to understand the sources, amounts, and nature of the fees paid by the plan, as well as the related services performed for such fees. In the past two decades, public pensions, including CalPERS, have allocated ever-greater assets to more complex, opaque so-called “alternative” investment vehicles, such as hedge, private equity and venture funds, as well as fund of funds. This shift has brought dramatically higher investment fees—fees which are often not fully disclosed and may be much more difficult for pensions to monitor. We note CALPERS is budgeting for 2026-27 a \$900 million or 69 percent increase from 2 years ago in fees paid to Wall Street, ballooning to \$2.2 billion in disclosed fees alone.

A 2014 internal review by the United States Securities and Exchange Commission found that a majority of private-equity firms inflate fees and expenses charged to companies in which they hold stakes, raising the prospect of a wave of sanctions against managers (including potentially some of the dozens of private equity managers with which CalPERS invests) by the agency. More than half of about 400 private-equity firms SEC staff examined charged unjustified fees and expenses without notifying investors.

Accordingly, public pensions, such as CalPERS, which choose to gamble in opaque asset classes—such as private equity funds, specifically cited by regulators for charging bogus fees in violation of the federal securities laws—must establish heightened safeguards to ensure that all fees paid to such managers are properly reviewed and determined to be legitimate, as well as fully disclosed to participants.

Our review reveals CalPERS has consistently over the decades massively misrepresented (understated) the total investment management fees it pays to Wall Street. In our opinion, it is highly unlikely—given the conflicts within CalPERS and lack of board expertise—that the pension even knows the full sources, amounts and nature of the fees it pays.

- **Conflicts of Interest Related to Investment Cost Oversight**

In addition to using CEM Benchmarking Inc., for rating its overall transparency in recent years, CalPERS has long used the firm as one of its independent benchmarks for evaluating the costs incurred in running its investment program. As mentioned earlier, McKinsey & Company discloses it is a minority investor in CEM.

McKinsey is one of the most powerful consulting firms in the private markets industry, influencing billions in transactions and hundreds of portfolio companies worldwide. The firm claims to work with the leading private equity firms representing more than 70 percent of global AUM. In terms of conflicts of interest and opacity, McKinsey is a registered investment adviser that invests primarily in alternative funds. Press coverage has raised concerns about conflicts of interest when McKinsey advises clients while also investing alongside or in the funds of those clients. The existence of this advisory subsidiary means that McKinsey partners can potentially benefit from the success of private-equity funds that McKinsey helps via due diligence and strategic work and that the firm has incentives aligned with growth and profitability of private-markets managers—the same firms courting public pension capital.

CalPERS does not publish or disclose the full CEM cost evaluation reports it receives and, when asked by us, failed to do so.

Since full CEM reports are withheld from public scrutiny, the selective, aggregated summaries may omit or understate material cost items (e.g., private-equity carry, transaction costs, fees buried in pooled structures). For a fund as large and complex as CalPERS (with substantial private market investments), the lack of transparency makes it impossible for anyone to independently verify that “value-for-money” claims or low-cost comparisons are actually robust. Given that CEM is partly owned (minority stake) by a consulting firm with significant private-markets consulting and investment advisory business, the opacity raises conflict-of-interest and governance concerns—especially when CEM outputs are used in board materials and strategic decisions. Finally, we note that in Pennsylvania and South Carolina, unlike California, there has been recognition that the public deserves to see the entire CEM report, not just select passages.

- **History of Understating Investment Costs**

While CalPERS discloses far more today than it did 20 years ago, like all other public pensions in “the herd” it leads, it still does not disclose all investment management fees and expenses in a “true total cost” sense. A significant portion of costs remains embedded, estimated, or simply unreported. As a result, CalPERS financials statements are, and have for decades been, materially misleading, in our opinion.

For example, after a decade of reporting only management fees paid to private equity managers, in 2015, CalPERS admitted it had not been systematically tracking, i.e., did not actually know—indeed, supposedly “*could not track*”—the total carried interest it had paid to its private-equity managers. Swiftly thereafter, the pension released for the first time historical total private-equity performance fees. What CalPERS had previously said was impossible—tracking incentive fees paid to private equity managers—suddenly, under pressure became possible.

We note with great emphasis that since CalPERS is not tracking all the investment fees and expenses its external managers may withdraw from pension assets under their management, in the absence of any diligent monitoring the risk of illegitimate withdrawals is dangerously high, in our opinion.

Our analysis suggests approximately 20-30 percent of total economic costs are fully reported; 20-25 percent are partially reported; and 45-55 percent are not reported—a calculation which appears consistent with findings by CEM, the pension’s cost measurement expert, that public pensions disclose only approximately 49 percent of

costs. Assuming CalPERS' private equity portfolio (\$75 billion) earned 12–14 percent gross returns, the gross return amounts to \$10 billion annually. The true total costs amount to \$5 billion annually, leaving a net return of \$5 billion annually or 6.5 percent. This aligns with academic results, i.e., private equity net returns average 6 percent over long horizons after all fees.

The S&P 500 outperforms CalPERS private equity by 3–4 percentage points per year on a true net basis. The 3–4 percent return gap for \$75 billion invested by CalPERS amounts to \$55 billion lost over 10 years due solely to fees and underperformance relative to public equities. A staggering \$241 billion is lost over 20 years by choosing private equity over a passive public-equity alternative. The latter amount alone is far greater than CalPERS' entire unfunded liability (\$140–\$160 billion), equivalent to decades of employer contribution increases and larger than the annual budgets of many states. From a fiduciary perspective, to justify private equity over the S&P 500 after costs, CalPERS would need sustained, provable gross outperformance of 4–5 percent per year for 20 years. No large public pension—including CalPERS—has ever demonstrated such outperformance.

In conclusion, there is no point in debating the true all-in investment costs. Absent an accounting and full transparency, pension stakeholders can never be certain of the true costs. With scrutiny, the true costs can be precisely determined and publicly disclosed, consistent with applicable fiduciary duties—restoring financial integrity to the pension. Again, allowing external investment managers to take monies without fiduciary review amounts to a license to steal.

An independent Inspector General would materially improve the disclosure of investment costs at CalPERS—especially in private investments. In our opinion, an exhaustive investigation into all past payments to investment managers should be immediately undertaken, as well as recovery pursued with respect to any illegitimate payments. Finally, disclosure of historic costs and performance should be adjusted to correct any past underreporting of fees and overstating of performance.

If CalPERS, the nation's leading public pension were to investigate and fully disclose all of its alternative investment costs and performance results, the impact upon alternative investment General and Limited Partners globally could be devastating.

- **Money for Nothing: Billions Wasted on Committed, Uninvested Capital**

Among the most controversial practices in private equity and private credit is the industry's practice of charging investment management fees on 100 percent of "committed capital," including capital that has not yet been drawn or invested.

Paying fees on committed, uninvested capital results in exponentially greater fees on assets under management on a percentage basis.

In plain terms, fees on committed, uninvested capital amount to paying managers for doing nothing—no service whatsoever is provided in exchange for the lavish fee. In our opinion, such fees add insult to injury since these types of private investment funds already charge exponentially higher fees than traditional stock and bond managers. Not surprising, savvy institutional investors are increasingly resisting paying lavish fees to private managers based upon their capital commitments and opting for alternatives that do not charge such fees. Fees on committed capital are not inevitable.

As of June 30, 2025, CalPERS had contractual unfunded commitments related to private assets amounting to \$62.1 billion. Assuming the fund pays fees of 2 percent on total unfunded commitments, this amounts to an estimated waste of approximately \$1.24 billion—annually. Even if the effective rate were materially lower, the wasted dollars remain extraordinary.

The payment of fees on committed but uninvested capital persists at CalPERS largely because such fees are not clearly disclosed or independently scrutinized. An independent IG could bring those payments into plain view, where their economic irrationality and misalignment with beneficiary interests would be difficult to defend—making their continuation highly unlikely. An effective IG could ensure billions in savings by eliminating fees imprudently paid on committed uninvested capital alone.

- **“Catastrophic” Tax Consequences of Pension Errors and Mismanagement**

While public pensions, established as tax-exempt governmental plans under the Internal Revenue Code, do not themselves pay federal income tax on investment income, misstatements of investment performance and other fiduciary breaches—intentional, or unintentional—may threaten a fund’s tax-exempt status. The risk of catastrophic tax consequences may seem remote today, however, the Trump administration’s recent threats to revoke universities’ tax-exempt status are unprecedented. These actions may signal a credible immediate danger that public pension plans could lose their tax-exempt status under certain circumstances. The political climate of challenging tax exemptions more broadly underscores the importance of rigorous compliance and transparent financial reporting in all tax-exempt sectors, including public pensions. We note with great emphasis that House Republicans recently began probing whether CalPERS prioritized a “radical”

Environmental, Social, and Governance agenda over its obligation to its beneficiaries, suggesting it could threaten the fund's tax status.

An independent IG at CalPERS could materially reduce risk by inserting independent controls before errors snowball into catastrophic legal and tax consequences.

- **Misleading Communications Regarding Private Equity**

One of the most significant shifts in public pension investing over the past two decades has been the expansion into opaque alternative investments. Today CalPERS has a 40 percent target allocation to private markets that includes private equity, private debt, and real assets. These are the highest-cost, highest-risk of all investments and the least transparent. CalPERS recently boasted 60 percent of its assets since 2022 have been invested in private equity.

With respect to its communications regarding its rapidly growing private equity investments, CalPERS regularly provides incomplete (at best) and potentially misleading information to the public. If a private equity manager published the same such misleading information about itself, written in a promotional tone, with inflated performance figures, claims of outperformance, and no risk disclosure, it would raise significant compliance red flags under federal and state securities laws, advertising and solicitation rules, and fiduciary duty standards for private fund advisers.

The pension even boasts of receiving private equity industry awards—awards that reflect the interests and incentives of the private equity industry itself, not the fiduciary interests of pensioners. Ironically, a genuinely rigorous limited partner—one that pushes hardest on fees, transparency, and conflicts—would be least likely to be celebrated by the industry press.

When the nation's leading public pension fiduciary managing hundreds of billions in taxpayer-backed liabilities provides unbalanced information to the public about high-risk private equity investing, it's dangerous. CalPERS can distort policy, weaken oversight, and—if copied by other pension plans—magnify systemic risk.

Despite CalPERS's communications, the enormous risks related to private market investments generally and commonplace industry abuses are well-known. In fact, many of the risks, conflicts of interest involving self-dealing and other abuses are regularly disclosed in the offering documents—documents which CalPERS has been unwilling to provide to the public. In order to educate CalPERS stakeholders as to the substantial risks and industry abuses, a list related to private equity investments is provided in the report.

By introducing independent verification into the public-communications process, an independent IG would significantly strengthen the credibility, balance, and accountability of CalPERS' disclosures regarding private investment costs and risks—areas where complexity and opacity have historically undermined public confidence.

- **“Zombie Fund” Heightened Risk**

A “Zombie Fund” is a private investment fund that has stopped making new investments, has failed to achieve exits for its remaining portfolio companies, and continues operating primarily to collect management fees and/or avoid recognizing losses rather than generate returns for investors. In short, it’s a fund that refuses to die—consuming management fees but producing little or no return for investors. Today, a fund with a vintage year before 2014 and still active but not liquidated would likely be flagged as a Zombie.

According to CalPERS financial statements as of December 31, 2024, there were 108 out of 420 total private equity funds, or nearly 26 percent that had a vintage year more than 10 years old (i.e., 2014 or earlier). The combined Cash Out & Remaining Value of these potential Zombies was \$55.91 billion.

CalPERS’s alternative investments subject to extended liquidations should be closely examined and fully disclosed to the public. The “tail-end” risk is real here, as 60 funds with 2010 or earlier vintages still carry \$1.4 billion in remaining value and 2014 and older vintage funds indicate total unliquidated value of \$4.76 billion. This amounts to a classic “aging portfolio” exposure where extensions and General Partner-led deals become more likely—and where fiduciary concerns are most acute (fees, conflicts, diminished Limited Partner leverage). There is ample reason to believe, in the opinion of experts, that the delayed liquidations may be “red flags” for abusive practices, including, but not limited to, questionable valuations.

An independent IG could improve transparency and reduce zombie fund risk at CalPERS primarily by doing two things CalPERS does not do today publicly. That is, first, force standardized, fund-by-fund disclosure of tail-end exposures and economics, and, second, independently test whether extensions, fees, and valuations are defensible.

In conclusion, a truly independent IG would reduce Zombie-fund risk at CalPERS by making it hard to hide, hard to extend without consequences, and hard to keep charging full fees on shrinking, illiquid leftovers—especially during an exit drought where the industry is already grappling with large piles of decade-old “tail-end” assets and persistent fee drag.

- **Secondary Market Sales Lack Transparency and Inflated Valuation Concerns**

Over the past decade-plus, CalPERS has been a repeat, large-scale participant in the secondary market for private investments—both as a seller and as a buyer.

Secondary sales are uniquely risky (and opaque) in that they combine three hazards that don't exist in ordinary reporting of asset sales. Selection bias is a primary concern since sellers typically offload the most liquid, transferable interests first, leaving the least liquid, most problematic assets behind. Also, while prices reveal market reality for what has been sold, remaining holdings may stay on inflated manager marks. Finally, headline discounts related to sales often mask deferred consideration, earn-outs, stapled commitments, and transaction costs that materially change (increase) the “true” discount. That is, a so-called 10 percent discount might really be far greater, 20–30 percent after costs and structure are factored in.

Absent independent oversight, these dynamics can overstate remaining portfolio value, distort performance, and shift risk to beneficiaries without their knowledge.

To date, CalPERS secondary sales of private equity interests have profoundly lacked transparency. Detailed lists of funds sold and any discount or transaction costs are not regularly disclosed. Based upon standard industry practice, the public may reasonably be concerned that the values of certain of the remaining private equity portfolio holdings may be overstated, i.e., not appropriately discounted. Post-sale valuation testing of the remaining portfolio is critical.

An independent IG can materially reduce valuation risk, selection bias, and hidden costs in private-investment secondary sales by changing what is disclosed, when it's disclosed, and who validates it. The goal is to ensure the public can tell whether secondary sales helped or hurt beneficiaries, and whether remaining marks are credible.

Without that IG oversight, secondary programs risk becoming a way to sell the easiest assets, preserve optimistic marks elsewhere, and quietly shift long-term valuation risk onto beneficiaries—exactly the outcome an IG is designed to prevent.

- **Investment Consultant Conflicts of Interest and Private Equity Ownership**

Investment consultants play a central role in pension investment decision-making. Public pensions, such as CalPERS, rely heavily on their pension consultants since these funds have lay boards that lack investment expertise. The United States Securities and Exchange Commission and Department of Labor have long warned plan fiduciaries that potential conflicts arise when consulting firms maintain financial

relationships with investment managers or are themselves owned by managers, particularly opaque private-equity firms. While disclosure of conflicts of interest in the pension consulting industry has improved over the decades, the conflicts have grown to be more significant than ever.

At this time, CalPERS retains three investment consultants. Wilshire Associates, Inc., is the general investment consultant with overall responsibility. Meketa Investment Group has provided Private Markets/Alternative Investment consulting for over a decade. Wilshire Advisors is the investment consultant for private debt.

Since Wilshire Associates has served as CalPERS' primary general investment consultant for over four decades (and, more recently, private debt consultant through Wilshire Advisors), the firm has shaped asset allocation, benchmarking, risk frameworks, and manager selection, as well as influenced CalPERS' private markets build-out, including private debt. The firm has advised the pension across multiple asset classes and decision layers for decades.

This makes Wilshire arguably the most influential external firm in CalPERS' history.

In 2021, Wilshire was acquired by private equity firms CC Capital Partner and Motive Partners. That same year, Apollo Global Management, Inc., acquired up to a 24.9 percent minority stake in Motive's management company and Apollo and its affiliates became limited partners in Motive managed vehicles.

As detailed in the report, Apollo's capital base has long been overwhelmingly dependent on public retirement systems, at times as much as roughly 75 to 80 percent. CalPERS has long been a significant investor in Apollo funds. According to the SEC, around 2007-2008, Apollo "was tricked into paying more than \$20 million in placement agent fees it would not otherwise have paid" to CalPERS insiders in a high-profile corruption "pay-to-play" scandal. Further, earlier this year, the American Federation of Teachers and the American Association of University Professors, both of whom represent CalPERS members, sent a letter to the SEC alleging that that Apollo's disclosures regarding connections to Jeffrey Epstein may have been inaccurate and asking the Commission to investigate. Finally, the AFL-CIO, America's federation of labor unions representing nearly 15 million workers, sent a letter to Gary Cohn, Lead Independent Director of Apollo expressing the organization's "deep concern over recent controversies involving Apollo Global Management and Apollo's Chair and CEO Mark Rowan."

In its SEC filings, Wilshire discloses numerous complex potential conflicts of interest related to its private equity ownership structure. Given Wilshire's multi-decade

influence at CalPERS, its expansion into investment products, and its ownership by private equity firms with broad financial interests, effective monitoring of conflicts of interest would require access to internal information and enforcement authority beyond what CalPERS staff typically possess.

If Wilshire and its private equity owners were to grant CalPERS special access to their internal operations to satisfy fiduciary concerns, it would be problematic for them and would likely prompt objections from other clients. Even an Inspector General would need explicit statutory powers to provide meaningful, ongoing oversight of Wilshire.

Meketa apparently is an independent, employee-owned firm which, unlike general consultant Wilshire, does not disclose any conflicts of interest related to its ownership structure. However, Meketa's SEC filings disclose that it evaluates managers while also managing assets itself; may favor higher-fee or discretionary clients over nondiscretionary clients; may receive profit interests or reimbursements from investment managers; and often relies on unverifiable, non-public General Partner information. CalPERS staff are not resourced or empowered to convert such disclosures into decision-level conflict testing. Without independent verification authority, disclosure offers little protection. Meketa itself acknowledges that many of its recommendations rely on information that is "impossible or impracticable to verify." That admission alone makes staff-only conflict monitoring insufficient.

An independent IG could provide the missing governance layer that makes staff oversight of Meketa meaningful. Without it, CalPERS is largely trusting the consultant to police itself, which is precisely the risk Meketa's own disclosures acknowledge.

- **ESG Governance Failures Result in Billions Lost**

For over three decades, CalPERS has been a leading proponent of Environmental, Social and Governance (ESG) investing—despite periodic staff and external investment consultant reports indicating that billions have been lost through such initiatives.

Recent reports indicate the pension's "climate solution" assets reached nearly \$60 billion by mid-2025, "marking a major milestone just two years after setting its 2030 target" of \$100 billion. CalPERS' climate initiatives increase complexity and costs, are heavily implemented through high-fee private markets, and the fund does not disclose enough data to prove net benefit and underperformance, if any, compounds over decades. Since CalPERS does not disclose, we cannot determine whether its

climate investments beat a simple market portfolio, reduce long-term risk enough to justify the incremental costs and whether members are better off financially because of them.

Again, we note that House Republicans are probing whether “radical” ESG at CalPERS could threaten the fund’s tax status.

CalPERS ESG initiatives are, in our opinion, deeply flawed in that they focus upon external popular environment and social issues but fail to address the fund’s greatest internal governance issues: a profound lack of transparency, failure of board oversight and grossly misleading performance and fee disclosures to the public.

It is ironic that the only governance “ills” the pension seems unwilling to address are those within its own halls.

- **Emerging Cryptocurrency Investment Risks**

The question of whether cryptocurrency is a suitable investment for public pensions has garnered significant attention in recent years, as crypto firms and lobbying groups have intensified their efforts to access trillions in public investment funds—often marketing themselves as the future of finance and offering tokenized investment products. Further, the SEC’s approval of crypto-based exchange-traded products, followed by the Trump Administration’s wholehearted support for crypto, has cast crypto as a legitimate asset class and created a false sense of stability in the sector. On the other hand, legendary investor Warren Buffett has repeatedly warned all investors to steer clear of cryptos, calling Bitcoin “probably rat poison squared.” For public pensions, crypto investing is especially problematic in light of applicable fiduciary duties, risk profiles, liquidity needs, and reporting transparency.

Nevertheless, state pension funds are increasingly gaining exposure to cryptocurrency assets and equity stakes in crypto companies. To date, several dozen states have allowed or proposed allowing such investments. California doesn’t have a law or bill that specifically authorizes CalPERS to invest in crypto and the pension does not disclose any direct crypto holdings. However, the pension reportedly has a significant investment in the highly-volatile “shares of the largest bitcoin holding company in the world, MicroStrategy.” Crypto-funded influence around public pension investment decision-making, i.e., direct or indirect political contributions to any officials related to plans can be especially problematic.

An independent IG can provide credible guidance on cryptocurrency at CalPERS by doing what staff, consultants, and boards are structurally disincentivized to do, i.e., separate hype from fiduciary evidence; force disclosure of hidden risks and costs; and publish clear guardrails before money is committed.

The key question the IG would publicly address is, “What problem does crypto solve that cheaper, liquid assets do not?”

- **Conclusion**

There is no fiscal problem in California more fixable—and less defensible—than CalPERS. Decades of mismanagement has cost beneficiaries and taxpayers hundreds of billions of dollars. Had CalPERS been prudently managed—with transparent reporting, disciplined costs, and investment strategies grounded in fiduciary reality—its assets could exceed \$1 trillion today.

The remedies are obvious. Restore full transparency, thereby revealing hidden and excessive fees. Eliminate conflicts of interest. Once exposed to independent scrutiny, the practices driving chronic underperformance—including benchmark manipulations—can be swiftly curtailed.

The sole explanation for the persistence of imprudence at CalPERS is that the current system works—just not for the people it is supposed to serve.

Everyone inside the structure benefits from keeping it intact. Politicians gain campaign contributions from Wall Street and influence. Board members avoid accountability behind a veil of complexity. Investment staff are awarded bonuses based on benchmarks they help design. Consultants and Wall Street money managers collect fees that would not survive meaningful scrutiny. The incentives are aligned—against the beneficiaries.

This is not a technical failure. It is a governance failure—plain and simple.

And without independent oversight provided by an Inspector General, there is no reason to believe it will change. The same incentives that produced the problem remain firmly in place. Expecting meaningful reform from within the system is like asking it to audit itself.

CalPERS is not broken because it lacks resources. It is broken because it lacks accountability. Until that changes the massive losses will continue—quietly compounding, year after year—paid for by the very people the system was created to protect.

II. Introduction

CalPERS is not just another pension fund. It is the largest defined-benefit public pension system in the United States—by far—and arguably the most influential institutional investor in the world of retirement finance.¹ It is a powerful force—for good, or for evil—in investing for retirement security.

Despite decades of resisting public records requests, narrowing disclosure and lobbying against expanded transparency requirements, CalPERS boasts it is “the most transparent pension in America.”

As of June 30, 2025, CalPERS reports managing approximately \$556.2 billion in assets on behalf of more than two million active and retired public employees and their families.² Obviously, the retirement security of California's teachers, firefighters, police officers, and other public servants depends upon the integrity of this system. So does the fiscal stability of the state of California and hundreds of local government employers. Taxpayers are also stakeholders—even if they're not members of the retirement system—as the ultimate guarantors of the retirement system.

But CalPERS' significance extends far beyond California.

Because of its size and notoriety, CalPERS acts as a bellwether for global capital markets. Its investment strategies, fee arrangements, governance practices, and transparency standards influence not only other U.S. public pensions, but endowments, sovereign wealth funds, and even retail investment products worldwide. What CalPERS legitimizes, markets adopt. What CalPERS tolerates, others normalize.

For this reason, CalPERS receives more sustained media scrutiny than any other public pension fund. International financial press—including the *Financial Times*, *Wall Street Journal*, *Bloomberg* and *Reuters*—regularly report on its strategic decisions. California outlets such as the *Sacramento Bee* and *Los Angeles Times* cover its impact on state and municipal budgets, unfunded liabilities, and rising

¹ With the exception of California State Teachers' Retirement System (\$367.7 billion as of June 30, 2025), CalPERS is more than double the size of the nation's other leading public pensions.

² Due to uncertainties related primarily to valuation of its alternative investments (as discussed later in this report), the true value of CalPERS total assets under management may be significantly lower.

contribution costs. Even when the pension buys or sells a single stock, it's often news.³

CalPERS is not merely large. It is a market-maker.

- **Herd Behavior in Public Pensions**

At the outset it is important to note that institutional investors—including public pension funds—tend to follow similar investment strategies, asset allocations, manager and consultant choices, and transparency practices. Rather than act independently based on unique insights or due diligence, many institutional investors mimic the moves of others—much like a herd of animals moving together for safety. Reasons cited for this “herd instinct” include fear of underperforming peers; use of industry benchmarks to measure investment performance which encourage conformity; reliance upon investment consultants who recommend similar strategies across clients; and fear of missing out when certain assets are performing well.

In public pensions, this herd instinct can be especially pronounced. Governance structures are often political and the potential for political considerations to impact investment decision-making is ever-present. Board members lack deep investment expertise. Regulatory oversight is fragmented. In that environment, conventionality can feel safer than innovation—even if it increases systemic risk.

Most public pensions rely on similar assumed rates of return—typically 6 to 7 percent—even when long-term capital market expectations may not justify such optimism. To reach those targets, funds frequently increase exposure to illiquid, opaque, and high-fee speculative alternatives.

When everyone chases the same assets to satisfy the same unrealistic actuarial assumptions, systemic risks multiply: asset bubbles, reduced diversification, liquidity stress during downturns, and widespread underperformance.

Herding does not merely affect individual portfolios. It can distort entire markets.

- **CalPERS As Leader of the Herd**

Because CalPERS is the largest U.S. public pension fund, its actions shape the behavior of others, including both institutional and retail investors globally. When CalPERS embraces or exits an asset class, accepts abusive industry practices, or fails

³ <https://www.nasdaq.com/articles/largest-us-pension-sells-tesla-tsla-stock>

to vigorously negotiate fees and demand full transparency from its asset managers, it sends a strong signal to other pension funds, endowments, sovereign wealth funds, and investors. In short, “If CalPERS does it, others follow the leader.”

Likewise, investment managers—from Wall Street to Hong Kong—seeking to earn increasingly rich advisory fees from managing institutional assets are also keenly interested in CalPERS’s moves, knowing that other public pensions (and perhaps eventually retail investors) will follow.

Historically, CalPERS has played a foundational role in legitimizing alternative investments within public pensions. In 2014, when CalPERS reduced its hedge fund exposure—citing high fees, underperformance and complexity—many other pensions began to reevaluate or reduce hedge fund allocations. Similarly, CalPERS and other public pensions’ decades-long embrace of private equity—with underreporting of true costs and risks and overstating performance based upon optimistic, smoothed valuations—has normalized private equity as a mainstream asset class. Today, the same industry seeks entry into individual 401(k) retirement plans, invoking institutional participation as validation: “If it’s good enough for CalPERS, it’s good enough for retail investors.”

Theoretically, CalPERS could use its immense scale to demand lower fees, greater transparency, stronger governance rights and full cost disclosure—thereby creating downward pressure on fees, eliminating pervasive industry abuses and ultimately benefiting investors.

CalPERS could be a powerful force for good.

Instead, over time, the pension has failed to vigorously negotiate fees and has agreed with its investment managers to withhold from public scrutiny any such reductions or improvements in terms. Disclosed fees and expenses paid by public pensions have skyrocketed. Virtually all plans have seen reported fees grow exponentially, even as far greater fees—such as “carried interest” in private equity—are rarely disclosed. For example, CALPERS is budgeting for 2026-27 a \$900 million or 69 percent increase from 2 years ago in fees paid to Wall Street, ballooning to \$2.2 billion in disclosed fees alone.⁴

Worse still, CalPERS has, over the decades, openly acknowledged misrepresenting (understating) applicable investment fees. Critics argue that valuation smoothing,

⁴ <https://www.calpers.ca.gov/documents/202604-financeadmin-agenda-item5b-01-a/download?inline>

optimistic assumptions, and incomplete cost reporting have contributed to overstated performance narratives.

When a pension fund of this size understates risks and costs, or overstates results, the consequences extend well beyond its own beneficiaries. Markets respond, policies shift and other fiduciaries follow.

Leadership magnifies impact—whether positive or negative.

Investors globally are harmed when this pension leader misleads.

- **Market Influence Beyond Returns**

When CalPERS enters a new area—like green bonds, infrastructure, or emerging markets—it often plays a foundational role in establishing or scaling up the asset class. For example, CalPERS was an early investor in infrastructure funds and climate-aligned investments, encouraging development of Environmental, Social, and Governance (ESG) friendly products across Wall Street. Similarly, CalPERS’s Emerging Manager Program, started in the early 2000s, invests in smaller, newer firms often owned by women and/or people of color.

CalPERS investing in, or even “seeding,” new or emerging funds or firms often leads others worldwide, including but not limited to pensions, to invest. If these investments are ill-conceived, underperform or fail—which they sometimes do—CalPERS’s responsibility for the ensuing harm to other investors, if any, may become an issue.

Finally, due to CalPERS’ outsized influence on the investment world, developments at the pension which can be framed by staff as favorable are widely touted by the fund’s Communications and Stakeholder Relations team (including media, public relations, and public affairs), and widely reported in the financial press. When CalPERS has been criticized for poor returns, lack of transparency, or political interference, it becomes a case study for governance reform across the pension world. For example, a “pay-to-play” scandal over a decade ago triggered widespread scrutiny of so-called “placement agents.” In 2015, when CalPERS staff admitted that it had not been systematically tracking, i.e., did not actually know—indeed, supposedly “*could not track*”—the total fees paid to its private-equity managers,⁵ it was roundly criticized for failing to perform its fiduciary duties. More recently, as shareholder activism and ESG investing by pensions have been criticized, CalPERS’s

⁵ <https://capitolweekly.net/calpers-private-equity-carried-interest-profits/>

foundational role has been questioned. The fund's struggles with meeting return targets despite high-risk strategies have prompted other pensions to reassess their assumed discount rates and asset allocation models.

CalPERS is not merely a participant in the public pension system.

It is a bellwether.

And when a bellwether falters, the consequences are systemic.

III. Lack of Comprehensive Regulation of Public Pensions

America's public pension plans—with tens of millions depending upon them for retirement security—collectively hold approximately \$6.1 trillion in assets and heavily influence global bond, equity, real estate, private markets, and infrastructure asset prices. Remarkably, these pensions are not protected by any comprehensive federal, or state law.

The Employee Retirement Income Security Act of 1974 (ERISA), a federal law that sets rigorous standards for most private-sector (corporate) retirement and health plans in the United States, does not apply to our nation's public pensions.

Since public pensions, including CalPERS, are exempt from ERISA, participants in these funds lack many key federal safeguards that private-sector workers typically enjoy, including federal fiduciary and funding standards; federal insurance; uniform dispute and claims processes; disclosure and transparency requirements and anti-cutback rules.

For example, ERISA requires that plan fiduciaries act solely in the interest of plan participants with the duty of loyalty and prudence. Public plans have fiduciary duties under state law, but these can vary widely, may be less stringent than ERISA's federal standards, are often misunderstood and rarely monitored, or enforced by states.

ERISA mandates minimum funding standards for pension plans and requires ongoing funding to ensure long-term solvency. Public plans are not held to these standards, and most states have underfunded their pension obligations for decades. As a result, chronic underfunding is far more common in the public sector.⁶

⁶ The average funding level for public pension is estimated around 75-80 percent, assuming portfolio values are accurately reported.

ERISA-covered pensions are insured by the Pension Benefit Guaranty Corporation, which provides a safety net if a private plan fails. Public pensions have no equivalent federal insurance. If a public pension system runs out of money, there's no federal backstop—benefits may be cut or delayed unless the state steps in (which isn't guaranteed). ERISA provides a clear legal framework for participants to file claims, appeal denials, and bring lawsuits in federal court. Public plan participants must rely on state-specific procedures, which may be less transparent or consistent, and they often have fewer legal remedies. ERISA requires regular, standardized reporting to participants, such as Summary Plan Descriptions; Annual Funding Notices and Form 5500 filings.

Finally, ERISA generally prohibits reducing accrued benefits in qualified plans. In the public sector, while some states protect accrued benefits via state constitutional provisions or legal precedent, others allow benefit reductions, especially for future or cost-of-living adjustments. Unlike ERISA-covered plans, public pension participants often must rely on political and legal protections rather than standardized federal safeguards.

Since federal ERISA does not apply to public pensions, the products and services Wall Street crafts specifically for, and sells to, these funds often involve practices which are not acceptable, or are even prohibited, under ERISA—potentially exposing retirement savers to additional dangers.

Public pension protections vary by state and are far from comprehensive. These pensions are typically governed by state laws and constitutions; local ordinances; internal plan documents and trust agreements; and oversight from public pension boards or commissions.

Since investment structures, strategies, as well as industry practices are rapidly ever-evolving, many of the most significant issues related to managing state and local pension investments are not addressed in these statutes.

Further, investment consultants and managers hired to oversee and manage public pension assets, as well as public pension boards and staffs themselves, often are confused as to applicable legal standards. For example, some public funds stipulate in their contracts with consultants and managers that ERISA fiduciary standards apply but then fail to monitor and enforce such compliance.⁷

⁷ <https://www.forbes.com/sites/edwardsiedle/2015/10/27/long-awaited-forensic-investigation-of-city-of-jacksonville-police-and-fire-pension-fund/>

Public pension disclosure requirements and practices vary widely. Some funds are more transparent than others, but, in our experience, all public pensions—including CalPERS—fail to provide the full disclosure necessary to permit effective public scrutiny.

Worse still, public pensions may be subject to political or legislative pressures, on issues such as, for example, fossil fuel divestment or social impact investing.

Public pensions investments in California are primarily governed by the California Constitution and state statutes, especially within the Government Code. The foundational law governing public pension investment authority is Article XVI, Section 17 of the California Constitution which generally provides that pension boards have a fiduciary duty to act for the sole and exclusive benefit of members and beneficiaries; boards must discharge their duties with the care, skill, prudence and diligence a prudent person would use; boards have the sole and exclusive power to invest pension assets, and must not be subject to legislative or political interference in investment decisions.

With respect to CalPERS specifically, Public Employees' Retirement Law, California Government Code §§ 20000–22970.97 includes detailed investment authority regarding types of allowable investments (such as real estate, stocks, bonds, venture capital and private equity) and restrictions and permits hiring external investment managers (subject to fiduciary duty standards). While focused mostly on benefit formulas and contribution caps, Public Employees' Pension Reform Act (California Government Code § 7522 et seq.) in 2013, reinforced investment oversight by enhancing transparency; requiring investment return assumptions to be reasonable and promoting long-term solvency considerations in investment policy.

- **Lack of Public Pension Enforcement**

Another serious problem America's state and local pensions face is that no federal or state regulator, or law enforcement agency, actively monitors or polices these plans. State Attorneys General (AG) prosecute public pension matters only rarely—and usually only in cases of serious misconduct, clear fraud or corruption, or political scandal where public pressure demands it. Routine mismanagement, underfunding,

or poor investment decisions almost never trigger prosecution—even if they cause long-term harm.

Nevertheless, since the early 2000s, the California Attorney General's office has intervened at least five times in major cases involving CalPERS either directly or on behalf of its members.

- In October 2009, AG Jerry Brown sued State Street Bank under the California False Claims Act for overcharging CalPERS (and CalSTRS) on foreign currency trades—seeking more than \$200 million in restitution.⁸
- In 2010, AG Brown filed a civil lawsuit against former CalPERS board member Alfred Villalobos and CEO Fred Buenrostro. The suit alleged a pay-to-play scheme involving bribes, lavish gifts, and fraud in securing investment contracts for billions in CalPERS assets. AG Brown sought recovery of tens of millions in fees and penalties.⁹
- In 2012, AG Kamala Harris' office announced a \$2.75 million settlement with Medco over alleged wrongdoing when Medco engaged former CalPERS board member Alfred Villalobos to secure a CalPERS pharmaceutical benefits contract.¹⁰
- In 2015, AG Harris's office was involved in a settlement with Standard & Poor's over credit ratings of mortgage-backed securities and CalPERS received a \$301 million settlement.¹¹
- In 2019, AG Xavier Becerra secured a landmark \$150 million settlement with Morgan Stanley for misleading CalPERS and CalSTRS investors regarding the riskiness of mortgage-backed securities sold between 2003-2007. CalPERS regained around \$122 million in damages.¹²

⁸ <https://archive.findlaw.com/blog/california-ags-lawsuit-charges-state-street-bank-with-fraud/>

⁹ <https://oag.ca.gov/news/press-releases/brown-files-suit-against-former-calpers-officials-and-freezes-assets-alfred>

¹⁰ <https://oag.ca.gov/news/press-releases/attorney-general-kamala-d-harris-announces-settlement-medco-over-alleged>

¹¹ <https://oag.ca.gov/news/press-releases/attorney-general-kamala-d-harris-announces-210-million-settlement-standard-poor>

¹² <https://oag.ca.gov/news/press-releases/attorney-general-becerra-announces-150-million-settlement-against-morgan-stanley>

- In 2020, AG Becerra announced a \$7 million settlement with HSBC for overcharging CalPERS on foreign exchange trades in 2008-2009 under the California False Claims Act.¹³
- In 2023, AG Robert Bonta prosecuted a former CalPERS senior analyst who misappropriated nearly \$700,000 from retiree accounts. She received a 6-year prison sentence and was ordered to fully reimburse the victims.¹⁴

In total, these efforts have yielded hundreds of millions in restitution, high-profile lawsuits, and criminal convictions.

IV. Impact of Politics Upon Public Pensions

Public pensions, like CalPERS, are political entities, not simply rational investors. While these pensions are long-term financial commitments, politicians have short-term election cycles, face pressure to deliver immediate results (e.g. cut costs or increase benefits) and lack incentive to fully fund systems long after they will be out of office. This misalignment of incentives is one of the root causes of public pension underfunding.

Politicians have significant influence over public pensions and their decisions can have long-term impacts on pension funding, benefit levels, and plan sustainability. Politicians shape public pensions by setting pension benefits; controlling contributions by employers; appointing board members and influencing asset allocation (e.g. push for ESG, fossil fuel divestment or local investments); promoting so-called pension reforms; and enshrining pension guarantees in state constitutions.

Politicians can benefit from public pension investment decisions both directly and indirectly through political influence, patronage, campaign support, or shaping policy agendas.

One of the main ways politicians benefit from public pension investment decisions is so-called “pay-to-play” schemes where investment firms donate to political campaigns or PACs before or after being selected to manage billions in pension assets. Pushing political or social agendas through investments can also curry favor

¹³ <https://oag.ca.gov/news/press-releases/attorney-general-becerra-announces-7-million-settlement-against-multinational>

¹⁴ <https://oag.ca.gov/news/press-releases/attorney-general-bonta-secures-six-year-prison-sentence-former-calpers-employee>

with key voter blocs or advocacy groups. In summary, public pensions control trillions of dollars in assets which gives politicians leverage over financial institutions seeking access to that capital, opportunities to extract political or economic concessions (e.g., "invest in our state, and we'll support your proposal") and a way to indirectly influence financial markets globally.

The Supreme Court's *Citizens United v. Federal Election Commission* decision¹⁵ in 2010 permitted corporations, unions, and other groups to spend unlimited amounts on independent expenditures. That rule was later applied to state and local races—the very contests (Governor, Treasurer, Comptroller, legislators) that determine or influence public-pension boards. After *Citizens United*, it became easier for Wall Street money to reach the state and local arenas that shape public-pension oversight—primarily through unlimited independent-expenditure channels (super PACs/501(c) groups). The SEC's pay-to-play rule (Rule 206 (4)-5) still restricts direct giving by SEC registered advisers (and covered associates) to pension-influencing officials—a two-year “time out,” anti-solicitation, etc. However, the Rule does not cap independent spending—which is where the post-2010 growth has occurred.

Independent spending has surged in California legislative races, underscoring how much outside money now targets state elections (Governor, Treasurer, Controller) that ultimately influence public pension investing. For example, in 2024, independent-expenditure committees poured approximately \$100 million into California legislative contests alone, up sharply from prior cycles. Recent academic work has found private-equity firms that donate to winning candidates who become pension board members are 10-times more likely to receive post-election investments from that fund than firms donating to losing candidates. Worse still, private equity funds in which public pensions invest through political connections exhibit a 5 percentage points lower abnormal internal rate of return.¹⁶

Perhaps not surprising, CalPERS assets allocated to costly private investments has skyrocketed by 13 percent (from 27 percent in 2010 to 40 percent in 2025), resulting in billions more paid annually to Wall Street while compromising transparency and investment performance. CalPERS recently boasted 60 percent of its assets since 2022 have been invested in private equity.¹⁷

¹⁵ <https://www.fec.gov/legal-resources/court-cases/citizens-united-v-fec/>

¹⁶ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4668018&utm_

¹⁷ <https://news.calpers.ca.gov/calpers-now-why-private-equity-is-important-to-your-pension/>

In conclusion, political contributions lead to investment firms winning mandates from public plans, which indirectly raise total fees since those mandates are, inevitably, in higher-cost asset classes.

V. Board Governance and Lack of Investment Expertise

Remarkably, board members of the nation's largest public pension are not required to have any professional investment expertise whatsoever, and most do not have investment backgrounds. The majority are elected from within public-sector employee groups and have backgrounds in labor, education, or public administration. Over the decades, a few board members have had investment or financial industry experience, but they are the exception. For example, former longtime board member J. J. Jelincic, CFA, had held investment officer roles and worked with investment staff at CalPERS prior to joining the board.

Since CalPERS board members are not required to have, and generally lack, knowledge of investments, it follows that far-reaching investment decisions involving hundreds of billions in pension assets are made without the benefit of such knowledge or, at best, with heavy board reliance upon recommendations by pension staff and external Wall Street advisers—recommendations subject to a myriad of potential conflicts of interest which the lay board is utterly incapable of evaluating.

In short, CalPERS's board does not, and indeed cannot, in our opinion, make informed investment decisions because its members are simply not informed. The pension's record amply reveals that the board has long failed to provide meaningful oversight and perform its proper governance function.¹⁸

Over the years, critics have unsuccessfully argued that the board should have more members with investment expertise, or that members lacking such experience face a steep learning curve, especially given the complexity of CalPERS's growing and evolving alternative investment portfolio, i.e., private equity, private credit, real assets, etc. In 2011, there were proposals (e.g. California's Governor's pension reform proposal) to add two independent board members with financial or investment expertise—people who had no material financial interests or ties to the pension system.¹⁹ In 2013, a bill, AB 1163, was introduced which would have

¹⁸As discussed elsewhere, despite the board's lack of even rudimentary investment knowledge, CalPERS has, for decades, criticized corporations for their governance deficiencies.

¹⁹https://lao.ca.gov/reports/2011/stadm/pension_proposal/pension_proposal

required the governor to appoint additional financial experts to the board and add more financial sophistication.²⁰ Neither of these obviously sensible reforms, intended to address a glaring governance deficiency, passed.

We also note that serving on the board of the massive pension is a part-time position, which pays no compensation whatsoever—ensuring that the most qualified candidates will not seek the demanding position.

More recently, in 2023, a Bloomberg article discussed the lack of investment expertise at America’s public pensions generally, and at CalPERS specifically. As noted in the article:

Canada selects directors to oversee its public pension funds for their financial expertise and pays some six-figure salaries. In the Netherlands, board members must obtain approval from the central bank.

In the US, a lineup of unpaid union-backed reps, retirees and political appointees are the vanguards of a \$4 trillion slice of the economy that looks after the nation’s retired public servants. They’re proving to be no match for a system that’s exploded in size and complexity.

The disparity is dragging on state and local finances and—together with headwinds that include a growing ratio of retirees to workers and lenient accounting standards—gobbling up an increasing share of government budgets. Precisely how much it’s costing Americans is hard to say.²¹

The article also included an analysis of data from CEM Benchmarking—CalPERS’s own longstanding investment cost and transparency expert—indicating that the disparity in board expertise price tag could run into the hundreds of billions of dollars over the past decade.

In the 10 years through 2015, a group of large Canadian funds delivered excess returns that beat a passive portfolio designed to match their liabilities by 2.2% a year. That return was 0.7% more than US counterparts earned for taking greater risk above a similar index—equivalent to \$280 billion in missed opportunities over a decade.

Multiple other studies have found that funds managed by boards stacked with government officials and elected representatives of public employees underperform.

²⁰ http://www.leginfo.ca.gov/pub/13-14/bill/asm/ab_1151-1200/ab_1163_bill_20130222_introduced.html

²¹ <https://www.bloomberg.com/news/features/2023-01-04/us-public-pension-plans-run-by-investing-novices-are-on-the-edge-of-a-crisis?>

Bloomberg further noted that as inflation and interest rates have jumped, America's public pensions have turned to riskier alternative investments to boost returns. Where boards' own expertise has fallen short, they've relied on investment staff and outside advisers, "whose appetites for complexity add to costs and eat into returns."

"It's the worst of all possible worlds," said Mike Reid of CEM Benchmarking. "The US would do well to reconsider its approach."

With respect to lack of expertise among CalPERS board members, the article cites a transcript from a 2021 investment committee meeting where an external adviser warned board members that the boom in blank-check companies was a sign of froth in financial markets.

"I had never heard of those," chairwoman Theresa Taylor told her fellow directors of the then-sizzling products known as SPACs...

The obvious regulatory inconsistencies were also noted:

Most individuals in the US aren't allowed to invest in these specialized private markets: federal securities regulators require a certain amount of wealth or financial sophistication before someone can be classified as a so-called accredited investor.

There's no such test for the trustees who oversee public pension funds. More than half of US directors are still drawn from rank-and-file employees, more than a quarter from the public and the remainder from government officials, according to the National Association of State Retirement Administrators. While some directors have strong financial credentials, others are novices.

"Part-time, lay trustees are simply no match for the agents and complexity they are expected to supervise," said Richard Ennis, co-founder of consultancy EnnisKnupp.

Ironically, CalPERS's today invests the majority of its assets in risky, complex, illiquid funds restricted to "sophisticated" investors under federal and state securities laws. The board is not sophisticated. Further, the beneficiaries are not sophisticated yet their retirement savings are exposed to these opaque investments.

Worse still, our investigations here and elsewhere have revealed that public pension investment staff and external managers routinely agree that the part-time, lay trustees are permitted, at best, only limited access to the lengthy documentation related to the most complex of all pension investments—private or alternative assets. Thus, the lay boards couldn't begin to understand the unique risks and expenses related to each of these investments—even if they had extensive investment expertise.

An inexperienced, uncompensated, part-time board (with only limited access to investment documentation) managing a massive pension embracing ever-greater risk is seemingly designed to fail.

The Bloomberg article concludes with the following dire warning about our public pensions from CalPERS's own expert:

"The whole system is set up to fail," said Keith Ambachtsheer, president of KPA Advisory Services and a co-founder of CEM Benchmarking.

The CalPERS Board of Administration today has 13 members: 6 members elected by CalPERS active and retired members with public employment backgrounds; 3 members appointed by the Governor and Legislature, who occasionally have finance or investment experience; and 4 ex officio state officials who are career politicians or public administrators.

Under California Government Code Section 20100, effective January 1, 2015, board members (and their designees) must receive a minimum of 24 hours of education every two years. The limited training includes topics like fiduciary responsibilities, investment management, actuarial matters, pension funding, benefits administration, and governance.

We note with great emphasis: Board members are not required to have any financial credentials or experience—a mere 12 hours of education a year is somehow deemed adequate to provide effective oversight of a near \$600 billion pension which more than two million active and retired public employees, and their families depend upon for lifetime retirement security.

Since board members generally lack technical expertise, CalPERS relies heavily on professional staff, including a Chief Investment Officer (CIO) and a large internal investment team consisting of over 300 professionals. The investment leadership at the fund has had turnover, and there have been concerns about political interference. For example, two prior CIOs resigned in short order. These sorts of leadership changes can impact strategy continuity, staff morale, and ultimately performance.

Also, the inexperienced CalPERS board relies upon external investment, transparency and cost consultants. These consultants are subject to conflicts of interest which may undermine the integrity of advice proffered to the inexperienced board. Lack of board expertise has led to governance challenges, especially on complex issues like private equity valuations, environmental/social divestment debates, and hedge fund strategy.

In conclusion, critics—including pension reform advocates, former board members, and some academics—have long argued that CalPERS board elections are politicized, often dominated by union politics rather than qualifications and that the board lacks expertise to properly evaluate increasingly complex investment risks and hold staff accountable. This lack of expertise opens the door to excessive reliance on external consultants and vulnerability to poor performance or ethical lapses. In 2023–2024, there were renewed calls (e.g., via SB 1260) to create an Inspector General for CalPERS, partly due to concerns over board oversight capacity and repeated scandals.

As a result of lack of comprehensive regulatory oversight, lack of board investment expertise and political interference, public pensions are often referred to by prominent financial journalists and academics as the “dumbest investors in the room”—easily exploited by more sophisticated Wall Street players.

VI. CalPERS No Longer the “Gold Standard”

For several decades, CalPERS was considered the “gold standard” for public pension systems in the U.S. Today, it is still extremely influential but it no longer has that sterling reputation. CalPERS now is seen as a cautionary tale of mismanagement, underestimating risks and fees, as well as failing to adapt governance structures.

In the 1980s and 1990s, CalPERS was a leader in shifting public pensions toward diversified portfolios, moving away from bonds toward equities, real estate, and private equity returns. During the 1980s–1990s bull markets, CalPERS achieved strong investment returns that allowed it to maintain or even enhance benefits for retirees. CalPERS was a major force in activist investing, pushing for shareholder rights, board accountability, and ethical corporate behavior, giving it a moral advantage in the public eye.

However, over the past 25 years, it has been plagued by a series of controversies involving governance, investment decisions, political influence, and ethical conduct. These controversies have raised serious questions about whether CalPERS has always acted in the best interest of its beneficiaries (consistent with its fiduciary duty)—or whether it has been distracted by politics, poor governance, and unaccountable strategies.

In terms of governance failures, the CalPERS board has regularly been criticized for internal conflict, lack of investment expertise, and politicization of investment decision-making. Conflicts of interest and poor oversight have damaged internal accountability and blurred fiduciary responsibilities.

- **Executive Qualifications and Turnover**

In recent years, CalPERS has been plagued by controversies regarding the qualifications of its senior executives and its processes for vetting candidates, including reliance upon external executive search consultants. In 2018, questions arose whether CalPERS CEO Marcie Frost (hired 2016) had misrepresented her education, after a CalPERS hiring announcement stated she was “pursuing a dual bachelor’s and master’s degree” at Evergreen State College—a program Evergreen does not offer.²² Frost maintained she never represented that she had anything beyond a high school education. CalPERS spokesman Wayne Davis reportedly stated the CalPERS press release about Frost was written based on inaccurate information from executive recruiting firm, Heidrick & Struggles.

Key CalPERS board members, including board President Priva Mathur, backed Frost publicly, but one board member, Margaret Brown, voted against Frost’s compensation at the September 2018 meeting. Brown also called for an investigation to determine how the misrepresentations regarding Frost’s educational background came about. California’s then-treasurer John Chiang publicly called for an independent investigation into the hiring and the conflicting statements. Chiang said CalPERS needed to keep its credibility.

“An organization with the strong reputation of CalPERS needs to have a leader with unimpeachable integrity... If we do nothing, we will be perpetuating a double standard... Worse yet, a cloud of controversy will continue to hang over the head of the nation’s largest public pension fund. Until that cloud is removed, pundits will continue to question the decisions made by its leadership.”²³

It appears Frost at CalPERS is the only CEO-level head of a major U.S. state pension system who is openly reported as not having a college degree. Among other big state systems, it appears that every top executive or sole trustee has at least a bachelor’s degree, and often one or more graduate degrees. However, to our knowledge, there is no known database that tracks the educational background of leaders of all state

²² <https://www.latimes.com/la-fi-hiltzik-calpers-frost-20180919-story.html>

²³ <https://www.ai-cio.com/news/state-treasurer-calls-investigation-calpers-ceos-hiring>

or large public pension funds. Pension governance-survey reports (from private industry allies, public-employee associations, and governance consultants) do not collect or publish whether a CEO has a college degree or not.

Educational credentials (or lack thereof) are a key governance variable—for evaluating leadership capacity, institutional knowledge, risk awareness, oversight sophistication. The absence of a central disclosure requirement (or consistent reporting standard) means many key transparency or governance risks (not just compensation/fees but “qualifications risk”) may be invisible to public stakeholders or watchdogs. For large funds with outsized alternative-asset and private-equity exposure (like CalPERS), the educational and professional background of top leadership may influence decisions about valuations, fee scrutiny, reliance on consultants and other matters. In conclusion, due to existing structural and disclosure limitations, the number (or proportion) of state-pension CEOs without a college degree is unknown. However, the fact that at least one—the CEO of the nation’s largest public pension lacks such credentials—suggests that the phenomenon is real, and may well be under-reported given the lack of systematic data.

Issues regarding Frost’s background were the second time—in 2018 alone—the pension was forced to address the qualifications of a key official. In May, CalPERS quietly let go Charles Asubonten, its chief financial officer of only eight months, after an internal review determined he had exaggerated his resume including stating that he worked as a managing director at a private equity firm. Frost had initially defended questions about Asubonten’s resume and was quoted in an October 2017 press release at the time of his hiring praising his strong qualifications for the job.

Naked Capitalism offered the following commentary about CalPERS descent into scandal and corruption:

As Associate Professor of Economics and Law and white-collar criminologist Bill Black wrote:

Charles A. Asubonten is CalPERS’ latest chief financial officer (CFO). Over a decade ago, CalPERS set the standard for superb investment by pension funds. It then descended into scandal involving substantial corruption. The acute phase of that corruption has ended, but CalPERS remains a shell of its former glory with weak senior executive officials determined to remove the fund’s transparency that once set a global standard.

Unfortunately, Mr. Asubonten epitomizes CalPERS’ retreat from the best practices it once championed into the Wall Street sleaze that led to the CalPERS scandals. Mr. Asubonten has a fine education, but his work experience, even if we take his dubious resume as accurate,

should not have led to him being included in even the most preliminary pool of potential candidates for CalPERS' CFO.

Phrased most favorably to him, he may have expertise in mining in Africa. He is not remotely appropriate to lead a massive pension fund. He is not appropriate to lead the vigorous reform effort CalPERS desperately needs in which he would have to take on the culture of concealment and mediocrity that CalPERS' senior management team has created. Mr. Asubonten adds to CalPERS' problems rather than fixing them.²⁴

Naked Capitalism noted that the Asubonten incident was "not the first time that CEO Marcie Frost has tried to put someone lacking in needed skills in a senior position. She tried bringing in an unqualified crony from her former home, the Washington State pension fund, in the critically important role of Chief Actuary."

One has to assume that the motivation for allowing a person who would be deemed to be grossly unqualified under current rules to be hired in the Chief Actuary is that the new CEO, Marcie Frost, has someone specific she'd like to bring in. The fact that Frost herself does not have a college degree and certainly does not have the mathematical chops to evaluate an actuary's professional competence certainly looks like she is giving personal loyalty far too much weight in a role where analytical rigor and professionalism are of paramount importance.

CalPERS withdrew its plan to greatly reduce the qualifications required for the Chief Actuary position shortly after it drew criticism.

The Asubonten matter also raised questions about CalPERS' search firm Heidrick & Struggles, said Naked Capitalism.

Asubonten's hiring is also a black eye for CalPERS' search firm Heidrick & Struggles. It is hard to see how anyone who has spent his last four years in what amounts to a small business could be seen as a serious candidate for a position at CalPERS, absent some visible achievement that showed he had relevant expertise. Heidrick & Struggles was also in a vastly better position than I was to vet resume claims that looked questionable on their face and therefore called for verification. If CalPERS does not demand that Heidrick & Struggles refund this search fee, it would suggest that this search process was more than merely sloppy.²⁵

²⁴ <https://www.nakedcapitalism.com/2018/04/why-charles-asubonten-is-not-qualified-to-be-chief-financial-officer-and-what-his-hiring-says-about-calpers.html>

²⁵ <https://www.nakedcapitalism.com/2018/04/why-charles-asubonten-is-not-qualified-to-be-chief-financial-officer-and-what-his-hiring-says-about-calpers.html>

In 2017, CalPERS named a new Chief Financial Officer, only to have him withdraw. CalPERS board member Richard Gillihan accepted the offer to become Chief Financial Officer in early June and CalPERS announced he would be joining the pension staff.

However, as detailed in *Naked Capitalism*:

Before CalPERS announced Gillihan's appointment, former board member JJ Jelincic pointed out that Gillihan had what is called a "1090 problem." California Government Code Section 1090 prohibits government officials from having a financial interest in any contract they made. Gillihan had been involved in the wage-setting for the CFO position, which meant in taking the job, he would have benefitted from his previous action.

Even though CEO Marcie Frost and General Counsel Matt Jacobs initially waved off Jelincic's warning, other lawyers confirmed his concerns, leading to further investigation of the issue. Gillihan decided he did not want the legal exposure and withdrew his acceptance.

Executive turnover has also been an issue at CalPERS, with multiple resignations in the chief investment officer position amid controversy. In 2020, a Republican lawmaker, Rep. Jim Banks (Indiana), called for then-CIO Ben Meng to be fired and said CalPERS' investments in Chinese companies—which amounted to roughly 1 percent of assets and through passively tracking indexes—to be investigated because of what the lawmaker alleged was Meng's "cozy relationship" with the Chinese Communist Party.²⁶

Then-Secretary of State Michael Pompeo singled out CalPERS in a speech warning about China's campaign against U.S. national interests:

"The largest public pension fund in the country is invested in companies that supply the People's Liberation Army that puts our soldiers, sailors, airmen and Marines at risk."

National Security Adviser Robert O'Brien also said President Donald Trump's administration was "looking at" CalPERS' investments in Chinese military companies.

Others argued that even passive investors, like CalPERS, needed to be more mindful of where they invest their money. Said Roger Robinson, CEO of risk consultancy RWR Advisory:

"State public employee pension systems should be especially alert to higher-risk Chinese and Russian corporate human rights and national security abusers in their investment portfolios, including those embedded in popular indexes and associated exchange-traded funds."

²⁶ <https://www.latimes.com/business/story/2020-02-25/calpers-ben-meng-targeted-china-fear>

Meng resigned amid a state ethics review tied to financial disclosures and potential conflicts (personal holdings in firms doing business with CalPERS), against a backdrop of political attacks related to the pension's China exposure.²⁷ The White House National Security Council declined to comment on Meng's move but spokesman John Ulyot doubled down on the administration's position on Chinese investments:

“The investment of the retirement savings of hardworking Americans in Chinese companies is neither prudent from a risk perspective nor responsible from a long-term perspective.”

Appointed CIO in early 2022, Nicole Musicco resigned from the pension in September 2023. CalPERS cited family reasons; however, coverage linked her departure to continued political/ESG pressures on the investment program.²⁸

Stephen Gilmore was hired as CIO in 2024, after a months-long vacancy—framed by press as an attempt to steady the program following successive CIO exits. Gilmore was a former New Zealand sovereign fund executive.²⁹

Finally, even the pension's selection of an external fiduciary legal counsel came under attack in 2015. Says Naked Capitalism:

CalPERS... recently selected a fiduciary counsel, Robert Klausner of Klausner Kaufman Jensen & Levinson, who has previously served the seedier, less capable end of the public pension fund universe. Starting in 2004, the press, including in the New York Times... has described him as involved in serious improprieties, including regularly getting kickbacks from class action law firms and using his law practice as the foundation for running a much larger and more lucrative pay-to-play operation.

CalPERS' due diligence was so deficient that it apparently missed damning information that was in the public domain, failed to run basic conflict of interest checks, and ignored basic considerations regarding suitability of experience...

In addition, Klausner is not a member of the bar in California.³⁰

- **“Pay-to-Play” Placement Agent Scandal**

²⁷ <https://www.reuters.com/article/business/calpers-investment-chief-steps-down-at-400-billion-pension-fund>

²⁸ <https://www.calpers.ca.gov/newsroom/calpers-news/2023/chief-investment-officer-nicole-musicco-will-step-down-at-end-of>

²⁹ <https://www.ft.com/content/ca9adb96-8f91-4385-95c4-12a310672fe2>

³⁰ <https://www.nakedcapitalism.com/2015/11/calpers-hired-a-fiduciary-counsel-accused-of-serious-misconduct-over-more-than-a-decade-including-kick-backs-failure-to-disclose-conflicts-of-interest.html>

A high-profile corruption “pay-to-play” scandal, involving over \$125 million in placement agent fees paid between 1997 and 2008 to various middlemen, most notably ARVCO Capital Research—founded by former CalPERS board member Alfred J.R. Villalobos, was particularly ugly. Villalobos and then-CalPERS CEO Fred Buenrostro were charged in an influence-peddling scheme involving falsified disclosure letters and steering business to General Partners (notably Apollo Global Management), tied to multimillion-dollar placement-agent fees.

Said the SEC:

The SEC alleges that former CalPERS CEO Federico R. Buenrostro and his friend Alfred J.R. Villalobos fabricated documents given to New York-based private equity firm Apollo Global Management. Those documents gave Apollo the false impression that CalPERS had reviewed and signed placement agent fee disclosure letters in accordance with its established procedures. In fact, Buenrostro and Villalobos intentionally bypassed those procedures to induce Apollo to pay placement agent fees to Villalobos's firms. The false letters bearing a fake CalPERS logo and Buenrostro's signature were provided to Apollo, which then went ahead with the payments.

"Buenrostro and Villalobos not only tricked Apollo into paying more than \$20 million in placement agent fees it would not otherwise have paid, but also undermined procedures designed to ensure that investors like CalPERS have full disclosure of such fees," said John M. McCoy III, Associate Regional Director of the SEC's Los Angeles Regional Office.

According to the SEC's complaint, Apollo began requiring signed investor disclosure letters in 2007 from investors such as CalPERS before it would pay fees to a placement agent that assisted in raising funds. Villalobos's firm ARVCO Capital Research LLC (which later became ARVCO Financial Ventures LLC) agreed to this contractual provision in a placement agent agreement with Apollo related to CalPERS's investment in Apollo Fund VII. However, when ARVCO requested an investor disclosure letter from CalPERS's Investment Office to provide Apollo, it was informed that CalPERS's Legal Office had advised it not to sign a disclosure letter. ARVCO never again contacted CalPERS's Investment Office for an investor disclosure letter.

The SEC alleges that in January 2008, Villalobos instead fabricated a letter using a phony CalPERS logo. At Villalobos's request, Buenrostro then signed what appeared to be a CalPERS disclosure letter. Upon receipt of the fake disclosure letter for Apollo Fund VII, Apollo paid ARVCO about \$3.5 million in placement agent fees.

The SEC's complaint further alleges that less than two weeks later, Villalobos and Buenrostro created false CalPERS disclosure letters for at least four more Apollo funds under similarly suspicious circumstances. As part of the scheme, Buenrostro signed blank sheets of fake CalPERS letterhead that Villalobos and ARVCO then used to generate additional investor

disclosure letters as they needed them. Based on these false documents, Apollo was induced to pay ARVCO more than \$20 million in placement agent fees it would not have paid without the disclosure letters.³¹

Buenrostro pled guilty and in 2016 was sentenced to 54 months in federal prison and fined. In sentencing Buenrostro, the Honorable Charles R. Breyer, United States District Judge stated the defendant's conduct amounted to "a spectacular breach of trust for the most venal of purposes." Judge Breyer also remarked that, "without trust, our public institutions cannot function."³² Villalobos died by suicide in 2015— weeks before his scheduled federal trial.

The scandal highlighted serious ethical lapses, and triggered new laws regulating placement agents in California and across the nation. California enacted AB 1743, reclassifying placement agents dealing with CalPERS/CalSTRS as lobbyists (including registration, reporting, and gift bans). Fair Political Practices Commission guidance took effect Jan 1, 2011.³³ Nationally, the scandal led to stricter pay-to-play and placement-agent rules across Limited Partners.³⁴

- **Investment Practices and Transparency Complaints**

CalPERS has been repeatedly criticized for overexposure to "alternative" investments, investment underperformance and benchmark manipulation.³⁵

As of its latest report, the California Public Employees' Retirement System has \$180 billion in unfunded liabilities. To reduce this debt, the nation's largest pension system recently approved a plan to increase investment in private markets, doubling down on a strategy that has yet to deliver results and carries significant risks for taxpayers.

Investing in the private market involves owning non-publicly traded assets, such as private loans, real estate, and private equity and venture capital business. CalPERS plans to increase

³¹ <https://www.sec.gov/newsroom/press-releases/2012-2012-73htm>

³² <https://www.justice.gov/usao-ndca/pr/former-calpers-ceo-sentenced-54-months-imprisonment-role-corruption-conspiracy>

³³ <https://www.fppc.ca.gov/content/dam/fppc/NS-Documents/TAD/Lobbying/Placement-Agent-Registration.pdf>

³⁴ <https://www.proskauer.com/alert/california-restricts-use-of-placement-agents>

³⁵ <https://reason.org/commentary/calpers-takes-unnecessary-risks-that-could-cost-taxpayers/>

its investments in private equity and private credit by 20% so that it represents 40% of its portfolio.

This increase comes at the cost of reducing public equity and fixed-income holdings. CalPERS portfolio achieved an average annual return of 6.7% during the past 20 years. If fund managers had invested in a passive 60/40 public stock/bond index portfolio, they would have achieved a 7.7% average annual return. CalPERS also failed to beat the S&P 500, which delivered a 9.7% return over the same period. This return underperformance holds true when looking at the past 5-, 10- and 15-year periods.

In 2015, CalPERS staff admitted that it had not been systematically tracking, i.e., did not actually know—indeed, supposedly “*could not track*”—the total carried interest it had paid to its private-equity managers.³⁶ This admission—by the nation’s leading, largest public pension—that it had poured tens of billions of state retirement assets into private equity funds as to which it did not and could not fulfill its fiduciary duty to monitor the legitimacy of fees was alarming in that it amounted to granting Wall Street a license to steal.

CalPERS touts its transparency portals, but has frequently faced public-records litigation and watchdog complaints over access to detailed data and deliberations. Critics have argued that its politically charged ESG and Divestment Policies have reduced returns and distracted from the core fiduciary mission. For example, the board has repeatedly reaffirmed tobacco divestment despite consultant analyses estimates of large opportunity costs (\$3.6 billion) since the early 2000s ban.³⁷ Millions in bonuses for investment staff and executives—even during years of underperformance—has drawn scrutiny from media and public employees. Corporate governance shareholder activism, which CalPERS pioneered, has come under fire, as has investing in Chinese companies tied to authoritarian regimes or which present national security concerns.

³⁶ <https://capitolweekly.net/calpers-private-equity-carried-interest-profits/>

³⁷ <https://www.calpers.ca.gov/sites/default/files/spf/docs/board-agendas/201612/invest/item05b-02.pdf>

VII. Calls For An Independent Inspector General

As a result of the numerous ethical controversies, longstanding investment underperformance, skyrocketing disclosed and undisclosed investment fees, and plummeting transparency, there has been a growing lack of confidence and trust in the pension. There have been recent calls for CalPERS to have an Inspector General (IG)—or a functionally equivalent independent oversight body—with real authority and independence. Given that CalPERS purportedly manages nearly \$600 billion and serves millions of public employees and retirees, mismanagement or underperformance has massive financial and political consequences. The scale of its operations is comparable to a sovereign wealth fund—yet it lacks a knowledgeable board and federal-style comprehensive oversight.

An IG could investigate misconduct, waste, conflicts of interest, or systemic risks, independently of board or political influence. A credible IG office could restore stakeholder confidence, especially if it had the ability to report findings publicly and recommend disciplinary or policy action. There is legal and political precedent: New York State Common Retirement Fund, as well as federal agencies, such as the Social Security Administration and Veteran Administration with large pension-like functions all have IGs. California itself has IGs in place for programs like High-Speed Rail and the Department of Corrections.

While CalPERS has an internal audit function and is subject to external reviews, these are not fully independent and often report to senior management or the board—creating conflicts of interest.

In February 2024, Republican State Senator Roger Niello introduced a bill which was backed by the Retired Public Employees' Association of California (Senate Bill SB 1260³⁸) that would have established an independent Office of the Inspector General for CalPERS. Key Features of the bill included that an IG would be appointed by the Governor, confirmed by the Senate, and serve a fixed six-year term with removal only for cause. The office would be independent, not under any other agency, and have the authority to conduct investigations, audits, and oversee internal disciplinary processes. It would feature a hotline for whistleblowers, ensure confidentiality protections, and have a dedicated staff physically located on-site at CalPERS. The office would be required to issue public reports (semiannual on investigations;

³⁸ <https://legiscan.com/CA/text/SB1260/id/2930772>

annual summaries), including key metrics—number of complaints, investigations, disciplinary outcomes, settlements, etc.—posted on a public website.³⁹

In support of the proposal, the Retired Public Employees' Association of California (RPEA) cited the 2014 conviction of former CalPERS CEO Fred Buenrostro for taking bribes from a former board member turned placement agent; the abrupt 2020 resignation of former investment chief Ben Meng amid questions about his investment disclosures; scrutiny over current CEO Marcie Frost's education credentials; the termination of a former chief financial officer found to have padded his resume; the 2021 revelation that a CalPERS employee had embezzled almost \$700,000; and a data breach last year affecting 769,000 retirees and resulting in two lawsuits. RPEA's Director of Legislation, Randy Cheek, pointed to a chronic "lack of transparency and failure to conduct thorough investigation" in past crises. Shortly after introducing the bill, Niello reversed his position, after reportedly speaking with the state council of the Service Employees' International Union (SEIU). Terry Brennand, director of pensions, revenue and budget for SEIU California, said the state SEIU had spoken to Niello's office about its issues with the bill, though the union did not take an official position on it.

On September 3, 2025, the Wall Street Journal published an opinion letter, Public Pensions Need Independent Inspectors General,⁴⁰ by Mark Lee Greenblatt who served as Interior Department inspector general from 2019-25. In his opinion, "Every public pension needs some form of independent oversight." After stating that public pensions are "inherently at risk of fraud," he provided recent examples and specifically mentioned the impending forensic investigation of CalPERS on behalf of the Retired Public Employees Association.

Wherever there's public money, someone is trying steal it. Public pension funds, which manage \$6.1 trillion, are no different. Improper disability claims, falsified records and outright fraud have led in recent years to prosecutions and recovered funds. Some larger states and systems have internal audit and ethics offices to investigate waste, fraud and abuse. But smaller states and systems often lack the resources or independence to pursue

³⁹ <https://www.pionline.com/pension-funds/california-bill-would-create-calpers-inspector-general/#:~:text=The%20Retired%20Public%20Employees%20Association%20of%20California%20is,would%20create%20an%20inspector%20general%27s%20office%20for%20CalPERS.>

⁴⁰ <https://www.wsj.com/opinion/public-pension-funds-need-independent-inspectors-general-89131654>

mistakes and wrongdoing. Every public pension fund needs some form of independent oversight.

These funds are inherently at risk of fraud. In May, the Los Angeles County Employees Retirement Association filed suit against a former information-technology security official for fraud, conflicts of interest and breach of fiduciary duty. In July, a former risk official with the Iowa Public Employees' Retirement System sued the state with allegations of unfair termination for raising concerns about the fund's investments and bookkeeping.

California retirees are seeking an outside audit of the \$530 billion California Public Employees' Retirement System. They've hired a forensic investigator and asked legislators for an inspector general to monitor Calpers.

Many states have established these offices to promote accountability and efficiency. Some have a statewide inspectors general, while others have oversight offices within agencies to bolster transparency and accountability.

At the federal level, inspectors general are the independent watchdogs responsible for preventing and detecting bad behavior in government agencies. They have clear authority and employ expert inspectors and auditors who improve agency efficiency, efficacy and integrity, ultimately protecting taxpayers.

Inspectors general are unique to the U.S. During my time in government, I regularly hosted foreign delegations interested in learning about the inspectors-general system and how it protects Americans. They marveled at our commitment to accountability and sought to emulate it in their countries.

Given the large asset pools held by pension funds at a time of growing distrust of government, does it make sense to establish independent inspectors general for public pensions? There certainly is precedent. On the federal level, the Pension Benefit Guaranty Corp. has an inspector general that operates within the agency but has statutory independence from management. The PBGC inspector general also handles employee and public complaints about suspected wrongdoing.

There's no downside to having independent inspectors general for public pensions. Establishing a proactive watchdog—within a retirement system or as part of an existing state inspector general office—would have a deterrent effect. It would use data to detect vulnerabilities before fraud occurs. Inspectors general are independent representatives of taxpayers, focused exclusively on facts, and not beholden to boards, trustees, staff, retirees or politicians. They are transparent and empowered to issue unvarnished reports available to everyone.

VIII. Unprecedented Independent Expert Forensic Investigation Funded By Participants

In early July 2025, the Retired Public Employees' Association of California organized a fundraiser on GoFundMe to crowdfund an independent investigation into CalPERS, conducted by an expert chosen by participants—not the pension. NBC News commented at the outset of the fundraising:

The retired public employees are taking the unusual step of hiring a forensic pension investigator to provide clarity on the fund's investments, the high fees it is paying to big Wall Street firms and its lagging performance.

NBC also noted the pension's chronic underperformance and "increased exposure to costly and opaque private investments," while "other large investors are dumping private equity investments as their performance wanes."

CalPERS' investments have lagged behind other pensions'—its portfolio of stocks, bonds, real estate and private equity returned 6.6% on average in each of the past five years, against the average public fund's gain of 7.15%, according to NCPERS. Last year was a bit better, with CalPERS up 9.3% versus the average public pension fund return of 9.47%. Still, CalPERS' one-year gain lagged behind its benchmark return of 10.3%.

Although publicly traded stocks have been among CalPERS' best performing assets of late, the fund has increased its exposure to costly and opaque private investments, including private equity.

The most recent annual financial report shows CalPERS had 15.6% of its portfolio in private equity, up from its previous target weight of 10% in 2023. Measured over one-year, five-year, 10-year and 20-year periods, CalPERS' private equity has underperformed its benchmark in three of those time frames, its records show.

Meanwhile, other large institutional investors are dumping private equity investments as their performance wanes. In a February report about pension funds in general, S&P Global analysts characterized increasing exposure to private equity as problematic for pensions "since these investments often have opaque and variable disclosures and increasing fees, meaning that risk versus return might be hard to measure."

Large state pension funds' exposure to private equity and limited transparency has also prompted concerns in other parts of the country, including in Ohio and Minnesota.

Finally, NBC News observed:

Other large public pensions have inspectors general monitoring their activities. In 2008, after a pay-to-play scandal involving the New York State Common Retirement Fund, New York Comptroller Thomas DiNapoli established the Office of the Inspector General "to prevent,

detect and deter corruption, fraud, criminal activity, conflicts of interest and abuse within the Office and within the NYS Common Retirement Fund.”⁴¹

According to the GoFundMe, the stated justification for the investigation was:

In an era when public trust in government institutions is increasingly fragile, transparency and accountability are more essential than ever. Nowhere is this truer than in the management of public pensions. The financial lifeline for millions of retirees who depend on their pensions not only for dignity in retirement but for economic survival.

For California’s retired public employees, CalPERS (the California Public Employees’ Retirement System) is the single most influential entity determining that future.

But over the past decade, a growing chorus of stakeholders including public employees, retirees, employers, watchdogs, financial experts, taxpayers, and even some legislators have raised serious concerns about the transparency, governance, and investment practices of CalPERS. Questions have surfaced around its private equity deals, fees, underperformance relative to risk, conflicts of interests, and governance structure. These concerns are too important to ignore.

It’s time for the Retired Public Employees’ Association of California (RPEA) to step up and act decisively by crowdfunding an independent investigation into CalPERS. This is not just a prudent move, it’s a necessary one.

Why an Independent Investigation Is Needed

CalPERS manages over \$500 billion in assets, making it the largest public pension fund in the United States. But with great size comes great complexity and the opportunity for mismanagement and misconduct. Internal oversight remains limited and the system has been allowed to police itself.

A thorough, independent examination can answer the pressing questions:

Are CalPERS investment decisions truly in the best interests of beneficiaries?

Are fees and risks being appropriately disclosed?

Are conflicts of interest and political influences compromising returns or governance?

Are beneficiaries, legislators, and taxpayers being misled about the health and sustainability of the pension system?

⁴¹ <https://www.aol.com/nations-largest-public-pension-fund>

For too long, public employees, retirees, employers, and taxpayers have had to rely on fragmented information and vague answers to tough questions. Transparency is not optional; it is a right.

Why Crowdfunding? Because This Is About Collective Power

RPEA represents a diverse and informed base of active and retired public employees including beneficiaries and taxpayers, many of whom have long expressed concerns about CalPERS. Crowdfunding this investigation would do more than raise money, it would build a coalition of concerned stakeholders who are demanding answers and reform.

This is not just about auditing numbers; it's about standing up for fiduciary integrity and ensuring that every retiree receives what they were promised and what they earned.

In summary, this investigation by an independent pension expert chosen by participants has been funded by participants—the very parties for whose sole or exclusive benefit the pension, under applicable law, is supposedly managed. Remarkably, as discussed later in this report, CalPERS has regarded this participant-led effort as “the opposition” and has worked with its allies nationally to thwart it—before the investigation even began.

IX. Benchmark's High-Impact Limited Forensic Review

- **Scope, Methodology, and Limitations**

Benchmark conducted a high-impact, limited preliminary forensic review of the California Public Employees' Retirement System (CalPERS). The purpose of this review was to identify, at substantially reduced cost relative to a full forensic or legal investigation, governance, transparency, and investment-management deficiencies that, if addressed, could materially improve long-term performance outcomes and fiduciary oversight.

This review was not intended to be exhaustive and should not be interpreted as a comprehensive audit or investigation of all CalPERS operations, investments, or service providers.

- **Access to Information**

Most of our requests for key documents were denied in whole or in part. Indeed, as mentioned below, CalPERS even publicly indicated prior to commencement of the investigation (on CNBC) it would not provide us with any alternative investment documents—before we had even asked. As a participant-funded initiative,

Benchmark had no opportunity to interview current CalPERS staff, board members, or external vendors. As a result, this review relied primarily on the documents provided, publicly available records, independent research, and professional judgment informed by decades of experience in pension governance, investment management, and regulatory oversight.

During the course of this engagement, certain CalPERS officials characterized this participant-initiated review as adversarial and, according to internal communications reviewed, coordinated with external private and public sector parties to challenge or discredit the effort. This information is provided to explain the constraints under which the review was conducted. No conclusions are drawn beyond what is supported by the available record.

- **Use of Analytical Tools, Including Artificial Intelligence**

Certain research and analytical processes supporting this review incorporated AI-assisted research tools to assist in organizing, summarizing, and cross-referencing large volumes of public records, pension disclosures, academic literature, and industry materials. These tools were used strictly as analytical aids and did not independently verify data, make factual determinations, or replace human judgment.

All findings, conclusions, and recommendations presented are the result of human analysis, professional judgment, and subject-matter expertise. Where complete information was unavailable due to disclosure limitations, estimates or ranges were derived from established benchmarking studies, academic research, and comparable institutional practices. Actual figures may differ materially.

- **Nature of Findings**

Many matters addressed in this review involve judgment, interpretation, and estimation and are not susceptible to definitive conclusions, particularly given the opacity of private investment structures and the limited access to underlying records. Benchmark assumed that information provided by CalPERS, its service providers, and public sources was accurate and did not independently audit or verify such information.

Benchmark was not engaged to investigate fraud, concealment, or misrepresentation, nor did it attempt to do so. This review does not constitute a

formal audit, legal investigation, or adjudicative process and did not involve subpoena authority, sworn testimony, or evidentiary safeguards.

- **Legal and Fiduciary Context**

This report does not provide legal advice or legal conclusions. While it discusses statutory, regulatory, and fiduciary considerations relevant to public pension governance, any actions taken in response to this report should be based on independent legal review and appropriate statutory authority.

- **Preliminary Nature of Findings**

The findings and conclusions in this report are necessarily based on the limited information available at the time of review. Should additional documents, or materially different information become available, Benchmark reserves the right to revise or amend its findings and recommendations.

- **Regulatory Referrals**

Where Benchmark determined that certain preliminary findings raised concerns regarding the potential for ongoing or material harm to plan participants or beneficiaries, those findings were referred to appropriate state and federal regulatory or law-enforcement authorities. Such referrals were made as a matter of prudence and public interest and should not be interpreted as determinations of wrongdoing.

X. The Importance of Transparency

U. S. Supreme Court Justice Brandeis once famously said, “Sunshine is the best disinfectant.” In other words, transparency ensures that public officials act visibly and understandably, and report on their activities to the populace. Transparency in government has long been acknowledged in America as essential to a healthy democracy. The Freedom of Information Act (FOIA) enacted in 1967, opened up the workings of the federal government to public scrutiny, giving citizens information they need to evaluate and criticize government decision-making. All 50 states also have public records laws which allow members of the public to obtain documents and other public records from state and local government bodies.⁴²

- **Public Pension Transparency**

Transparency is especially critical to the prudent management of trillions of dollars invested in America’s state and local government pensions. Indeed, the single most fundamental defining characteristic of our nation’s public pensions is transparency. Of all pensions globally, our public pensions—securing the retirement security of nearly 15 million state and local government workers, funded by workers and taxpayers—are required under our state public records laws to be the most transparent.

While transparency is widely accepted as “the right thing to do,” there is ample evidence indicating greater transparency leads to better outcomes. In the words of CalPERS’s external transparency adviser, CEM, greater public pension transparency leads to:

1. Improved decision making. Transparency and accountability go hand in hand.
2. Clarity of purpose that comes from simplifying and communicating complex issues.
3. Improved relationships with a broad spectrum of stakeholders including beneficiaries, plan sponsors, regulators, suppliers, and concerned citizens.
4. Improved stewardship. After all, management’s duty is to do their best to the benefit of their stakeholders.⁴³

⁴² <http://foiadvocates.com/records.html>

⁴³ <https://www.cembenchmarking.com/transparency-benchmarking/>

On the other hand, our forensic investigations reveal that greater secrecy inevitably leads to mismanagement, waste and even fraud.

Transparency, which would add not a single dollar of additional cost to CalPERS would, through exposure, swiftly cure all that ails the pension—e.g., underperformance and questionable investment performance claims; massive undisclosed, excessive and potentially bogus investment fees and expenses; reckless risk-taking; unaddressed conflicts of interest, mismanagement and potential catastrophic tax consequences.

- **State and Federal Securities Laws Transparency Requirements**

Public pensions primarily invest government workers retirement savings in securities and funds which are regulated on the federal and state level. Our nation’s securities laws require that securities issuers and fund advisers register with regulators, disclose financial and other significant information to all investors—including public pensions—as well as prohibit deceit, misrepresentations, and other fraud. The statutorily mandated disclosure information is commonly provided to all investors in the form of prospectuses, offering memoranda, annual reports, performance reviews and other documents. It is axiomatic that, at a minimum, investment information which must be disclosed to all investors under the federal and state securities laws, should be provided to stakeholders in public pensions subject to public records disclosure requirements.

After all, public pension stakeholders are the “investors” whose money is at risk.

To allow investment firms and public pension officials to use state public records laws to thwart securities disclosure requirements—concealing potential fraud and mismanagement from stakeholders, regulators and law enforcement—would make no sense. Indeed, public pension stakeholders should enjoy the enhanced disclosure and other benefits powerful, large institutional investor fiduciaries routinely negotiate—disclosure above and beyond that provided to ordinary retail investors.

Thus, in public pension matters, we are concerned with two levels of transparency. Investment firms must be transparent in their dealings with pension boards and staffs overseeing investments, so these individuals can fulfill their fiduciary duty to diligently safeguard pension assets. Pensions, in turn, must be transparent to the public for stakeholders to understand the investment program, and, equally important, evaluate whether pension fiduciaries are prudently performing their duties.

- **California Public Records Act and Presumption of Transparency**

Each state has laws governing public access to governmental records. These laws are sometimes known as open records laws, public records laws, or FOIA laws after the federal statute. The FOIA laws define the procedures members of the public can use to access records.

There are time limits within which a public body must respond to a FOIA request as mandated by the laws in each state. Response times vary by state, and some states do not specify a required time for a public agency to respond to a FOIA request. In the latter case, the statutory language often only says that responses must be prompt, or be made within a reasonable amount of time. For states with response time limits, there can either be a single limit or a range of response times based on certain circumstances. Obviously, lack of a mandated response time delays public scrutiny.⁴⁴

In California, the main law governing public access to state records is referred to as the California Public Records Act (CPRA).⁴⁵ The CPRA applies to “writings” in any form (paper, electronic, audio, etc.) that contain information related to the public’s business. Records are presumed public unless a specific exemption applies. Common exemptions CalPERS relies upon to thwart public scrutiny include trade secrets/proprietary business information (e.g. private equity contracts, fee schedules, investment strategies); pending litigation or privileged communications (attorney–client); preliminary drafts/advisory memos (deliberative process exemption).

The CPRA includes a “public interest exemption” (sometimes called a “catch-all” exemption). Under this exemption a record may be withheld if, on the facts of the particular case, the public interest served by not making the record public clearly outweighs the public interest served by disclosure of the record.⁴⁶ The agency has

⁴⁴ https://ballotpedia.org/FOIA_request_response_times_by_state

⁴⁵

[https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=GOV&division=10.&title=1.&part=3.&chapter=1.&article=2.](https://leginfo.legislature.ca.gov/faces/codes_displayText.xhtml?lawCode=GOV&division=10.&title=1.&part=3.&chapter=1.&article=2)

⁴⁶ <https://firstamendmentcoalition.org/handbook/california-public-records-act/>

the burden to demonstrate the exemption applies. Exemptions must be narrowly construed.⁴⁷

As noted below (in response to some of our public records requests), CalPERS used the public interest exemption to deny the requests and, when specifically asked to demonstrate the exemption applies, specifically denied any obligation to demonstrate such to the public.

The response time for public records requests under the CPRA is 10 days. Up to an additional 14 days may be taken in “unusual circumstances,” such as where records need be collected from off-site storage; where the request is for voluminous records; or when other offices or agencies that have an interest in the records must be consulted. If an extension is invoked, the agency must notify the requester in writing and explain the reason. After confirming the records exist and are disclosable, the agency must make them promptly available. The CPRA does not set a hard deadline for production, but courts have held that records should be provided without unreasonable delay.

Other relevant California laws include the Bagley–Keene Open Meeting Act⁴⁸ which generally requires CalPERS Board and committee meetings to be open and public, with advance notice and posted agendas. Also, the California Constitution, Article I, § 3(b) provides a constitutional right of access to the meetings and records of public bodies and strengthens the presumption of transparency, saying laws should be interpreted broadly in favor of disclosure.

While under California law, the CPRA does not provide special protections when individuals are seeking documents about themselves, the Information Practices Act (IPA)⁴⁹ gives individuals the right to access records that state agencies keep about them personally, as well as request corrections to inaccurate or incomplete personal records. In our experience, nationally, stakeholders and others who press for transparency are often targeted personally by public pension insiders.

- **Performative Transparency**

⁴⁷ <https://www.cacities.org/UploadedFiles/LeagueInternet/62/62f84af4-13c5-4667-8a29-261907aea6d6.pdf>

⁴⁸ <https://oag.ca.gov/system/files/media/bk-open-meeting-act-guide-2024.pdf>

⁴⁹ California Civil Code § 1798 et seq.

CalPERS has perfected a form of what can only be described as performative transparency. The fund excels at disclosing procedural, low-risk information—travel reimbursements, board agendas, webcast archives, rankings in global transparency surveys—while resisting disclosure of the information that actually matters for fiduciary oversight: fund-level valuations, fee arrangements, zombie investments, benchmark history, and manager agreements.

This distinction is not semantic. It is structural. CalPERS' high rankings in transparency surveys are based on checklists of disclosures that do not require revealing the economic reality of private investments or the mechanics of performance reporting. Meanwhile, watchdog groups and journalists repeatedly encounter delays, redactions, and litigation when seeking precisely that information.

The result is an institution that appears transparent while preventing meaningful oversight. Only an independent Inspector General, with subpoena authority and access beyond the Public Records Act gauntlet, can bridge the gap between what CalPERS shows and what CalPERS hides.

XI. National Effort to Undermine Participant Scrutiny

While America’s public pensions are not governed by ERISA, all public pension fiduciaries are required to act exclusively or solely in the interest of plan participants and beneficiaries. Every state recognizes these duties, although the precise wording in the law may differ. For example, in California, California Constitution, Article XVI §17 provides, the board must act “solely in the interest of, and for the exclusive purpose of providing benefits to, participants and their beneficiaries.”

Although public pension boards must act for the sole and exclusive benefit of participants and beneficiaries, participants and beneficiaries have no direct say in how their pension assets are managed or invested. For example, participants do not vote on specific investments, managers, or even overall strategies. Stakeholders can request documents and ask questions, but due to the increasing complexity and opacity of investments (private equity, private credit, real assets); information asymmetry between pension trustees/consultants and rank-and-file members; and political alliances between staff, consultants, and certain board factions, stakeholders are unlikely to receive key documents and satisfactory answers.

While public pension boards lacking investment expertise freely spend participant monies to hire Wall Street advisers to pursue hidden board and investment industry agendas, participants historically have lacked access to experts of their own choosing for a “second opinion.” Absent independent expert advice, participants are powerless. Lawsuits against trustees or the system for breach of fiduciary duty, misrepresentation, or other violations face significant legal barriers, such as standing, sovereign immunity, and cost of litigation. Finally, complaints with state attorneys general, state and federal securities regulators, law enforcement, inspectors general or ethics commissions are unlikely to lead to action.

- **History of Participant Investigations of Public Plans**

In order to disrupt the entrenched power dynamics that have long kept stakeholders in the dark and stymied meaningful public pension reform, in 2013, we conducted the first-ever participant-funded forensic investigation of a state pension, the Employees’ Retirement System of Rhode Island. Our report, *Rhode Island Public Pension Reform: Wall Street’s License to Steal*,⁵⁰ revealed roughly \$2 billion in “preventable losses” from high-fee hedge funds and alternatives. Rhode Island

⁵⁰ <https://www.osaunion.org/articles/Rhode%20Island%20Pension%20Report.pdf>

subsequently wound down the hedge fund allocation and massively increased disclosure of investment costs from \$8 million to a high of \$188 million based upon our findings.

The following year, our next participant-funded investigation of the State Employees Retirement System of North Carolina, *North Carolina Pension's Secretive Alternative Investment Gamble: A Sole Fiduciary's Failed "Experiment"*,⁵¹ revealed an estimated \$30 billion had been moved into secretive, high-fee "alternative" and offshore structures and highlighted under-reported fees.

Our 2021 investigation of the State Teachers Retirement System of Ohio, *The High Cost of Secrecy: Preliminary Findings of Forensic Investigation of State Teachers Retirement System of Ohio*,⁵² included in its findings that STRS had long abandoned transparency; legislative oversight of the pension had utterly failed; Wall Street had been permitted to pocket lavish fees without scrutiny; investment costs and performance had been misrepresented; and failure to monitor conflicts had undermined the integrity of the investment process, as billions that could have been used to pay retirement benefits promised to teachers had been squandered.

Most recently, our participant-funded investigation of the Minnesota Teachers Retirement Association, *Minnesota Mirage: Sleight of Hand*,⁵³ found that Minnesota significantly under-reported fees, especially to private equity managers and prompted the pensions to increase disclosure of fees by a staggering 400 percent.

- **Documents Provided By Minnesota Officials Reveal National Effort**

Internal documents provided by the Minnesota Teacher Retirement Association (TRA) in response to an individual public records request in 2024, revealed an aggressive, preemptive, secretive, coordinated effort on the national level—including state pension officials in California, New York, Ohio, Rhode Island and Minnesota, as

⁵¹ <https://docslib.org/doc/12936690/north-carolina-pensions-secretive-alternative-investment-gamble>

⁵² https://chtu.oh.aft.org/sites/default/files/article_pdf_files/2021-06/forensic_audit_6.2021.pdf

⁵³ https://freebeacon.com/wp-content/uploads/2024/10/Minnesota_Mirage_In_Template_Final.pdf

well as education unions and public pension industry allies—to undermine participant-funded investigations nationally. These efforts began as soon as the participant-funded investigation of TRA was proposed but before it was even funded. As alarming as the documents provided to us were, other documents—presumably even more damning—were withheld by TRA supposedly pursuant to the attorney-client privilege.

On the one hand, the documents provided revealed TRA and Minnesota State Board of Investment (SBI) staff and Board members, state legislators and officials (including the offices of Governor, Attorney General and Legislative Auditor) were panicked, believing the proposed participant-funded investigation posed “many serious risks to the agency and pension fund. Specifically, TRA’s reputation as a trusted government agency is going to be questioned.” Further, they reasoned that since TRA did not manage the investments in the teacher pension, the investigation would be focused on the far-larger SBI which “invests assets for not just TRA, but the Minnesota State Retirement System, the Public Employees Retirement Association, volunteer fire relief plans, state cash accounts of over 400 state agencies, and the non-retirement program that provides investment options to state trust funds and various public sector entities. Therefore, all of those groups, entities, and entities’ boards would be impacted” by the investigation. Anxious state officials proposed asking Education Minnesota, an organization made up of 477 local unions and 84,000 members, including active and retired teachers, “to publicly support TRA and SBI integrity.” Throughout the investigation in 2024, certain senior state pension officials pleaded with members of the Minnesota Educators Facebook Group who organized the participant-funded effort to “drop the investigation,” in exchange for pension benefit enhancements.

On the other hand, private organizations focused upon public pensions to which TRA and SBI paid membership dues and attended their lavish conferences at luxury venues substantially funded by Wall Street money managers⁵⁴—the National Council

⁵⁴ While state pension fund officials pay reduced membership dues and attend NCTR and NCPERS conferences, Wall Street firms pay exponentially greater amounts to join, attend and sponsor these conferences—all for the opportunity to pitch their investment products and services to unsuspecting, unsophisticated public pension officials.

As NCTR advertises on its website:

Interested in Partnering with NCTR?

Becoming an NCTR event sponsor gives you the opportunity to be in a face-to-face environment where you can network and increase market visibility. Gain the competitive advantage, while making direct connections with high-level decision makers from more than 63 public pension systems from

on Teacher Retirement (NCTR) and National Conference on Public Employee Retirement Systems (NCPERS)—assured state officials that any investigative findings would be “a worthless big pile of opinions” and “lies.”⁵⁵

They organized Zoom meetings⁵⁶ with public pension officials in other states, including California, opposed to participant-initiated transparency reforms and secretly provided “opposition research” to media—specifically targeting reporters

across the nation, with combined assets exceeding \$2 trillion in their trust funds.

<https://nctr.org/upcoming-events/annual-conference/>

So controversial are these conferences that the website for the 2013 National Conference on Public Employee Retirement Systems held on the famed beaches of Waikiki, supplied board members hoping to shore up support for their expenses-paid trip a “2013 Attendance Justification Tool Kit.” The site also included “7 Tips for Building Your Case for Attending the Annual Conference,” which suggests that trustees emphasize how the conference could help them “build a networking list” and identify ways to help “save your fund money.” <http://www.plansponsor.com/NewsStory.aspx?Id=6442463934>

NCPERS is also involved in selling insurance products to public employees, including TRA members, in Minnesota. https://mnpera.org/wp-content/uploads/Employer_Newsletter_Q1Y23.pdf

⁵⁵ In a March 5, 2024, email from Leigh Snell at NCTR to TRA’s executive director, Snell wrote:

I have covered Siedle for quite some time. Most recently, he has been active in Rhode Island trying to “crowd source” an investigation of the plan’s actions and their impact on COLA’s. I believe his last major attack on a plan was in Ohio in 2021, and I did a special report in 2023 that tried to really expose his shenanigans as well as cover both the Ohio State Auditor’s examination of his so-called “forensic audit” as well as the Ohio Teachers Plan’s review. I included, where I thought it was appropriate, other activities by Siedle in Florida and elsewhere. At the time I wrote this, both NCPERS and the National Public Pension Coalition (NPPC) were also looking at him. I will see what I can find if they dug up anything you can use.

The folks who are hiring Siedle need to understand that all they will get for their money is a big pile of his opinions, which are not worth much more than the paper they are written on. Also, he simply lies about plans’ cooperation with him and about what he thinks they are up to. He has made millions on his whistle-blowing gig, and he can afford to do these investigations without the \$5 and \$10 dollar contributions of public pension retirees!! They can read his Ohio “audit” and the one he did of the Jacksonville FL Police and Fire Plan and save their money. I guarantee the one he does of your plan will look just the same!!

⁵⁶ In a March 19, 2024 email from NCTR’s Snell to TRA’s Executive Director:

... Hank Kim also hosted a Zoom call yesterday concerning “opposition research” on Siedle, and I will be working with NRTA and NEA on a generic education piece that can be used by national organizations to hopefully “inoculate” retirees to Ted’s pitch when he comes calling. At this point, the plan is to be pretty generic, and we may not even mention his name but perhaps refer to “forensic audits” and other such “plan research.” I realize that won’t really help you, but it may help other plans down the road.

who had already agreed to meet with members of the Minnesota Educators Facebook Group organizing the effort.

The Minnesota Center for Fiscal Excellence publicly posted in a blog: “Our prediction right now is that this is going to turn up absolute bupkis, and that teachers contributing to this fund are wasting their money.”

- **Requests Under CPRA and IPA For Personal Records**

Since a public record request for individual information in Minnesota last year exposed a national effort by state pensions (including California funds), and their private sector/conference-promoting allies to undermine participant-funded independent expert investigations, we determined that an identical individual records request of CalPERS could be revealing.

In response to our request for individual records, we received a letter from the CalPERS Office of Stakeholder Relations stating:

Our staff located the information responsive to your request and disclosable under the PRA. Enclosed please find documents responsive to your request. Please note, some responsive records to your request are not being provided pursuant to Government Code Sections 7922.000 and 7927.705, since the terms of these exemptions are met and the public interest in disclosure is clearly outweighed by the public interest in nondisclosure.

At the outset, in our opinion, it is unfathomable that CalPERS, a public pension in California, possesses or has created documents about a single private citizen living in Florida where “the public interest in disclosure is clearly outweighed by the public interest in nondisclosure.” What possible compelling public interest in nondisclosure could possibly clearly outweigh the massive public interest in disclosure of information related to an unprecedented independent forensic investigation of the fund by a nationally recognized pension expert—especially since the findings of the investigation will be released in their entirety to the public, regulators, auditors and law enforcement upon completion?

Indeed, there is no need for secrecy since all the facts known to us will ultimately be made public. What does CalPERS have to hide from the public, law enforcement and regulators?

Again, the CPRA requires that exemptions be narrowly construed and that the agency bear the burden of demonstrating their applicability. (See *CBS, Inc. v. Block*, 42 Cal.3d 646 (1986).) A mere conclusory statement that “the public interest in nondisclosure clearly outweighs the public interest in disclosure” is legally

insufficient. CalPERS' above response cited no specific factual basis or balancing analysis supporting its claim that nondisclosure "clearly outweighs" disclosure. The balancing test under § 7922.000 must be applied on the facts of the particular case, supported by a factual showing of how disclosure would specifically harm a public—not merely institutional—interest.

Accordingly, on November 12, 2025, we requested that CalPERS:

1. Provide a written explanation identifying the precise public interest asserted to justify each withholding;
2. Produce a document-by-document privilege log or index as required under *Haynie v. Superior Court*, 26 Cal.4th 1061 (2001), showing which exemption is claimed for each record; and
3. Disclose all reasonably segregable, non-exempt portions of each record as mandated by Gov. Code § 7922.000(b) and *CBS, Inc. v. Block*.

On December 4th CalPERS responded:

To the extent your email amounts to a restatement of your original request, we stand by our September 24, 2025 response to you and reiterate that we consider your request fulfilled and closed. In addition, we disagree with your characterization of the PRA's requirements in bullets one and two and as such we will not be providing any additional information in response to the requests made in your November 12, 2025 email. Robert Carlin, Senior Attorney.

Despite being afforded two opportunities to do so, CalPERS declined to offer any description of the public interest in withholding and how it was superior to the public's interest in disclosure.

The 77 documents provided pursuant to our August 26, 2025 request were largely external news articles about the RPEA GoFundMe (launched July 1, 2025) circulated internally throughout CalPERS and other state offices. For example, in a July 3, 2025 email, Frank Ruffino, State Treasurer Designee on the CalPERS board, forwarded to the California Treasurer's office a P&I Daily article about the newly launched GoFundMe. Brad Pacheco, Deputy Executive Officer, CalPERS Communications & Stakeholder Relations along with other staff scrutinized our website on August 8, 2025, for information about our prior investigations with the apparent intention of contacting other public pension "attendees" at an upcoming industry conference. Pacheco also emailed Marcie Frost about the proposed investigation. Our 100-page report, *The High Cost of Secrecy, Preliminary Findings of Forensic Investigation of State Teachers Retirement System of Ohio, Commissioned by Ohio Retired Teachers*

Association Benchmark Financial Services, Inc., June 2021 was circulated, as well as a FundFire article about the Executive Director of the Ohio pension failing a “surprise confidence vote” following our investigation.

Said Fundfire:

In recent years, the \$89 billion system, known as STRS Ohio, has come under intense public criticism, including in a scathing 2021 report authored by former Securities and Exchange Commission lawyer and industry critic and whistleblower Edward Siedle. The report charged that the system had “squandered” billions of dollars by paying excessive fees to alternative managers and provided no transparency about those expenses.

Last month, a “limited review” by Ohio State Auditor Keith Faber found the system could benefit from increased transparency and noted that it failed to meet some state-mandated auditing requirements, as reported. Faber also suggested the pension’s bonus system be revamped, following a board effort last year to claw awards back due to heavy investment losses.

Faber’s report said STRS Ohio would be worth about \$90 billion more had it simply invested in the S&P 500 from July 2009 to July 2021, something Siedle cited in a Feb. 11 article for Forbes magazine.⁵⁷

Keith Ambachtscheer of KPA Advisory Services, co-founder and current Board member of CEM Benchmarking (which provides “independent” cost and transparency benchmarking services to CalPERS) reached out to Marcie Frost in an email on July 2nd offering support:

Hi Marcie, looks like you’ve got Ed Siedle looking over your shoulder. In Canada, CPP investments just got publicly blasted by our own Ed Siedle... named Andrew Coyne. My July LETTER explains why Coyne is wrong, It will go out Monday. Keith

A Government Affairs Roundtable Ground Rules & Agenda document dated July 24, 2025, which was recorded “primarily for NCPERS records but “may be shared with GA Roundtable participants, if requested,” indicated Hank Kim, Executive Director & Counsel, NCPERS would lead a discussion of:

- Ted Siedle and his ilk updates
- DOGE-like activities and updates
- Stakeholders and interest groups activities

⁵⁷ file:///C:/Users/esied/Downloads/FW_%20Ohio%20Teachers.pdf

On November 29, 2025, we separately requested a copy of Kim’s recorded presentation. On December 2, 2025, CalPERS responded:

“After a diligent search of our records staff was unable to locate any records responsive to your request; therefore, we have nothing to produce in response to your request.”

The fact that CalPERS and any other public fund officials participating would seek advice from NCPERS—a private conference promoter that is substantially funded by Wall Street—for “opposition research” to attack an expert investigation funded by participants and pension stakeholders is alarming. And this was not the first and only meeting strategizing about the participant-funded investigation that Kim had attended. Months earlier, on March 27, 2025, Kim sent an email following an earlier Government Affairs Roundtable meeting, which he had apparently been invited to attend, discussing our investigations:

Thank you, GA Roundtable for the great conversation. Attached is the Siedle Substack post I referenced. Please feel free to forward the PDF (but try not to forward the link to his Substack page as we don’t want to inadvertently juice up his click rate). Take care & see you in April.

Our Substack post dated March 14, 2025, proposing a crowdfunded investigation of CalPERS, *CalPERS and NYCERS Pensions Proposed Crowdfunded Investigations*, (which Kim referred to above) was also included in the documents provided to us.

A document dated August 8, 2025, indicated Heather Gillers of the Wall Street Journal requested “Copies of emails sent to or from CalPERS and/or any other public documents that mention Ted Siedle or Edward Siedle.”

On September 2, 2025, Marcie Frost advised all CalPERS board members that the Wall Street Journal was also keenly interested in the matter:

CalPERS has received two public records requests seeking emails sent to or from anyone in the organization that mentions "Ted Siedle" or "Edward Siedle." Please note the last name is sometimes misspelled as Seidle and one of the requestors is seeking any documents mentioning that spelling as well. The requested time periods for the PRAs overlap so we are seeking any responsive documents from January 1, 2013 through September 1, 2025. Please send any responsive documents to the CalPERS PRA team at this email [calpers_pra@calpers.ca.gov] by September 12, 2025.

Separately, on October 1, 2025, we requested the very same individual information pursuant to the California Information Practices Act. On November 6th we received “the information responsive to your request and disclosable under the PRA.”

Approximately 110 documents were provided, almost all of which had been previously provided.

This CalPERS investigation revealed—as prior investigations have—that participants who seek transparency and accountability at their pensions are routinely secretly tracked and targeted by fund officials. That is, when pressing for reform, concerned participants are regarded by those overseeing their retirement savings as adversaries to be opposed—not beneficiaries owed a fiduciary duty.

Since CalPERS has refused to disclose records related to its investigation of this participant review, we are prevented from determining whether any such information, created or collected by CalPERS, is accurate or defamatory. Ironically, the findings of this participant investigation of CalPERS have been made public—providing the pension ample opportunity to comment thereon—whereas information related to CalPERS’s efforts to undermine its participants’ transparency initiative have been withheld, precluding participant commentary.

- **CalPERS Involvement with Industry Allies**

CalPERS is “a valued NCTR retirement system member,” according to NCTR⁵⁸ and CalPERS board travel reports indicate attendance at NCPERS events and programs. NCPERS’ own online-learning pages and blog feature CalPERS executives as panelists and include profiles.⁵⁹ Further, a CalPERS “External Stakeholder Engagement Report” lists the NCPERS and NCTR among its primary national associations/partners. Further, CalPERS, NCPERS, and NCTR are interlocked through an organization called National Institute on Retirement Security (where all three are organizational members and share board representation—indeed the CalPERS logo is featured on its website⁶⁰), and various federal-policy coalitions and advocacy efforts.

Ironically, CalPERS embraces industry allies as “external stakeholders,” while participants demanding greater transparency and accountability are targeted as the hostile opposition.

⁵⁸ <https://nctr.org/the-sec-reverses-course-on-mandatory-arbitration-what-are-the-implications-for-institutional-investors/>

⁵⁹ https://www.ncpers.org/blog_home.asp

⁶⁰ <https://www.nirsonline.org/membership/our-members/>

- **Independent IG Could Investigate CalPERS Involvement with Pensions and Industry Allies Opposing Participant Scrutiny**

When state officials, including the Governor, public pension boards and staff, representatives of State or Legislative Auditors, Attorneys General, legislators and public pension industry allies conspire to preemptively, aggressively target individuals who are working on behalf of pension participants to ensure public scrutiny of public monies—to undermine their reputations and investigations—the public should be deeply concerned.

The very fact that public pension officials and their industry allies refer to participant-led efforts as “the opposition” is profoundly troubling.

If participants are the enemy, then for whose benefit are the funds being managed?

Wall Street and investment staff? These schemes are rarely exposed but now that a national conspiracy that has been operating for years has been documented and exposed, the public, regulators and law enforcement should ask:

Why did government officials responsible for overseeing state pensions across the nation readily agree an independent, expert review would uncover mismanagement or wrongdoing? What did they know about their state pensions that so worried them they were compelled to join together to preemptively strike out?

An independent IG at CalPERS could investigate any CalPERS involvement with other public pension officials and their industry allies—and recommend ending CalPERS’ involvement with NCTR and NCPERS if the facts support it. An IG’s core charge is to detect waste, abuse, misconduct, conflicts of interest, and breaches of fiduciary duty—especially where actions may divert a public agency from its “sole and exclusive benefit” obligation. At CalPERS, that duty is explicit under California Constitution, Article XVI §17. If CalPERS officials coordinated with outside private organizations to discourage, discredit, or preempt participant-funded investigations, or used staff time, public funds, institutional influence, or shared platforms to assist such efforts, or participated in reputation-management or “opposition research” strategies aimed at plan participants, then an IG inquiry is not only appropriate—it is necessary.

An independent IG could lawfully examine coordination and communications between CalPERS officials and NCTR, NCPERS and other allied entities (e.g., media consultants, advocacy coalitions, policy shops), including emails, texts, Slack/Teams messages, calendars, meeting notes and participation in Zoom calls or strategy

sessions opposing participant investigations. Whether public resources, i.e., CalPERS funds, travel budgets, staff time, or institutional branding were used to support messaging against participant-led reviews, coordinate narratives with national associations and influence media coverage or legislators could be examined.

An IG could also examine potential conflicts of interest related to NCTR and NCPERS, including whether these private organizations receive substantial funding from Wall Street managers doing business with CalPERS, promote positions that conflict with participant transparency and whether CalPERS officials had fiduciary conflicts when aligning with those positions.

The IG could recommend ending CalPERS' involvement with NCTR and NCPERS, if it concludes that continued membership undermines fiduciary duties, creates conflicts of interest or damages public trust. Recommended corrective actions could include terminating memberships and sponsorships, ending conference participation, prohibiting staff from serving on panels or committees and withdrawing from joint advocacy coalitions.

Historically, IG reports—especially when detailed and well-documented—force boards to act or publicly justify why they are ignoring fiduciary warnings.

Coordinating nationally to preempt independent scrutiny, discredit participant-funded investigations, or influence media narratives before any findings exist is difficult to reconcile with fiduciary loyalty, transparency obligations and democratic accountability for public funds. An IG investigation reframes this from “political disagreement” to governance integrity.

If substantiated, an IG could deliver a public report documenting the scope of coordination, the role of national pension associations and any misuse of public resources. Policy reforms, such as limits on participation in trade groups funded by counterparties, mandatory disclosures of association funding sources and clear rules separating fiduciary functions from advocacy may be advisable. Structural change, including ending or suspending CalPERS' involvement with NCTR and NCPERS and requiring board-level approval for external advocacy affiliations may be prudent.

Even absent criminal findings, the governance implications alone are significant.

XII. CalPERS Lack of Commitment to Transparency

CalPERS' mission statement emphasizes delivering retirement and health benefits for public employees, retirees, and their families through "trusted, responsible, and sustainable investment and benefit programs." Its vision statement stresses being a respected partner delivering sustainable retirement and health care benefits.⁶¹ Notably, neither the mission nor vision statement explicitly includes a commitment to transparency. The key themes are service, security, sustainability, and trust—but not openness or disclosure.⁶²

Of course, transparency is critical to building trust. If members are not permitted to see or review information which clearly and accurately details how their retirement assets are invested and the related costs, they cannot (and should not) trust that their investment and benefit programs are prudently managed.

As the largest public pension in the U.S., CalPERS faces intense public, media, and stakeholder scrutiny over fees, investment practices, and hidden costs. Public and media criticism, for example around private equity fees, nondisclosure of side letters, or hidden costs, have built pressure for CalPERS to demonstrate better openness.

In an environment where transparency is increasingly validated by vendors and consultants with commercial ties to the pension (as detailed below), the establishment of an independent IG would represent the single most effective step CalPERS could take to restore public confidence and ensure that transparency claims are credible, complete, and independently verified.

However, due to longstanding and pervasive conflicts of interest, even an IG would be challenged.

- **CEM Pension Transparency Score**

Securing a high transparency rating from a third party can help bolster a public pension's credibility and legitimacy. So, around 2020, CalPERS began including a CEM Pension Transparency score in its reports, as well as issuing an annual Transparency Report "as part of an initiative to improve its overall CEM Pension Transparency

⁶¹ <https://www.calpers.ca.gov/about/organization/calpers-story/our-mission-vision>

⁶² CalPERS does include "Openness" as a Core Value and mentions being "transparent in actions and communications" under that value; however, transparency is not front-and-center in the mission. <https://www.calpers.ca.gov/documents/transparency-report-fiscal-year-2023-24/download?inline=>

score.” We note with great emphasis that CalPERS acknowledged improving a vendor’s score became an institutional objective. This transforms the relationship from independent evaluator into a commercial partner whose output CalPERS actively seeks to optimize. This alone creates a governance tension.

As discussed later in this report, CalPERS also uses CEM Benchmarking Inc. as one of its independent benchmarks for evaluating the costs (fees, administrative expenses, etc.) incurred in running its investment program. That is, CEM plays two distinct and conflicting roles at CalPERS.

Since CEM’s transparency benchmark is seen as a peer-recognized external measure of disclosure quality, improving that score can serve as evidence to stakeholders (legislators, beneficiaries, the press) that CalPERS is serious about open governance. A better transparency rating helps defend against criticisms that CalPERS is hiding information or lacks accountability in areas like private equity, side letters, and fee structures. This amounts to a classic self-referential loop where CalPERS supplies data; CEM evaluates transparency; CalPERS cites the score; and CEM’s transparency benchmark gains authority. This is not illegal or unusual—but it is inherently conflicted.

In 2025, CalPERS’s overall CEM Pension Transparency score ranked fourth globally, behind funds such as Norway’s Government Pension Fund Global and Canada’s CPP and CDPQ. In earlier years (e.g., 2024), CalPERS ranked third globally and first among U.S. funds measured.⁶³ Those rankings are frequently cited to rebut criticism and enhance CalPERS’ credibility, and, consequently, create strong institutional incentives to preserve the score. That makes true independence even harder to police.

The CEM Transparency score assesses funds on an overall score out of 100, covering four pillars: governance, performance, cost disclosure, and responsible investing. According to CEM:

It is the performance of the most transparent funds and the improved transparency of responsible investing and governance disclosures generally that are driving funds to new heights. The average scores for performance and cost disclosures haven’t changed materially since the first edition of the benchmark, but have improved. Providing full cost transparency, especially for funds with externally managed private assets, continues to be a challenge.

⁶³ <https://global-pension-transparency-benchmark.top1000funds.com/global-pension-transparency-benchmark-funds-2025/>

In short, CalPERS investment cost disclosure, also evaluated by CEM, is a key component in CEM’s transparency assessments—posing an obvious conflict of interest and governance concern.

CalPERS staff cannot realistically monitor this conflict because the CEM transparency score is qualitative and proprietary. CEM’s transparency benchmark is not a checklist, reproducible by outsiders and relies on weighting judgments and narrative evaluation. CalPERS staff can verify what information was submitted but they cannot audit how CEM interpreted it, weighted it, or resolved borderline disclosures. Staff do not have access to internal scoring deliberations, peer-normalization decisions, or internal escalation discussions. Thus, staff oversight is limited to, at best, process compliance, not outcome integrity.

CEM Benchmarking is privately held, reportedly private equity-backed⁶⁴ and headquartered in Canada.⁶⁵ At a recent CalPERS Stakeholder Forum, Christopher Doll, Director, Client Coverage of CEM stated that CEM “is a fully independent, employee-owned third-party company...”⁶⁶

McKinsey & Company has disclosed on its public website that it “has a minority equity stake in CEM,”⁶⁷ but the size of that stake has not been disclosed. It does not appear that CEM discloses to its fund clients the McKinsey ownership interest on its public website.

Neither McKinsey nor CEM has published the percentage, governance rights, or economic terms. As a result, outside parties—including CalPERS stakeholders—cannot independently assess the degree of influence associated with that ownership.

It appears that there is at least one additional financial sponsor (e.g., “private-equity backed”) but the identity and size of that stake are not publicly disclosed. Whether CalPERS knows the identities of all CEM financial backers, their economic interest or

⁶⁴ <https://pitchbook.com/profiles/company/391737-97>

⁶⁵ According to its website, CEM Benchmarking, Inc., does not manage assets. The firm is not registered as an investment adviser with the SEC and, as a result, details regarding firm ownership, lines of business and conflicts of interest are not broadly disclosed to the public through the SEC’s Investment Advisor Public Disclosure program.

⁶⁶ <https://www.youtube.com/watch?v=OKRpqE9-5eA>

⁶⁷ <https://www.mckinsey.com/about-us/overview/alliances-and-acquisitions/cem-benchmarking-and-mckinsey>

their influence on governance is unknown. CalPERS staff has no realistic way to independently map or monitor these relationships.

Under “our collaboration” McKinsey has stated on its website:

By combining McKinsey’s industry expertise with CEM’s dataset, we help asset owners and managers benchmark their investment and non-investment performance and help inform the strategic moves they are looking to make. CEM’s dataset comprises over 500 funds with over \$11 trillion in assets.

While McKinsey is not a private equity firm, it is deeply embedded in the private equity ecosystem, as discussed more fully elsewhere in this report. Its involvement spans strategic advisory, due diligence, portfolio transformation, and ongoing industry research. MIO, a subsidiary, is an SEC-registered investment advisor, a registered commodity pool operator with the Commodity Futures Trading Commission and a member of the National Futures Association. The majority of MIO’s \$20 billion in assets are invested in alternative investments.⁶⁸

As a result of its private equity and McKinsey ownership, CEM is, in our opinion, subject to a conflict of interest with respect to the leading transparency issue facing public pensions, including but not limited to CalPERS, today—private investment cost and risk disclosure. As the Wall Street Journal noted recently, acquisitions of private-asset data providers by Wall Street behemoths underscores both how precious private-market data has become, and how limited the information still is.⁶⁹

Further, CEM, itself, as discussed later in this report, is not fully transparent regarding the reports it produces evaluating the costs its pension clients incur in running their investment programs.

Finally, the CEM transparency score measures what is publicly disclosed, not what exists. A fund might disclose a lot yet still withhold key internal documents or use public records exemptions aggressively—both of which CalPERS has long been criticized for doing. That is, a high transparency score can coexist where there is material opacity, and staff cannot “correct” that through oversight of CEM alone.

- **Staff Cannot Monitor CEM Transparency Score, IG Would Struggle**

⁶⁸ <https://www.miopartners.com/>

⁶⁹ <https://www.wsj.com/finance/investing/investors-clamor-for-a-peek-behind-the-private-markets-curtain>

Since CEM’s incentives are ongoing (subscription revenue, prestige of ranking elite funds highly, maintaining participation of flagship clients like CalPERS), there is no discrete transaction for CalPERS staff to audit—only a continuing relationship that subtly shapes incentives over time. This kind of influence is not monitorable through standard compliance tools.

An independent IG would be better positioned than staff, but would still struggle. With explicit authority, an IG could review contracts and communications, examine how CalPERS uses the transparency score in public messaging, compare CEM-rated “cost transparency” with undisclosed cost categories, and assess whether CalPERS staff pressures or “score-optimizes” disclosures. However, even an IG cannot audit CEM’s proprietary scoring algorithms, observe internal judgment calls, detect subtle bias in qualitative evaluation, or verify independence absent full access to CEM’s internal governance. This is a vendor-side opacity problem, not a CalPERS-side one.

In conclusion, since CEM both evaluates CalPERS’ transparency and relies on CalPERS as a paying client and data contributor—while itself operating within a private-equity and consulting-influenced ecosystem—any conflict of interest is structural and continuous. Such conflicts cannot be fully mitigated or monitored through ordinary staff oversight and would remain difficult even for an independent IG absent extraordinary disclosure and enforcement authority.

However, since CEM’s transparency benchmark is predicated on uniform methodology, equal treatment of participants, and confidentiality of proprietary processes, granting a single client—particularly a high-profile client like CalPERS—enhanced access to internal information would raise serious regulatory, contractual, and competitive concerns. Any such preferential access would risk undermining the credibility of the benchmark and disadvantaging other clients. Other clients could reasonably object: Why does CalPERS get to see how the scoring works when we do not? Meaningful mitigation of conflicts would therefore require system-wide transparency or independent third-party assurance—not client-specific disclosure. In short, an IG may find that granting CalPERS preferential access to internal information of a benchmarking firm for purposes of evaluating conflicts of interest is infeasible without compromising the neutrality, comparability, and credibility of the benchmark itself.

- **CalPERS Transparency & Accountability Portal**

CalPERS maintains a Transparency & Accountability portal which provides certain information related to economic interests, travel and education for board members

and key staff.⁷⁰ CalPERS publishes monthly summary reports of public records requests. These reports show the date received, the requesting organization, the requestor's name, a brief description of the request, and the PRA number.⁷¹ Notably, the summaries do not include CalPERS's responses. The summaries provide transparency about volume and subject, though not about the content released/withheld and, as such, are virtually useless for purposes of accountability.

- **CalPERS History of Denying and Opposing Transparency**

CalPERS has a history of denying or narrowing access to investment contracts and fee disclosures, claiming exemptions for trade secrets or proprietary information from private fund managers. This has led to lawsuits and controversies over whether CalPERS overuses exemptions to shield investment details (especially in private equity).

For example, in 2010 the First Amendment Coalition sued for access to investment documents where CalPERS claimed that certain records constituted trade secrets and sought to withhold them. As the Coalition concluded in its memorandum:

CalPERS' investment of \$100 million in a project which has yielded nothing raises significant questions. Those questions are magnified when CalPERS lost \$900 million in another real estate investment, and when the Attorney General has filed serious charges alleging that former CalPERS officials showered kickbacks on insiders to steer investments. There is an overwhelming public interest in access to records showing what went wrong, and only "speculative, self-serving opinions designed to preclude the dissemination of information to which the public is entitled" on the other side of the scale. This Petition should be granted so that the public can see how CalPERS manages the staggering \$210 billion in assets with which it has been entrusted by government retirees, their dependents, California taxpayers and the public generally.⁷²

Even more disturbing, CalPERS has, at times, opposed, or supported limiting, transparency with regard to certain key investment information. For example, in

⁷⁰ <https://www.calpers.ca.gov/about/organization/transparency-accountability>

⁷¹ <https://www.calpers.ca.gov/contact-us/public-records-requests/public-records-summary-reports>

⁷² <https://firstamendmentcoalition.org/wp-content/uploads/2024/09/PetWrit-MPA-E-filed.pdf?>

2021, CalPERS supported a proposed bill that would have carved out exemptions from public-records disclosure for certain documents tied to its private debt/in-house lending initiative.⁷³ The pension—siding with Wall Street—said the change would boost returns and save money by allowing it to engage more directly in the growing market for non-bank lending.

Secrecy is good for participants, CalPERS incongruously argued.

The RPEA opposed the measure arguing that the bill shielded the nation’s largest public pension fund from necessary scrutiny given its recent history of ethical lapses.

As Bloomberg noted at the time:

Calpers has been facing increased scrutiny. It has gone through nine chief investment officers in two decades. Ben Meng, the last investment chief, resigned in August, after a little over a year at the helm, over an ethical breach -- he approved a Calpers investment into a Blackstone Group Inc. private-equity fund while holding shares in the company personally. The pension has yet to hire his replacement.

Chief Executive Officer Marcie Frost faced questions over disclosures relating to her educational background in 2018. Before that, former CEO Federico Buenrostro served time in prison for steering \$14 million in placement fees to a former board member in exchange for gifts and cash bribes. That former board member, Alfred Villalobos, committed suicide ahead of his corruption trial in 2015.⁷⁴

As discussed more fully below, our investigation reveals CalPERS has long abandoned transparency, choosing instead to collaborate with politicians, public pension industry insiders and Wall Street to eviscerate California public records laws and avoid accountability to stakeholders. Predictably, hundreds of billions that could have been used to pay state retirement benefits have been squandered as transparency has ceased to be a priority.

- **CalPERS Pre-emptive Refusal to Release Public Records**

Typically, upon completion of our participant-funded investigations (e.g., Rhode Island, North Carolina, Ohio and Minnesota) we have provided our findings to the state Attorney General, FBI and SEC, recommending that they investigate further

⁷³ <https://news.bloomberglaw.com/private-equity/calpers-backs-bill-limiting-disclosure-amid-private-debt-push>

⁷⁴ <https://www.bloomberg.com/news/articles/2021-05-20/calpers-backs-bill-limiting-disclosure-amid-private-debt->

certain matters, as well as request documents we have been denied by the pensions. But the facts in this CalPERS investigation are strikingly different.

In an August 7, 2025 interview with CNBC's "Squawk on the Street", *CalPERS Expands in Private Markets*,⁷⁵ CalPERS CEO Marcie Frost responded to final questions from the host about an earlier *NBC News* report⁷⁶ indicating a number of former employees and former board members had hired a forensic pension expert to investigate and provide clarity on the fund's investments.

After smirking, Frost gratuitously reassured Wall Street listeners:

"Private markets are called private for a reason... CalPERS is not sharing the limited partnership agreements. CalPERS is not sharing any side letters... We are extremely transparent... But frankly, private markets are private for a reason..."

At the time Frost was making her nonsensical statements (somehow equating secrecy with transparency), fundraising for the participant-led pension investigation had barely begun. No one had requested from Frost, or CalPERS any private investment documentation whatsoever. Thus, there was no reason for Frost to announce on national television that the pension was committed to keeping Wall Street's secrets from public scrutiny—other than to reassure Wall Street and possibly thwart fundraising for the transparency initiative.

Ms. Frost is a controversial figure whose misrepresentations or ambiguities around her educational background (lack of a college degree⁷⁷) and million dollar-plus compensation⁷⁸ have long raised eyebrows.

In our opinion, a savvy public pension fiduciary would have seized the moment to defend the public's right to transparency and accountability by emphatically asserting: "Public pensions are called public for a reason and the reason is because public assets are required to be subject to public scrutiny. As the nation's leading public pension, we are committed to full transparency and will happily provide participants any information they need to address their concerns. Any Wall Street

⁷⁵ <https://www.cnbc.com/video/2025/08/07/calpers-ceo-on-expansion-into-private-markets.html>

⁷⁶ <https://www.nbcnews.com/news/us-news/california-public-pension-fund-nations-largest-faces-probe-launched-co-rcna215534>

⁷⁷ <https://www.sacbee.com/news/politics-government/the-state-worker/article230641039>

⁷⁸ <https://www.comstocksmag.com/calmatters/calpers-ceo-earn-more-1-million-thanks-big-bonus-pension-fund-performance>

investment managers who are unwilling to be fully transparent, have no business handling public monies.”

As a result of Frost’s disturbing comments (before our investigation had even begun) evidencing a commitment to Wall Street secrecy schemes, as opposed to restoring accountability to CalPERS stakeholders—including California taxpayers—on September 30, 2025, we publicly invited the FBI, SEC and any CalPERS whistleblowers to assist in our impending investigation.⁷⁹

- **Independent IG Could Change CalPERS’ Culture**

The above CNBC exchange is revealing not because of what was legally said, but because of what was culturally signaled. When Frost volunteered—unprompted—that CalPERS would not share limited partnership agreements or side letters, she framed Wall Street confidentiality as a virtue; treated public scrutiny as an external threat and positioned herself as the guardian of secrecy, not the responsible steward of public assets.

An independent IG changes that culture by rightly replacing defensive secrecy with presumptive transparency and re-anchoring loyalty to beneficiaries and taxpayers, as opposed to Wall Street. In short, the IG becomes the institutional counterweight to management’s instinct to equate opacity with sophistication. Again, Frost’s comments were not necessary, responsive, or legally compelled. They were performative—aimed at reassuring private market counterparties in the audience that CalPERS leadership would defend their secrecy interests.

An independent IG realigns incentives by making one thing unmistakably clear inside the organization: Management’s real audience is the IG acting on behalf of beneficiaries, not CNBC, not General Partners, not consultants. Once executives know that emails, talking points, media appearances and disclosure decisions may later be reviewed by an IG with subpoena power and a public reporting mandate, tone changes immediately.

Smirks disappear.

Casual dismissals of transparency stop.

Perhaps the most troubling aspect of Frost’s CNBC remarks is not secrecy per se, but who claimed the authority to decide. Frost implicitly asserted that CalPERS

⁷⁹<https://pensionwarriorsdwardsiedle.substack.com/p/fbi-sec-whistleblowers-invited-to>

management determines the boundaries of transparency and public scrutiny is discretionary, not foundational. An IG changes this power dynamic by removing discretion from management in sensitive areas such as side letters, fee arrangements, conflicts of interest, consultant relationships and information asymmetries between CalPERS and peers. Culturally, this is seismic shift. Staff no longer asks whether legal or the CIO will approve of this disclosure, rather, they ask, “How will this look if reviewed by the IG?”

Our September 2025, public invitation to whistleblowers highlights another cultural failure at CalPERS, i.e., fear. In a secrecy-oriented culture employees learn that discretion is rewarded, raising uncomfortable facts is career-limiting and silence is safer than accuracy. An independent IG creates a protected channel outside the CalPERS hierarchy where whistleblowers bypass management, retaliation risks decrease dramatically and truth-telling becomes institutionally valued. Over time, this produces a measurable cultural shift resulting in earlier detection of governance failures and reduced reputational and legal risk.

An independent IG could swiftly, materially change behavior, incentives, and norms at CalPERS because unlike internal reforms, an IG is independent of CalPERS management, reports publicly, cannot be managed, spun, or buried and changes incentives before wrongdoing occurs. Thus, even the existence of an IG matters as much as its investigations.

XIII. CalPERS “Endangered” Funding Status

For the fiscal year ended June 30, 2025, CalPERS reported an overall funded ratio of approximately 79 percent,⁸⁰ an improvement from 75 percent a year earlier. A 79 percent funded ratio means that only 79 cents have been set aside for every dollar of promised pension benefits, based on actuarial calculations and assuming that all assets—particularly private and alternative investments—are accurately valued (i.e., not overvalued).

⁸⁰ <https://news.calpers.ca.gov/7-things-to-know-about-our-financial-report/>

This improvement should be viewed in historical context. In 2006, CalPERS reported a funded ratio in excess of 100 percent, only to see that figure collapse to approximately 61 percent during the Great Recession. The experience demonstrates the system's high sensitivity to market downturns, which is far greater today due to its growing reliance on volatile and illiquid alternative assets.⁸¹

Although public pensions like CalPERS are not governed by ERISA, the federal Pension Protection Act of 2006⁸² provides a useful and widely understood benchmark for assessing pension health. Under the Pension Protection Act, multiemployer pension plans are classified annually into three categories or zones based on funded status:

- Green Zone (Healthy): Funding ratio above 80 percent
- Yellow Zone (Endangered): Funding ratio between 65 percent and 79 percent
- Red Zone (Critical): Funding ratio below 65 percent

Plans in the Yellow Zone are required to adopt a funding improvement plan, while Red Zone plans must adopt a rehabilitation plan designed to restore solvency within a defined time frame. Participants and employers must be formally notified of the plan's status.

Applying this federal framework by analogy, CalPERS—at 79 percent funded—would fall squarely into the Yellow Zone (Endangered) and would be required to implement a formal funding improvement plan aimed at increasing its funded ratio.

Because investment earnings account for most of the long-term revenue for a typical public pension fund—61 percent,⁸³ with the remainder from employer/employee contributions—the degree of accuracy of the investment return assumption over time has a major effect on a plan's cost and actuarial funding level. Because the investment return assumption for most public plans also serves as the discount rate used to determine the present value of the plan's liabilities, an investment return assumption that is set too low will overstate liabilities and costs, causing current taxpayers to be overcharged and future taxpayers to be undercharged. A rate set too

⁸¹ <https://www.calpers.ca.gov/documents/transparency-report-fiscal-year-2023-24/download?inline=>

⁸² <https://www.govinfo.gov/content/pkg/PLAW-109publ280/pdf/PLAW109publ280.pdf>

⁸³ For CalPERS, only 55 percent of every pension dollar paid to retirees comes from investment earnings. <https://www.calpers.ca.gov/documents/transparency-report-fiscal-year-2023-24/download?inline=>

high will understate liabilities, undercharging current taxpayers at the expense of future taxpayers. An assumption that is significantly wrong in either direction will cause a misallocation of resources and unfairly distribute costs among generations of taxpayers.

Since 2011, CalPERS has reduced its assumed investment rate of return from 7.75 percent to 7.5 percent, to 7 percent, to 6.8 percent in July 2021.⁸⁴ Each reduction followed actuarial reviews intended to balance funding discipline against employer contribution volatility. While these changes reflect improved realism, they also underscore the difficulty CalPERS has had achieving its own performance targets over extended periods.

According to a June 2025 survey of 131 public funds by the National Association of State Retirement Administrators (NASRA), the average investment return assumption of funds has declined from 7.95 percent in 2007 to 6.91 percent today.⁸⁵ Both nationally and at CalPERS, the downward shift in assumptions reflects recognition that the high-returns of the 1980s–1990s are unlikely to recur. By lowering assumptions, funds are making their liability projections more realistic. Forcing higher contributions today, hopefully reduces the risk of future underfunding. NASRA's survey shows the national average assumed return has drifted down nearly a full percentage point since 2007. CalPERS has tracked closely with that trend—and today sits a little more conservative than the average, at 6.80 percent versus the national 6.91 percent.

According to a recent study by the Reason Foundation, from 2001 to 2023, the most recent period with complete data available, 99 percent of public pension funds failed to meet their average assumed rates of return. The average investment return for public pension systems during this period was 6.5 percent, well below the average assumed rate of 7.59 percent.

... most public pension systems have experienced unsatisfactory investment return results. For example, the California Public Employees' Retirement System, or CalPERS, the largest public pension system in the nation, and Chicago's largest pension fund have a historical performance that falls short of their targets by 1.98% and 2.05% (~200 basis points) annually on average, respectively.⁸⁶

⁸⁴ <https://www.calpers.ca.gov/docs/forms-publications/facts-investments.pdf>

⁸⁵ <https://www.nasra.org/files/Issue%20Briefs/NASRAInvReturnAssumptBrief.pdf>

⁸⁶ <https://reason.org/commentary/99-percent-public-pensions-underperformed-assumed-returns/>

A shortfall of approximately 200 basis points annually, when compounded over decades, is devastating to pension solvency.

The Pew Charitable Trusts observes that “By 2021, the average state pension plan was assuming that future returns will be around 7 percent.” However, “with recent projections showing that future pension plan returns are likely to be closer to 6% than 7% over the next 20 years, below both historical averages and what most state pension plans continue to rely on, policymakers will need to find ways to further reduce investment expectations.”⁸⁷ Pew cautions that unless assumptions are further reduced or funding policies strengthened, underfunding risks will continue to grow.

In 2024, CalPERS unfunded actuarial liability was \$168 billion. If the net pension liability were calculated using a discount rate which is one percentage point lower than the current assumption—i.e., the more realistic 5.8 percent rate estimated by Pew—the current underfunding would soar to the \$235 billion–\$270 billion range (estimated). This range illustrates how fragile the funded ratio remains and how dependent reported improvements are on optimistic investment assumptions and asset valuations.

In conclusion, while CalPERS has made incremental progress since the pandemic-era market shock, a 79 percent funded ratio, heavy reliance on investment returns, growing exposure to illiquid alternatives, and a long history of assumption shortfalls place the system in a structurally vulnerable position.

Finally, we note that CalPERS and other public pensions generally use more aggressive (higher) discount rates than corporate pensions governed by ERISA, which makes public pensions appear better funded than they would under ERISA-style rules. Public pensions typically discount liabilities at 6.5 percent–7.5 percent (often equal to their assumed long-term investment return). Corporate ERISA pensions must discount liabilities at much lower, market-based rates tied to high-quality bond yields (often 4 percent–5 percent, sometimes lower). Higher discount rates dramatically reduce reported liabilities, which inflates funded ratios. If public pensions were valued under ERISA-style discounting, their unfunded liabilities would be much larger, and funded ratios materially lower.

Independent analysts (including Pew and Reason Foundation) consistently find that using lower, bond-like discount rates would increase public pension liabilities by

⁸⁷ <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2023/11/public-retirement-systems-need-sustainable-policies-to-navigate-volatile-financial-markets>

hundreds of billions (nationally), push many plans well below 70 percent funded and reveal substantially larger unfunded liabilities. For a plan as large as CalPERS, this could mean hundreds of billions more in reported shortfalls, causing the pension to fall within ERISA's Red Zone (Critical).

- **Independent IG Can Improve Funding Credibility**

An independent IG at CalPERS could not “fix” funding shortfalls by decree—but could materially improve the credibility, durability, and governance of the funded-ratio narrative by addressing the very faults that make a 79 percent funded ratio fragile and potentially misleading.

The 79 percent funded ratio assumes asset values—especially private/alternative assets—are accurate, returns are not overstated by missing fees or optimistic marks, and assumptions are reasonable over full cycles.

An IG can provide independent asset-valuation oversight by conducting valuation integrity reviews of private equity, real assets, and private credit and publishing a Valuation Sensitivity Statement indicating that “if private assets were marked X percent lower, the funded ratio would fall to Y percent.” This prevents a repeat of “illusory strength” where funded ratios look healthy until markets force reality.

An IG can also treat the fund's 79 percent funded ratio as “Yellow Zone” risk—not as an indication of success. The IG could require a Funding Improvement Plan when the funded ratio fell below 80 percent, even if not legally required and require plain-English disclosure to members and taxpayers explaining why 79 percent is not healthy, what could push the plan backward, and what actions are being taken. These measures replace complacency with discipline—before markets do it brutally.

The IG can also stress-test the discount rate honestly (and publicly). This is important to restore credibility because investment returns drive the majority of long-term funding, CalPERS has repeatedly missed assumptions, and small assumption errors can create massive intergenerational inequity. The IG can require multi-rate disclosure every year showing the funded ratio at 6.8 percent (current), at 6.0 percent, at 5.8 percent (Pew-style estimate), and at ERISA-style bond rates. Also, the IG can publish a Return-Gap Report indicating the historical shortfall versus assumption and compounding the impact of the shortfall over 10, 20, 30 years. This stops the funded ratio from being treated as a single “truth” and exposes how assumption-sensitive it really is.

The IG can break the illusion aggressive public pension discounting creates which dramatically inflates funded ratios and makes public pensions look healthier than they would under market discipline. The IG can require CalPERS to publish an ERISA-style shadow funded ratio annually using the same assets, but a bond-based discount rate and no smoothing. This gives policymakers and the public a reality check and prevents false comfort.

Assumptions and valuations can drift quietly for years until a shock forces a correction—often all at once. The IG can guard against this by establishing an Early-Warning System with automatic alerts when actual returns trail assumptions for multi-year periods, private-market distributions stall, fee drag rises faster than gross returns, and funded ratio improvements depend disproportionately on assumptions. Early Warning alerts can shorten the time between problem emergence and governance response.

An independent IG can provide return-quality oversight to determine whether CalPERS is being compensated for the massive additional risks related to increasing its exposure to private equity and alternatives—or just taking more of it to hit an unrealistic return assumption.

Wrong assumptions undercharge current taxpayers, overcharge future taxpayers, misprice benefits, and undermine trust. The IG can restore intergenerational fairness through an Intergenerational Equity Review which quantifies who (i.e., current members, future members, taxpayers) bears the cost under different return assumptions and require the board to explicitly acknowledge trade-offs when setting assumptions. The Review forces honesty about who is really paying for optimism.

An independent IG could not promise higher returns. It would deliver something far more valuable, i.e., a funded ratio that reflects reality, not hope—and a governance process that reacts before the next collapse, not after. In short, the IG converts a fragile 79 percent funded ratio into a credible, governable, and defensible funding strategy—instead of another prelude to the next crisis.

XIV. CalPERS Staff Excessive Compensation

Staff compensation at public pensions is never merely an internal human resources matter. It is a public trust issue since public monies are involved. When the salaries of state pension executives exceed that of the Governor, the matter ceases to be administrative and becomes political, fiduciary, and reputational. In dozens of states across the country, lavish public pension staff salaries have stirred controversy.

California's Governor earns roughly \$234,000 annually. Dozens of CalPERS employees—many one or two layers below the C-suite—earn multiples of that figure. The public may rightly question whether any measurable, durable value justifies this outlandish premium.

At CalPERS, the salary structure now rises to compensation levels more commonly associated with private investment fund principals than public fiduciaries. Four executives earn over \$1 million annually; additional senior investment officers and operational leaders earn in excess of \$900,000, \$500,000, and even \$300,000 across more than eighty non-C-suite roles. These increases occurred during years marked by executive turnover, performance controversy, and governance turbulence.

Meanwhile, the architecture validating soaring compensation levels—constructed and endorsed by external advisors—has relied heavily on peer comparisons and private-sector analogies that ignore the distinction between public oversight and private capital at risk. In any public pension system, compensation above gubernatorial levels becomes newsworthy because it tests a fundamental principle: are public fiduciaries being paid for market-beating results, or are they being paid to manage complexity and defend narrative?

The information below demonstrates that CalPERS' staff compensation framework rests not primarily on outperformance, but on internally constructed benchmarks, industry consultant validation, and peer normalization. Outrageous salaries are not the cause of governance weakness at CalPERS—they are its most visible symptom.

- **Highest Pay in America—Compensation Tied to Performance Measurement Staff Controls**

The issue at CalPERS is not simply that senior executives are paid a great deal of money. Most disturbing is that the justification for those salaries rests on a performance measurement system that CalPERS itself constructs, external industry consultants paid by CalPERS validate, and the Board accepts without any independent fiduciary test against investable alternatives available to the fund. The compensation numbers are not the problem by themselves. They are evidence of how the system works. The publication *Naked Capitalism* has commented on

CalPERS having the highest staff salaries in the nation while having the worst investment performance.⁸⁸

Between 2018 and 2024, CEO compensation rose from roughly \$406,000 to more than \$1.24 million, an increase of approximately 208 percent. During that same period, the wages of CalPERS-covered public employees rose roughly eighteen to twenty-two percent, broadly tracking inflation and negotiated cost-of-living adjustments. The median state worker's pay rose from the high sixties to the low eighties. The divergence is stark as executive pay rose nearly ten times faster than the pay of the members whose retirement security CalPERS exists to protect.

An even greater concern is the number of Investment Officers making excessive salaries, with 8 making over \$900,000 a year in 2024, another 26 making from \$500 thousand to \$900 thousand a year, and yet another 52 making between \$300 and \$500 thousand a year.

- 4 executives earning over \$1 million annually;
- 4 earning over \$900,000;
- 26 earning over \$500,000; and
- 52 earning between \$300,000 and \$500,000.

This places over 80 non-C-suite employees at compensation levels that exceed or rival senior executives at most public agencies, including many public pension CIOs nationwide.⁸⁹

These are not isolated outliers. They represent a systemic compensation structure that extends deep into the second tier of the organization. These salaries are so excessive that even a mid-level investment employee, the Managing Investment Director of ESG, was singled out in a recent oversight letter from the U.S. House Committee on Education and the Workforce to officials at CalPERS for making \$624,024.⁹⁰

The significance of this second-tier excessive compensation cannot be overstated. While CEO and CIO salaries draw public attention, real governance power at CalPERS resides with the deputy CIOs, asset-class heads, senior managing investment

⁸⁸ <https://www.nakedcapitalism.com/2021/08/calpers-comes-dead-last-of-34-public-pension-returns-despite-having-biggest-best-paid-investment-office.html>

⁸⁹ <https://publicpay.ca.gov/Reports/State/StateEntity.aspx?entityid=3821&year=2024>

⁹⁰ https://edworkforce.house.gov/uploadedfiles/02.12.26_calpers_loss_oversight_letter_will_instructions.pdf

directors, risk executives, and operational strategy officers who sit just below the C-suite. These individuals do not simply execute strategy. They shape the information environment in which strategy is judged. They review and accept asset valuations provided by external investment managers. They vet consultant recommendations before those recommendations ever reach the Board. They prepare the performance materials, summaries, and narratives that trustees rely upon to understand results. They determine what metrics are emphasized and which are quietly omitted. In effect, they serve as the internal credibility layer for the least transparent portions of the CalPERS portfolio.

Accordingly, second-tier compensation is arguably the most revealing indicator of institutional priorities, because it shows what the organization truly values and rewards. The referenced CalPERS compensation data⁹¹ make the scale of this inflation impossible to ignore. This is not a distribution consistent with market scarcity of talent. It is a distribution consistent with an institution that has chosen to heavily reward those responsible for managing complexity and validating the internal logic of an increasingly opaque and costly investment program.

What stands out most clearly in this data is that these compensation levels do not correlate with persistent investment outperformance. They do not correlate with measurable risk reduction. They do not correlate with cost control or fee reduction. Instead, they correlate with organizational roles that involve the acceptance of manager-provided valuations, the defense of internal performance narratives based on Internal Rate of Return (IRR) and custom benchmarks, and reliance on consultant frameworks and proprietary policy indices. In other words, these compensation levels are best understood not as rewards for market-beating investment skill, but as rewards for institutional compliance with a system that makes investing in costly, risky, opaque assets appear prudent and defensible.

CalPERS routinely justifies this second-tier pay structure by invoking competition for private-sector talent in private equity, private credit, real estate, and portfolio construction. But this justification quickly collapses under scrutiny. CalPERS does not produce superior private-market outcomes. There is no evidence of persistent outperformance in private equity versus public market equivalents (PME). There is structural underperformance in private credit following the rate shock which began in 2022. Real estate losses have been muted only by appraisal lag, not by superior asset selection. Meanwhile, true private-sector investment talent is compensated through carried interest, co-investment risk, and capital at risk. CalPERS staff bear none of those risks yet are paid as though they generate equivalent value.

What is being purchased with this wildly-generous compensation structure is not scarce investment genius. It is institutional stability. It is the quiet acceptance of

⁹¹ <https://publicpay.ca.gov/Reports/State/StateEntity.aspx?entityid=3821&year=2024>

investment manager valuations that cannot be independently verified. It is the defense of performance narratives built on IRR rather than simpler cash multiples. It is the normalization of benchmark engineering that uses quarter-lagged indices and an assumed illiquidity premium. It is the suppression or dilution of PME, liquidity, and volatility analysis that might cast these assets in a less favorable light. In short, these executives are paid to make complexity look prudent.

This dynamic becomes most visible in the routine process of valuation acceptance. Second-tier executives regularly approve or pass through appraisal-based private equity and real estate marks, model-priced private credit valuations, and net asset values that lag public market repricing by quarters or even years. Despite having no independent audit rights and no observable market prices for these assets, these valuations are embedded directly into performance reporting, used to construct benchmarks, and fed into compensation calculations. This is not the exercise of independent expertise. It is institutionalized deference.

The same pattern appears in benchmark design. These executives play central roles in designing or approving custom benchmarks, applying quarter-lagged public indices, adding assumed illiquidity premia, and normalizing underperformance through peer comparisons. The career incentives are clear and asymmetrical. Challenging opacity creates career risk and defending complexity creates compensation growth. It is therefore unsurprising that meaningful benchmark reform never originates from within this second tier.

The incentive structure reinforces this behavior. Second-tier compensation is tied to beating internal or custom benchmarks, demonstrating strategic alignment, complying with established processes, and maintaining coherent narratives. It is not tied to outperformance, liquidity stress outcomes, net returns after fees, or measurable reduction in portfolio risk. Under this structure, high compensation can persist even during periods of demonstrable underperformance, because the metrics that would reveal that underperformance are not used for evaluation.

From the institution's perspective, this overpayment serves a purpose. It ensures loyalty to the existing investment model. It discourages whistleblowing or internal dissent. It aligns staff incentives with management's narrative rather than with beneficiaries' outcomes. What appears at first glance to be excessive pay is, in fact, a control mechanism. It is a way of ensuring that those who manage, interpret, and present the least transparent parts of the portfolio remain invested in defending the system that produces those results. It amounts to governance capture expressed through compensation.

- **CEO Controversial Record**

The record of executive leadership at CalPERS in recent years cannot be examined in isolation from the structure of compensation that accompanied it, because credibility, governance, and pay at a public fiduciary institution are inseparable. The Board's decisions regarding compensation escalation occurred during a period when the Chief Executive Officer of the nation's largest public pension system was repeatedly the subject of public controversy, sustained reporting, and unresolved questions regarding credentials and governance practices.

This is not a matter of personality or biography—it is a matter of institutional response. When leadership at a public fiduciary institution becomes the focus of persistent credibility concerns, the question for trustees is not whether the controversy is politically inconvenient, but whether independent clarification is required to preserve the reputation of the fund itself. At CalPERS, the pattern was not independent clarification, it was normalization. The controversy was allowed to dissipate without independent investigation, while compensation rose sharply during the same period. That sequence, rather than any individual allegation, is the governance fact.

In 2018, reporting by the Sacramento Bee⁹² and Los Angeles Times⁹³ questioned representations concerning CEO Marcie Frost's educational background after CalPERS materials described her as pursuing a dual bachelor's and master's degree at Evergreen State College, a program the institution did not offer. Frost publicly stated she never claimed to have earned such degrees. CalPERS attributed the description to information supplied by executive search firm Heidrick & Struggles.

The dispute over phrasing is less significant than the Board's reaction. California Treasurer John Chiang publicly called for an independent investigation, stating that an organization with CalPERS' reputation required leadership of unimpeachable integrity and warning that absent such review, a cloud of controversy would continue to hang over the fund. That cloud was never dispelled by independent review but was instead absorbed into institutional background noise. The California State University Emeritus and Retired Faculty and Staff Association (CSU-ERFSA) in 2018 called on Governor Gavin Newsom to put CalPERS CEO Marcie Frost on administrative leave in order to investigate a series of management lapses.⁹⁴

The absence of independent examination is particularly notable given the scale and complexity of CalPERS' portfolio. A pension fund managing hundreds of billions of

⁹² <https://www.sacbee.com/news/politics-government/the-state-worker/article230641039.html>

⁹³ <https://www.latimes.com/la-fi-hiltzik-calpers-frost-20180919-story.html>

⁹⁴ <https://www.nakedcapitalism.com/2020/09/influential-california-state-university-council-calls-for-calpers-calpers-ceo-marcie-frost-to-go-on-administrative-leave-during-investigation-by-inspector-general.html>

dollars in private equity, private credit, real estate, and infrastructure—asset classes characterized by subjective valuations, engineered benchmarks, confidential contracts, and consultant-driven narratives—depends heavily on executive credibility. In such an environment, leadership must command unquestioned authority when challenging consultants, negotiating with private managers, and representing the fund before legislators and beneficiaries. When questions about qualifications arise and remain unresolved, the risk is not reputational embarrassment alone but also diminished negotiating power and weakened oversight. The controversy did not disappear because it was disproved—it disappeared because the Board chose not to pursue further independent clarification.

During this same period, executive compensation escalated dramatically. Public disclosures show CEO Frost’s total compensation increased from roughly \$406,000 in 2018 to more than \$1.24 million in 2024, representing a 208 percent increase over six years. For fiscal year 2023–24 alone, Frost received a base salary of \$578,267 and incentive compensation of \$667,320, bringing total compensation to \$1,245,587.⁹⁵ The escalation of pay occurred notwithstanding broader governance turbulence, including compliance failures within the investment office, turnover in the Chief Investment Officer role, and documented underperformance relative to simple investable benchmarks, as detailed elsewhere in this report. In most public institutions, sustained controversy and investment instability would lead to compensation restraint pending stabilization and independent review. At CalPERS, the opposite occurred. Compensation expanded. Frost also reportedly was “moonlighting” on paid speaking engagements which raise conflict-of-interest issues.⁹⁶

The structure of the CEO incentive plan makes such expansion possible irrespective of investment outcomes. Only fifteen percent of the CEO’s incentive compensation is tied to Total Fund performance, and even that component is measured not against an investable passive alternative but against CalPERS’ internally constructed policy benchmark. Most of the incentive compensation is allocated to categories such as Organizational Leadership Priorities, Enterprise Operational Effectiveness, Customer Service, and Stakeholder Engagement—metrics that are inherently discretionary and subject to broad interpretation by the Board. Part of this compensation revolved

⁹⁵ <https://calmatters.org/politics/2024/09/calpers-ceo-bonus/>

⁹⁶ <https://www.nakedcapitalism.com/2020/08/calpers-ceo-marcie-frost-moonlights-listed-with-2-speakers-bureaus-unlike-other-california-officials.html>

around a controversial employee satisfaction survey which CalPERS executives were accused of systematically gaming.⁹⁷

A five-basis-point outperformance relative to the policy benchmark can generate full payout of the performance component. When the benchmark itself incorporates private equity valuation lag, CPI overlays, and internal composites that differ from market alternatives, the resulting compensation calculus becomes detached from genuine opportunity cost. The Board is not measuring executive performance against what beneficiaries could have earned in a transparent, low-cost portfolio. It is measuring performance against an engineered internal yardstick and then awarding discretionary bonuses layered on top of that measurement. This is the structural environment in which compensation more than tripled. It is also an environment in which unresolved credibility issues were absorbed rather than examined. The issue is not whether a college degree is necessary to lead the nation's largest public pension fund. The issue is whether a Board that declines independent review of credential controversy, tolerates executive search firm errors without visible accountability, and then expands incentive opportunity has fulfilled its duty to protect institutional integrity.

As noted elsewhere, CalPERS has faced profound governance crises before, such as the placement agent scandal involving a former CEO and the subsequent criminal proceedings.

The escalation of CEO compensation during a period of unresolved controversy and benchmark-dependent performance measurement is therefore not simply a pay issue. It is evidence of a broader governance dynamic in which the Board appears to rely on consultant assurances and internally constructed metrics rather than independent evaluation. Under Article XVI, Section 17 of the California Constitution, trustees are required to discharge their duties solely in the interest of participants and beneficiaries, and with prudence under prevailing circumstances. Prudence in this context includes the willingness to commission independent review when leadership credibility is publicly questioned and to tether compensation tightly to measurable fiduciary outcomes.

The absence of such measures is not trivial. It signals to staff, consultants, and external managers that narrative stability is rewarded more readily than fiduciary outperformance. It signals to beneficiaries that executive compensation is insulated from reputational turbulence and benchmark scrutiny. And it reinforces the central

⁹⁷ <https://www.nakedcapitalism.com/2020/12/calpers-employees-beware-dont-fill-out-non-confidential-survey-jiggered-to-falsely-boost-executive-bonuses.html>

theme of this report: performance failures are symptoms, but governance structure is the cause.

The CEO record at CalPERS is an institutional case study which illustrates how controversy can be normalized, how compensation can expand during periods of uncertainty, and how benchmark engineering can insulate pay from performance. These are not isolated episodes; they are indicators of a governance framework that lacks independent corrective capacity. That is why independent oversight, in the form of a truly autonomous Inspector General with authority to audit compensation, benchmark construction, and executive vetting processes, is no longer a theoretical enhancement but a fiduciary necessity.

- **CIO Revolving Door**

The instability in the Chief Investment Officer role at CalPERS over the past decade is not merely a sequence of executive departures—it is a governance signal that the internal architecture responsible for stewarding over half a trillion dollars has failed to produce continuity, accountability, or measurable alignment between compensation and sustained fiduciary performance. In a public pension system whose investment complexity now rivals large global asset managers, the CIO position is the operational fulcrum of asset allocation, risk discipline, liquidity management, private market pacing, and benchmark construction. CalPERS CIO compensation can now approach \$2.4 million.⁹⁸

When the CIO position turns over repeatedly, and when each transition is accompanied by premium compensation and limited institutional transparency, the issue is no longer personnel. It is governance design.⁹⁹ The pattern is measurable. Following the departure of Ted Eliopoulos, CalPERS cycled through Ben Meng, then interim leadership, then Nicole Musicco, then again into transition before settling on Stephen Gilmore. Each arrival was accompanied by public statements emphasizing strategic evolution, modernization, and competitiveness. Each departure was abrupt relative to the scale of the mandate. Each transition occurred within an environment of escalating compensation and increasing private market exposure. Stability did not follow compensation expansion—instability did.

Ben Meng's tenure illustrates the structural fragility. Hired in 2019 with compensation approaching \$1.5 million annually and significant incentive opportunity, Meng resigned in 2020 amid ethics complaints involving personal holdings and recusal obligations. The Board's handling of closed-session discussions

⁹⁸ <https://www.sacbee.com/news/politics-government/the-state-worker/article246435315.html>

⁹⁹ <https://www.nakedcapitalism.com/2021/01/calpers-making-it-impossible-to-hire-competent-chief-investment-officer.html>

following his resignation resulted in a finding that CalPERS had violated the Bagley-Keene Open Meeting Act. When the CIO role becomes entangled in legal violations concerning open-meeting requirements, the issue extends beyond ethics into institutional oversight failure.¹⁰⁰

Nicole Musicco's tenure was shorter.¹⁰¹ Public explanations referenced family considerations, yet contemporaneous reporting suggested strategic misalignment and organizational friction. Regardless of the precise cause, CalPERS paid market-level compensation to recruit a CIO whose tenure lasted roughly eighteen months. In a portfolio characterized by long-duration commitments, illiquid assets, and multiyear allocation strategies, an eighteen-month CIO cycle is not stability—it is interruption.

These transitions did not occur in a vacuum. During the same period, CalPERS deepened its commitment to private equity, private credit, and complex benchmark engineering under the Total Portfolio Approach. Asset classes depending on subjective valuation and long reporting lags expanded as leadership continuity weakened. The CIO seat, which should function as the anchor of discipline during allocation shifts, instead became a rotating platform.

The financial implications are not abstract. On a \$450 billion asset base, a 25-basis point performance differential equates to roughly \$1.1 billion annually. A 50-basis point variance doubles that figure. Leadership instability does not need to produce dramatic losses to impose substantial opportunity cost. Incremental allocation drift, delayed rebalancing during volatility, weaker fee negotiations during leadership transition, and reduced bargaining leverage with private equity managers all compound over time. Two or three transitional years can erase several billion dollars in beneficiary value without triggering headline-grabbing negative returns.

Compensation during this period moved in the opposite direction of stability. Board materials discussed incentive structures capable of generating compensation

¹⁰⁰ <https://www.nakedcapitalism.com/2020/08/calpers-chief-investment-officer-ben-meng-made-false-felonious-financial-disclosure-report-more-proof-of-lack-of-compliance-under-marcie-frost.html>

<https://www.nakedcapitalism.com/2021/08/exposed-how-calpers-tried-and-continues-to-try-to-cover-up-former-chief-investment-officer-ben-mengs-misconduct.html>

<https://www.nakedcapitalism.com/2021/03/former-board-member-jj-jelincic-sues-calpers-over-illegal-secret-board-discussion-after-cio-ben-mengs-abrupt-departure-and-hiding-of-records-related-to-583-million-overstatement-of-real-estate-asse.html>

¹⁰¹ <https://www.nakedcapitalism.com/2023/09/calpers-chief-investment-officer-nicole-musicco-resigns-abruptly-intensifying-calpers-senior-staffing-instability.html>

approaching \$2.4 million for the CIO role under redesigned frameworks intended to align with private market pay norms. Premium compensation was justified in the theory that competitive pay would attract and retain elite talent.¹⁰² Yet retention did not follow. The structure paid for recruitment optics without securing tenure durability.

The incentive framework compounds the misalignment. Compensation metrics rely heavily on policy benchmarks constructed internally and validated by consultants rather than on direct comparison to investable opportunity-cost alternatives. When benchmarks embed private market valuation lag, inflation overlays, and custom composites, reported outperformance may partially reflect measurement design rather than economic resilience. Paying premium compensation against engineered benchmarks during periods of leadership turnover magnifies fiduciary exposure.

The turnover also increased consultant dependency. In the absence of a stable CIO, consultants become de facto strategic anchors. They provide continuity of framework while executive leadership cycles. Yet consultants operate within the same ecosystem that validates benchmarks and compensation design.

This is precisely the environment in which an independent Inspector General becomes not an enhancement but a structural necessity. To date, CalPERS internal governance mechanisms have demonstrated reactive correction rather than preventive oversight. Ethics concerns were addressed after public exposure. Legal compliance issues were resolved after judicial intervention. CIO departures were rationalized after the fact. Compensation frameworks expanded during instability. Nowhere in this sequence does one find evidence of independent, statutory authority examining whether the architecture itself is producing predictable churn and misalignment.

The CIO instability at CalPERS is therefore not merely an operational issue. It is a governance indicator. It reveals the limits of consultant-driven oversight, the fragility of benchmark-dependent compensation, and the absence of independent structural review. Stability in the CIO seat should be the byproduct of durable governance architecture. When it is not, the architecture—not the individual—requires examination. An independent Inspector General would not guarantee investment outperformance. No governance reform can. But it would introduce independent verification where currently there is reliance, independent evaluation where currently there is internal validation, and public transparency where currently there is managed narrative. At CalPERS' scale, that difference is not academic—it is measured in billions.

¹⁰² <https://www.sacbee.com/news/politics-government/the-state-worker/article246435315.html>

- **CFO and Actuary Controversies**

The episodes involving the Chief Financial Officer, the Chief Actuary, and the recurring use of Heidrick & Struggles are not isolated personnel missteps. They are structural governance warnings that surfaced externally, were resisted internally, and resolved only after public pressure. The pattern is unmistakable: credential scrutiny comes after hiring; legal conflicts are identified by outsiders rather than internal compliance; and accountability for the advisors responsible for vetting senior leadership appears absent.

In the same year that questions surfaced regarding CEO Marcie Frost's credentials, CalPERS quietly dismissed Chief Financial Officer Charles Asubonten after internal review concluded that he had exaggerated his resume including representing that he had served as a managing director at a private equity firm.

The irony was acute. The CFO of the largest public pension fund in the United States had overstated experience in the very asset class that dominates CalPERS' portfolio complexity. Frost had publicly praised his qualifications at the time of hiring. The discrepancy was not discovered before appointment. It was discovered after. That sequence is not trivial. When resume inflation is detected only after public embarrassment, it suggests that credential verification was not treated as a front-end fiduciary safeguard but as a reactive compliance exercise. In private industry, such a lapse would be costly. In a public pension managing hundreds of billions of dollars, it is alarming. The criticism was not limited to journalists like the LA Times.¹⁰³ Naked Capitalism, quoting criminologist Bill Black, described the appointment as emblematic of a broader decline in governance rigor, stating that CalPERS had become "a shell of its former glory" and that Asubonten's appointment epitomized a retreat from the best practices that once distinguished the fund from its peers.¹⁰⁴

The language was harsh, but the underlying concern was institutional. That is, the largest pension fund in the country appeared unable to verify the professional background of its own chief financial officer before appointment. The Actuary episode followed a similar arc. Frost attempted to relax qualification standards for the Chief Actuary role, prompting immediate criticism that analytical rigor was being diluted in favor of managerial discretion. The Actuary is not in an administrative position. It is the mathematical spine of the pension system. Assumptions regarding discount rates, mortality tables, contribution requirements, and liability projections flow from that office. Lowering qualification standards for that position raised

¹⁰³ <https://www.latimes.com/business/hiltzik/la-fi-hiltzik-calpers-cfo-20180731-story.html>

¹⁰⁴ <https://www.nakedcapitalism.com/2018/08/los-angeles-times-slams-calpers-vetting-failures-resulting-exodus-cfo-asubonten-resume-misrepresentations-doubts-whether-ceo-marcie-frost-made-needed-changes.html>

fundamental questions about whether professional competence was being subordinated to personal alignment. Only after public pushback did CalPERS withdraw the proposal.

Again, the pattern is revealing. The issue was not preemptively identified by internal governance mechanisms. It surfaced externally, was criticized publicly, and corrected reactively. That is not how robust fiduciary oversight functions. Both episodes trace back to the same executive search firm, Heidrick & Struggles. The firm was retained to vet and recommend senior leadership for the largest pension fund in America. The resume exaggeration scandal and the credential controversy share a common intermediary. The question is not whether a search firm can make mistakes. The question is why the Board did not publicly demand refunds, conduct formal review of the vetting process, or impose accountability for failure to identify material resume discrepancies before appointment.

Naked Capitalism observed that if CalPERS did not demand a refund of the search fee, it would suggest that the search process was “more than merely sloppy.” Whether one accepts that characterization or not, the failure to document and disclose corrective measures sends a signal. It suggests that accountability for advisor performance may be weaker than CalPERS’ public rhetoric regarding oversight and ESG discipline would imply.

The 2017 conflict episode further reinforces the structural concern. CalPERS announced the hiring of Richard Gillihan as CFO, only to have the appointment collapse after board member, JJ Jelincic, identified a potential violation of California Government Code §1090 since Gillihan had participated in setting the salary for the position he was about to accept.

Reportedly, internal counsel initially dismissed the concern. Only after outside legal review did the seriousness of the conflict become undeniable and the appointment was withdrawn. The critical detail is not the withdrawal but the origin of the warning. The conflict was not flagged internally before announcement. It was identified by a board member and validated only after outside counsel intervened. That sequence reflects a governance structure in which internal compliance mechanisms failed to identify a basic statutory conflict before public announcement.

When viewed individually, each episode can be dismissed as an anomaly. Together, they form a pattern. Senior appointments are celebrated before credentials are thoroughly vetted. Legal conflicts are minimized internally and corrected externally. Search firms face no visible accountability. Qualification standards are proposed for relaxation and withdrawn only after criticism. These are not human resources anecdotes. They are governance alarms.

Overlay this with compensation expansion and investment instability, and the pattern deepens. During this same period, CIO compensation potential moved toward seven figures, turnover accelerated, and performance relative to simple investable benchmarks did not materially improve. CalPERS paid for instability while insulating executive leadership from direct investment accountability. The broader observation from Naked Capitalism is uncomfortable but relevant: CalPERS publicly champions transparency, governance excellence, and ESG leadership while simultaneously operating through private contracts, valuation frameworks, confidentiality clauses, and benchmark structures that resist independent verification. That contradiction erodes credibility.

Credibility is capital for a public pension system. Unlike private funds, CalPERS cannot rely solely on performance marketing. It relies on trust that credentials are verified before appointment, that conflicts are identified before announcement, that search firms are accountable for vetting failures, and that qualification standards are not quietly diluted. The cumulative effect of these episodes is not embarrassment but an erosion of fiduciary confidence. Under Article XVI, Section 17 of the California Constitution, trustees must act with prudence and loyalty. Prudence includes establishing governance systems that prevent predictable errors. Loyalty includes ensuring that personal alignment never supersedes professional competence in key roles. When governance warnings originate outside the institution rather than inside it, the problem is not the whistleblower. It is the structure that failed to detect the issue first. That structure remains intact. And when the same structure now oversees increasingly complex private equity contracts, valuation-dependent performance reporting, benchmark engineering, and compensation systems tied to those benchmarks, the absence of independent oversight becomes more consequential.

The CFO, Actuary, and §1090 episodes were not isolated mistakes. They were early indicators that CalPERS' internal controls were reactive rather than preventive. Early indicators should not be ignored because governance failures rarely begin with scandal. They begin with small structural compromises that accumulate over time. And at CalPERS, those compromises are visible in plain sight.

- **Excessive Compensation Validated by External Consultants**

Executive and senior investment staff compensation at CalPERS is not the product of isolated judgment errors or momentary excess. It is the predictable outcome of a consultant-designed architecture that insulates pay from fiduciary reality while cloaking it in the language of market competitiveness and governance best practice. Global Governance Advisors (GGA) is the entity engaged to define the peer universe, construct the compensation bands, design the short- and long-term incentive opportunity ranges, and ultimately provide the Board with the assurance that pay levels are “competitive” and therefore defensible.

In 2022, Naked Capitalism wrote, “... Global Governance Advisors is enabling the giant pension fund’s staff in misappropriating from beneficiaries via the device of fundamentally and pervasively flawed pay benchmarking.”¹⁰⁵

The article further states, “... Global Governance Advisors is not willing to challenge CalPERS current absurd bonus framework,” reportedly mostly focused on private equity performance gaming. Specifically, Naked Capitalism pointed out that the firm benchmarks CalPERS investment staff against private fund managers, an apples-to-oranges comparison that ignores the structural realities of public employment. Private fund managers operate in environments defined by capital at risk, performance-linked carry, employment volatility, and personal financial exposure to investment outcomes. CalPERS staff operate within a public employer structure characterized by strong job protection, defined benefit pensions, and limited termination risk. Yet the comparison with private fund managers is treated as legitimate justification for escalating pay. The consultant framework assumes that because CalPERS employees oversee private assets, they should be paid as though they are private-sector principals bearing private-sector risk. The distinction between overseeing and owning disappears in the comparison.

The Board, in turn, relies on GGA’s analysis as a substitute for conducting its own rigorous fiduciary examination of whether compensation is aligned with outcomes for beneficiaries. The structural bias begins with benchmarking. GGA compares CalPERS investment professionals to private-sector asset managers and alternative investment firms, implicitly accepting the premise that overseeing private asset managers within a public pension framework is economically comparable to being a principal in a private fund complex.

This comparison collapses distinctions that are fundamental. Private equity and private credit principals invest personal capital, bear substantial compensation volatility tied to carried interest, operate under constant fundraising pressure, and face termination risk if performance falters. CalPERS executives and senior staff operate within a public employment framework characterized by job protections, defined benefit retirement security, and no personal capital at risk. Yet the consultant’s framework treats these environments as sufficiently analogous to justify private market pay structures in a public fiduciary setting. Oversight is equated with

¹⁰⁵ <https://www.nakedcapitalism.com/2022/04/calpers-consultant-global-governance-advisors-recommends-further-overpaying-grossly-underperforming-calpers-staff.html>

ownership. Administration is priced as entrepreneurship. The structural asymmetry disappears in the benchmarking exercise, and compensation bands rise accordingly.

Equally important is what GGA's methodology does not ask. It does not begin with the fiduciary question of whether CalPERS' beneficiaries would have been better served in a simple, low-cost, investable public asset portfolio. It does not calibrate compensation against opportunity cost. Instead, it asks whether CalPERS' pay levels are competitive compared to a peer group of other large public funds and, in some cases, private firms that are themselves engaged in similarly complex strategies. This reframing substitutes relative positioning for absolute fiduciary success. If the entire peer universe underperforms passive benchmarks over extended periods, each member of that universe can still justify escalating compensation so long as it remains in line with the others. Relative mediocrity becomes sufficient. The consultant's comparison normalizes the very performance environment that should be subject to scrutiny.

The insulation deepens when compensation is tied to internally engineered performance metrics. GGA's recommendations operate within a structure in which bonuses are linked to CalPERS' custom policy benchmarks and consultant-generated "value added" measures, rather than to clearly investable market alternatives. Those policy benchmarks incorporate quarter-lagged private market indices, appraisal-based real asset valuations, blended internal composites, and assumed illiquidity premia that smooth volatility and defer the recognition of losses. When compensation is evaluated annually against such benchmarks, valuation lag functions as built-in bonus protection. Losses are delayed during downturns, interim returns appear more stable than economic reality, and incentives can be paid before deterioration is fully reflected in reported numbers. By the time adjustments occur, compensation has already been awarded. The consultant does not dismantle this structure; it accepts it and builds compensation architecture around it.

What emerges is a closed validation loop. Staff participate in constructing policy benchmarks and complex strategies. Performance is measured against those internally designed yardsticks. Consultant-generated reports present the results as competitive within a similarly constructed peer group. GGA then uses that peer positioning to recommend compensation levels and incentive opportunities. The Board approves pay on the basis of consultant certification. At no point in that cycle is executive compensation tested against a straightforward opportunity-cost comparison or an independently investable benchmark. The measuring stick is internal. The validation is external in form but internal in substance.

The escalation of compensation over recent years is therefore not mysterious. Once GGA establishes elevated compensation ranges using private-sector comparators, those ranges become the baseline for future adjustments. Each successive review compounds from a level already justified as "market aligned." Meanwhile, long-term

total fund performance relative to simple passive allocations receives little weight in the compensation calculus. The consultant narrative emphasizes retention, talent competition, and peer positioning. It does not require downward adjustments when opportunity costs accumulate or when complexity fails to deliver clear risk-adjusted value.

The Board's dependence on consultant reports provides political and procedural cover. Compensation can be described as having been reviewed by experts, benchmarked against peers, and structured according to industry practice. Yet consultant endorsement is not synonymous with fiduciary alignment. GGA does not impose multi-year claw backs tied to realized economic outcomes. It does not insist that a substantial majority of incentive pay be linked to performance versus transparent, investable alternatives. It does not dismantle discretionary categories that allow bonuses to be awarded regardless of market-relative results. Instead, it refines and legitimizes the framework presented to it.

None of this requires allegations of bad faith. It reflects the incentives inherent in the consultant relationship. Compensation consultants are retained and paid by the institution whose pay structure they evaluate. Their role is framed as ensuring competitiveness and defensibility, not as imposing structural austerity or challenging the foundational premises of the system. In CalPERS' case, that role has meant reinforcing private-market benchmarking, normalizing peer-relative pay escalation, and validating incentive structures built on internally engineered metrics. The result is a compensation regime that rises with complexity, remains largely insulated from investable opportunity cost, and can expand even in periods when beneficiaries would have fared better under simpler alternatives.

The excessive compensation at CalPERS is therefore not an aberration tied to a single executive or a momentary lapse in oversight. It is the logical output of a consultant-designed system that equates competitiveness with virtue, substitutes peer comparison for fiduciary measurement, and embeds internally constructed benchmarks into the very architecture of pay. So long as that architecture remains intact, compensation will continue to reflect the internal narrative of success rather than the external reality of beneficiary outcomes.

- **Independent IG Could Improve Compensation Structure**

The compensation structure at CalPERS is not an accident of individual negotiation. It is the logical output of a system in which pay is benchmarked against selectively defined peers, incentives are tied to internally engineered policy benchmarks, and consultant validation substitutes for independent fiduciary testing. Executive compensation has expanded even as leadership instability increased, vetting failures surfaced externally, and overall fund performance relative to simple investable alternatives remained contested.

This is not an argument that public pension executives should be underpaid. It is an argument that compensation at this scale demands independent verification. When more than eighty staff members occupy compensation bands that exceed or rival top public officials, and when those bands are justified through consultant frameworks that compare public employees to private principals bearing capital risk, the burden of proof must be external, not internal.

An independent Inspector General would not set salaries but it would fundamentally alter the structure in which salaries are justified. An Inspector General with statutory independence and subpoena authority would audit the construction of peer universes used to justify compensation; test incentive metrics against transparent, investable opportunity-cost benchmarks; examine whether valuation lag and benchmark design mechanically inflate bonus eligibility; review executive search processes and credential verification before appointment; evaluate the relationship between compensation escalation and measurable long-term net performance; recommend claw back or deferral structures tied to realized economic outcomes rather than interim marks.

Most importantly, the Inspector General would break the closed validation loop in which staff design metrics, consultants certify them, and the Board awards pay based on those certifications. Compensation would no longer be defended by reference to “market competitiveness” alone. It would be evaluated against fiduciary outcomes measurable in dollars to beneficiaries. In a public pension system managing hundreds of billions of dollars, compensation is not a peripheral issue. It is a governance indicator. When pay exceeds that of the Governor, the public is entitled to clear, independently verified evidence that beneficiaries are receiving commensurate value. Absent that verification, escalating salaries signal not strength, but insulation. The solution is not rhetorical restraint. It is structural reform. On CalPERS’ scale, independent oversight is not optional. It is the price of public trust.

XV. CalPERS Chronic Investment Underperformance

In other sections of this report, we examine governance, benchmark construction, consultant influence, and compensation frameworks. Those issues largely matter to the extent that they ultimately affect the economic outcome delivered to beneficiaries. Performance is therefore the most direct diagnostic tool available. Whatever narrative surrounds strategy, whatever complexity surrounds asset allocation, and whatever explanations accompany market cycles, the cumulative net return delivered to participants is a final measure of fiduciary success.

At an institution the size of the CalPERS, performance differences that might appear modest in percentage terms become enormous in economic terms. When a portfolio exceeds half a trillion dollars in assets, a tenth of one percent translates into hundreds of millions of dollars. A single percentage point becomes billions. Over

multi-year horizons, those differences compound into outcomes that determine contribution requirements, funded status, and ultimately the retirement security of millions of public employees and taxpayers.

This section therefore examines CalPERS performance from the only perspective that ultimately matters, i.e., whether the total fund has delivered durable net value relative to transparent, investable alternatives available to beneficiaries. The analysis begins with overall fund performance and then examines the principal asset classes that shape that result—private equity, private credit, and real estate. Each of these investment programs has been justified to trustees and the public as a source of superior long-term returns in exchange for complexity, illiquidity, and higher cost. The evidence presented in the following sections evaluates whether those claims withstand empirical scrutiny.

The conclusion that emerges from this analysis is not the result of ideology or isolated criticism. It is the result of arithmetic. When performance across asset classes is aggregated and evaluated against realistic opportunity-cost benchmarks, the pattern that appears is one of persistent structural underperformance accompanied by rising complexity and cost. Performance, in other words, becomes the lens through which the governance questions raised throughout this report come into focus.

The performance record of CalPERS is not a temporary disappointment attributable to market cycles, exogenous shocks, or isolated tactical decisions. It is the cumulative, measurable result of structural governance choices that have compounded over decades.

Across three, five, ten, and twenty-year horizons, CalPERS has lagged conservative, transparent, and low-cost investable alternatives by margins that, when applied to average asset levels, represent tens of billions of dollars in foregone wealth. The persistence of this lag across multiple CIO tenures, market regimes, consultant engagements, and asset allocation frameworks demonstrates that the problem is systemic rather than episodic. Performance is the diagnostic instrument in this report—governance failure is the underlying condition.

Over the past decade through June 2024, CalPERS' total fund assets have averaged approximately \$440 billion, fluctuating between \$420 billion and \$460 billion depending on market conditions and cash flows.

Independent analysis comparing CalPERS' total fund returns to a transparent 70 percent global equity and 30 percent core bond index portfolio demonstrates a persistent annual lag in the range of 100 to 150 basis points over extended periods. The 70/30 benchmark is intentionally conservative. It involves no leverage, no illiquid side letters, no bespoke credit vehicles, no appraisal-based valuation conventions,

and no consultant-constructed composite indices. It is a fully investable, fully transparent alternative available at negligible cost.¹⁰⁶

The economic implications are stark. A 75-basis point lag on \$440 billion equals approximately \$3.3 billion per year. A 125-basis point lag equals \$5.5 billion per year. Over a ten-year horizon, even without compounding, cumulative opportunity cost reaches \$33 to \$55 billion. Over fifteen to twenty years, with compounding, the loss plausibly exceeds \$80 to \$100 billion. These are conservative estimates. They do not incorporate liquidity drag from private markets, borrowing costs during capital-call stress, elevated management expenses, or secondary-sale discounts. Importantly, this lag persists across market cycles. It is not confined to downturns. It spans bull markets, recoveries, crises, and rate cycles. When underperformance survives multiple regimes, it reflects structure, not timing.

To determine whether this lag reflects broad pension underperformance or CalPERS-specific dynamics, peer comparisons are essential. Data from the Public Plans Database and related research institutions show that among sixteen California public pension systems, CalPERS ranks near the bottom over three, five, and ten-year horizons. These peer funds operate under the same constitutional fiduciary framework, face the same state economic conditions, and serve similar beneficiary populations. Performance divergence within a common environment indicates institutional differences. Nationally, against the fifty largest public pension systems, CalPERS ranks in the bottom quintile over three years and near the bottom decile over ten years. The performance differential relative to peers frequently exceeds 100 basis points annually. Across the full universe of more than 200 plans, CalPERS remains in the bottom tier. Scale did not confer advantage at CalPERS—it amplified cost and complexity.

CalPERS vs. 16 California Public Plans¹⁰⁷

- 3-year: 14th of 16
- 5-year: 15th of 16
- 10-year: 14th of 16

CalPERS vs. Top 50 National Public Plans¹⁰⁸

- 3-year: 43th of 50

¹⁰⁶ <https://www.calpers.ca.gov/documents/perf-monthly-update/download?inline>

¹⁰⁷ <https://crr.bc.edu/project-page/public-plans-database/>

¹⁰⁸ <https://crr.bc.edu/project-page/public-plans-database/>

- 5-year: 46th of 50
- 10-year: 48th of 50

CalPERS vs. Entire Public Pension Universe (~230 Plans) ¹⁰⁹

- 3-year: bottom 20 percent
- 5-year: bottom 15 percent
- 10-year: bottom 15 percent

In short, the nation’s largest pension ranks near the bottom of the performance distribution. This cannot be explained by cycles, timing, or transition.

A detailed asset-class review demonstrates that CalPERS’ performance reflects beta capture accompanied by value erosion rather than consistent alpha generation. Public equities account for a substantial share of total fund returns. Despite significant staffing and active overlays, net excess return after fees over full cycles is statistically negligible. Active management costs erode gross alpha, converging net results toward index performance. Fixed income portfolios provide duration exposure and credit spreads but have not delivered persistent net alpha after costs. Tactical positioning has not materially altered long-term contribution. Real assets and real estate rely heavily on appraisal-based valuation methodologies. These valuations adjust quarterly and frequently lag market pricing. Reported volatility is suppressed relative to publicly traded real estate securities. Apparent stability masks delayed recognition of economic loss. Private equity, often characterized as the return engine of the fund, exhibits limited statistically significant net alpha when evaluated using Public Market Equivalent (PME) methodology. Internal rates of return (IRR) appear strong, but IRR is sensitive to leverage, timing, and distribution sequence. When PME analysis is applied—comparing identical cash flows to a public market index—the net performance advantage largely disappears. Asset classes, market exposure drives performance. Complexity consumes incremental value.

Benchmark design determines narrative at CalPERS. The pension relies on internally constructed policy benchmarks that incorporate lagged private-market indices, blended composites, inflation-plus targets, and assumed illiquidity premia. These benchmarks are not investable portfolios. They are internal reference constructions. Pension investment consulting expert Richard Ennis has characterized this practice as “chasing slow rabbits.” When benchmarks incorporate lagged or smoothed components, they move more slowly than public markets.¹¹⁰ Outperformance

¹⁰⁹ <https://crr.bc.edu/project-page/public-plans-database/>

¹¹⁰ The Long-Run Performance of Public Pension Funds in the US, Richard Ennis May 2024
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4848889

relative to such benchmarks may coincide with underperformance relative to investable alternatives.

The Total Portfolio Approach adopted by CalPERS last year intensifies this dynamic. By consolidating asset-class benchmarks into a single reference portfolio—approximately 75 percent equities and 25 percent bonds—with a permitted active risk band of up to 400 basis points, CalPERS centralizes benchmark discretion. Asset-class attribution becomes less transparent. Active deviations can be justified within wide tracking-error tolerances. The shift to a single benchmark does not enhance transparency. It concentrates interpretive authority.

CalPERS begins each fiscal year with a structural deficit relative to low-cost alternatives. In years when excess return approximates 50 to 75 basis points, fee drag alone absorbs most of the incremental value. Private equity and private credit drive the majority of this cost burden through layered management fees, carried interest, transaction fees, monitoring fees, fund expenses, consultant retainers, and internal staffing overhead. Scale has not produced cost compression. It has multiplied cost exposure.

Large segments of the portfolio are valued using manager-provided marks rather than continuous market pricing. Private equity, real estate, and private credit valuations are updated quarterly and rely on discounted cash flow models, comparable transactions, and internal estimates. Empirical research demonstrates that private valuations lag public market repricing by two to four quarters. During downturns, public equities decline immediately while private valuations remain elevated. Divergence produces temporarily favorable relative performance metrics. Sharpe ratios appear stronger. Correlations appear lower. Drawdowns appear muted. Yet when liquidity events occur—refinancings, covenant breaches, secondary sales—actual realizable values often fall below reported NAV. Valuation lag does not eliminate risk—it merely defers it.

CalPERS' private equity and private credit programs have been negatively affected by a lack of positive cash-flows in recent years. Capital calls exceed distributions. During public market downturns, CalPERS must meet capital commitments precisely when liquid assets are depressed. This creates forced-seller risk. Liquid holdings may be sold at unfavorable prices to fund illiquid commitments. Alternatively, short-term borrowing facilities may be utilized, increasing financing cost. Benchmark reporting does not capture these liquidity burdens. They are externalized from performance narratives.

Using a conservative underperformance assumption of 100 basis points annually applied to a 10-year average asset base of \$440 billion through June 2024, yields \$4.4 billion per year in opportunity cost—over ten years, \$44 billion and over twenty years, \$88 billion without compounding. Applying compounding over a 20-year period at a 1 percent annual differential increases cumulative loss to well over \$100 billion. Even if underperformance averaged only 75 basis points annually, the 20-year compounded loss exceeds \$70 billion. These figures dwarf isolated governance scandals. They represent structural economic leakage.

CalPERS' total fund performance over the past two decades cannot be evaluated honestly without confronting the structural break that occurred following the Global Financial Crisis. The most comprehensive empirical work on this issue remains pension consulting expert Richard Ennis's longitudinal analysis of U.S. public pension performance from 2001 through 2021.¹¹¹

His findings do not rely on consultant-defined policy benchmarks or internally constructed composites. Instead, he employs returns-based style analysis to determine the actual equity and bond exposures embedded in public pension portfolios and then constructs investable market benchmarks reflecting those exposures. The methodology is straightforward: determine what investments the fund is economically exposed to and compare its performance against a replicable public market alternative.

The results are not ambiguous. Prior to 2009, public pension funds collectively generated positive alpha relative to market benchmarks—approximately 1.2 percent per year. After 2009, that relationship reversed, with funds underperforming by roughly 1.2 percent annually. The reversal was abrupt and persistent. Ennis describes it as an “abrupt, sustained reversal of fortune.” Over the full 21-year sample, public pensions underperformed their market benchmarks by approximately five percentage points cumulatively.¹¹²

That finding is directly relevant to CalPERS. Because when CalPERS reports “Total Fund” results relative to its policy benchmark, it is not answering the question Ennis asks. It is answering a different question: did we outperform our internally

¹¹¹ The Long-Run Performance of Public Pension Funds in the US, Richard Ennis, May 2024
https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4848889

constructed target mix? The Ennis framework asks a more fundamental question: did the fund outperform a transparent, investable portfolio reflecting its actual risk exposures? Ennis's regression results are particularly striking in their explanatory power. His benchmark model explains more than 99 percent of the variation in public pension returns across both pre- and post-crisis sub-periods. In other words, the overwhelming majority of performance variation can be replicated using simple public stock and bond indices. That level of explanatory power leaves little room for persistent structural alpha.

CalPERS' own long-term performance history closely parallels the pattern Ennis documents nationally. Before the crisis, large public funds, including CalPERS, benefited from favorable market conditions and asset allocation tailwinds. After the crisis, performance relative to simple market exposures weakened. This was not a one-year anomaly. It was a structural shift. The post-2009 period includes the longest equity bull market in modern history, historically low interest rates, and unprecedented monetary accommodation. In that environment, a simple global equity index compounded at substantial rates. The fact that broad public pension funds struggled to outperform replicable public exposures during one of the most favorable market environments in history is revealing.

Ennis further examined the relationship between allocation complexity and alpha. Prior to 2009, increased allocation to nontraditional strategies was associated with modest positive alpha. After 2009, each additional percentage point allocated to such strategies was associated with approximately nine basis points of reduced alpha annually, with strong statistical significance. His conclusion is restrained but pointed: for the most recent sub-period—and the longer of the two—complex allocations had a “decidedly adverse effect.”

That conclusion reframes the interpretation of overall fund results. When CalPERS reports Total Fund returns relative to its own benchmark, it may show incremental outperformance in certain years. But if the benchmark itself embeds assumptions about complexity, smoothing, or target mixes that differ materially from a replicable public portfolio, then outperformance against the policy benchmark does not equate to outperformance against opportunity cost. The opportunity-cost standard is not optional. It is the core of fiduciary duty. Beneficiaries do not experience returns relative to consultant-defined composites. They experience returns relative to what their capital could have earned in readily available alternatives.

Ennis also addresses cost directly. He conservatively estimates that managing a typical public pension portfolio with roughly one-third allocated to complex strategies costs approximately 1.3 percent of assets annually.

That cost figure functions as a permanent performance hurdle. For a fund the size of CalPERS, that magnitude translates into billions of dollars per year in implicit

performance drag before net alpha is realized. Ennis characterizes this as an “insurmountable hurdle” in a competitive, efficient capital market environment. Overall Fund performance must therefore be assessed net of that hurdle. If a fund generates market-like exposures but incurs above-market costs, underperformance becomes structurally predictable. The post-crisis period suggests exactly that.

An additional dimension of Ennis’s analysis concerns valuation timing. In discussing recent years, he notes that public pension returns were “sharply attenuated” during market declines due to lagged recognition of losses in certain asset categories and that it could take multiple years for those effects to wash through. The implication is broader than asset class mechanics. When valuation lag suppresses volatility during downturns, short-term relative rankings can improve artificially. Apparent stability may reflect accounting convention rather than economic resilience. In evaluating Overall Fund performance, short-term comparisons must therefore be treated cautiously. A single year of relative outperformance during a period of market repricing does not invalidate a decade of structural underperformance. Regression-based long-horizon analysis carries more evidentiary weight than annual board presentations.

The most sobering element of Ennis’s paper appears in his forward-looking assessment. After documenting the post-2009 reversal and the negative relationship between complexity and alpha, he concludes that “given the twin challenges of market competitiveness and high cost, it is difficult to envision pension funds... once again churning out sustained, attractive, risk-adjusted returns.”

This is not a prediction of collapse. It is a sober assessment that structural alpha in public pensions has become elusive in deep, competitive capital markets. For CalPERS, the implication is direct. The question is not whether a given asset class outperformed in a given year. The question is whether the Total Fund, viewed over full cycles and measured against replicable market exposures, has delivered durable net value after cost and complexity. The regression evidence suggests caution. The cost structure suggests caution. The historical break after 2009 suggests caution.

This is where governance intersects with performance. If overall fund performance relative to opportunity cost has weakened over a sustained period, then compensation structures, benchmark construction, and consultant validation must be examined independently. A system cannot rely solely on internally constructed benchmarks when external empirical research demonstrates a broad structural shift across the public pension universe.

- **Independent IG Could Improve Performance Measurement**

An independent Inspector General would not change capital market outcomes. But it would change the standard of measurement. It would require regular reporting of

Total Fund performance relative to transparent, investable public benchmarks constructed using returns-based exposure analysis similar to Ennis's methodology. It would examine whether reported outperformance against policy benchmarks reflects genuine economic value or benchmark design. It would evaluate cost aggregation transparently and assess whether the Total Fund hurdle imposed by expenses is being overcome consistently.

Overall Fund performance is the core fiduciary metric. Asset-class narratives, peer comparisons, and policy benchmark differentials are secondary. If the Total Fund does not deliver net value relative to transparent alternatives over full cycles, then structural reform becomes necessary. Ennis has provided the empirical framework. CalPERS must decide whether it will evaluate itself under that standard or continue to rely primarily on internally engineered benchmarks. Fiduciary prudence demands the former. And independent oversight may be required to ensure it happens.

Persistent lag of this magnitude would normally trigger structural review. That review has not occurred at CalPERS because governance architecture diffuses accountability. Internal audit reports through management channels. Consultants validate existing frameworks. Benchmark design resides with staff. Compensation aligns with internal performance metrics. Board turnover limits institutional memory. In such an environment, underperformance becomes normalized rather than corrected.

Article XVI, Section 17 of the California Constitution imposes duties of loyalty and prudence similar to ERISA standards. Trustees must act solely in the interest of participants and beneficiaries and must minimize costs consistent with prudent management. Persistent underperformance relative to realistic investable alternatives, combined with high-cost structures and opaque benchmarks, raises serious questions under these standards. Industry practice does not excuse fiduciary breach. Consultant approval does not substitute for prudent analysis.

When internal governance structures fail to detect or correct structural underperformance measured in tens of billions of dollars, independent oversight becomes necessary. An Inspector General with statutory independence would evaluate benchmark construction methodology; valuation practices and lag impact; fee transparency and cumulative drag; liquidity risk management; and compensation alignment with fiduciary outcomes. No existing body within CalPERS possesses both the independence and authority to perform such a review without conflict.

CalPERS' performance record is not a mystery. It is a measurement. It reflects decades of increasing complexity, benchmark insulation, cost expansion, and governance capture. Underperformance of 100 to 150 basis points annually at a \$440 billion scale is not a rounding error. It is structural economic harm. Absent structural reform, the arithmetic will persist.

- **Private Equity Performance, Risk, and Fiduciary Exposure**

The CalPERS private equity program represents not merely an asset allocation choice but a structural bet on opacity, complexity, and fee layering at a scale unmatched by most public institutions. With approximately \$92 billion in reported private equity net asset value as of late 2024, representing roughly seventeen to eighteen percent of total fund assets, CalPERS is not a passive participant in private markets. It is one of the largest allocators in the world. That scale magnifies every basis point of miscalculation. At this size, errors are not theoretical. They are measured in billions.

For decades, private equity was justified to trustees and beneficiaries as the “return engine” of the portfolio—a source of durable excess return over public markets in exchange for illiquidity and complexity. That narrative once had empirical plausibility. Before the Global Financial Crisis, capital was scarcer, information asymmetries were wider, leverage was inexpensive, and early entrants into private equity could plausibly harvest structural inefficiencies. But the structural break after 2009 changed the equation entirely.

Richard Ennis’s longitudinal research provides the clearest articulation of this turning point. His regression analysis demonstrates that after the Global Financial Crisis, each additional percentage point allocated to alternative assets reduced public pension fund alpha by roughly nine basis points annually. What had once modestly contributed to excess return became a systematic drag. CalPERS, sitting near the upper end of alternative exposure among large funds, now carries that drag on a scale.¹¹³

Applying Ennis’s relationship to the fund’s seventeen percent allocation yields an implied alpha erosion approaching 150 basis points per year. That figure aligns disturbingly well with CalPERS’s observed lag relative to a simple passive 70/30 benchmark over extended horizons. In other words, the private equity allocation is not incidental to underperformance—it is explanatory.¹¹⁴

CalPERS continues to report private equity as its highest-returning asset class, frequently citing long-term internal rates of return in the 11-12 percent range.

¹¹³ <https://www.nakedcapitalism.com/2020/07/new-study-slams-public-pension-funds-alternative-investments-as-drag-on-performance-identifies-calpers-as-one-of-the-worst-negative-alphas-shows-folly-of-calpers-desperate-plan-to-increase-p.html>

¹¹⁴ <https://finance.yahoo.com/news/17-trillion-illusion-why-one-154227184.html>,
<https://richardmennis.com/blog/what-is-the-future-of-alternative-investing>

CALPERS has 446 Private Equity partnerships listed as of June 2025. There are 19 partnerships with negative IRR returns, including the CalPERS Clean Energy & Technology fund with a -18.6 percent IRR which recently caught the attention of Congressional Republicans. There are another 36 low returning partnerships between 0 percent and 5.9 percent. There are 179 partnerships from 2023, 2024, and 2025, that do not even calculate an IRR yet. There are 211 partnerships (about half the total) with solid IRRs but, again, those numbers may be inflated. Not included in these figures are many more Zombie Funds which have disappeared off this list with small or perhaps negative balances.

IRR is not a comparable metric. It is a discount rate highly sensitive to the timing of cash flows, the sequencing of exits, and leverage structure. It can be elevated by early distributions even if long-term wealth creation is modest. Public equities, by contrast, are reported using time-weighted returns. Comparing IRR to public equity returns is a methodological sleight of hand.

CalPERS' private equity reporting is the simultaneous use of two fundamentally incompatible performance metrics—IRR for over 400 partnerships at the fund level and time-weighted returns at the total fund level.

The March 26, 2026, Retiree Roundtable public meeting makes the inconsistency explicit. CalPERS confirms that it reports IRR for individual private equity partnerships, consistent with industry practice and preference, while using time-weighted returns for total fund reporting, asset allocation decisions, and funded status calculations.

At this meeting, Anton Orlich, Head of Private Equity at CalPERS, made a deeply problematic assertion that the leading academic critic of IRR—an Oxford professor (Ludovic Phalippou)—supports the use of “time horizon IRR” as a solution, and that CalPERS is therefore following that framework to create an “apples-to-apples” comparison between private equity and public markets.

However, Phalippou's body of work does not endorse IRR as a valid comparative performance metric. It does the opposite. He has been quoted saying:

“IRR is not a real rate of return and does not reflect investor wealth growth”¹¹⁵

¹¹⁵ https://www.ft.com/content/538099f5-9c73-42b4-982f-68754b54da42?utm_source=chatgpt.com

“IRR produces numbers that are mathematically inconsistent with reality”¹¹⁶

“IRR has become the theatre of private equity performance.”¹¹⁷

Orlich asserted that IRR and time-weighted returns are “close” or “nearly identical.” Phalippou finds headline IRRs cluster around 12-15 percent gross, while real after fees net returns are 7-9 percent. This is consistent with the wide gap between the returns CALPERS staff reports to the board and the actual returns received by the pension.

Public Market Equivalent (PME) analysis corrects this distortion by asking a fiduciary question that cannot be evaded. That is, if CalPERS had invested identical cash flows in a public index, would beneficiaries have been better off? Independent PME analyses of CalPERS private equity have repeatedly clustered around parity. Once fees and leverage are fully incorporated, the net alpha disappears. In several vintages, PME falls below one, implying outright underperformance.

Fees are not incidental to this outcome; they are structural. Management fees of one and a half to two percent annually, twenty percent carried interest in gains, transaction and monitoring fees, fund-level operating expenses, and internal oversight costs combine to consume an estimated six to seven percent of gross private equity returns. On an \$80 to \$90 billion exposure, that translates to approximately five billion dollars per year in economic drag. Scale does not mitigate this headwind, but amplifies it, because participation across dozens of funds and strategies multiplies fee layers and governance complexity.

Leverage has substituted for skill in the post-GFC era. Cheap credit once inflated equity IRRs through financial engineering. Rising interest rates have reversed that advantage. Debt refinancing has become more expensive. Covenant pressures have intensified. Exit multiples have compressed. Payment-in-kind financing has proliferated, deferring interest payments and capitalizing them onto principal balances, thereby inflating reported earnings while compounding long-term risk. These mechanisms sustain IRR optics while degrading economic substance.

Exit blockage compounds the problem. Private equity returns ultimately depend on realizations, not interim NAV marks. IPO markets have stalled. Strategic buyers face higher capital costs. Sponsors hesitate to exit at reduced multiples. Holding periods

¹¹⁶ https://www.businessinsider.com/private-equity-returns-understanding-irr-mark-to-market-401k-investors-2025-9?utm_source=chatgpt.com

¹¹⁷ https://www.evidenceinvestor.com/post/how-irr-manipulation-deceives-private-equity-investors?utm_source=chatgpt.com

extend. Capital remains trapped. IRRs decay as time passes. Distributions decline precisely when liquidity is most valuable.

Valuation lag provides temporary insulation. Private equity assets are appraised quarterly, based on models and manager inputs rather than continuous market pricing. Empirical evidence shows NAV adjustments typically trail public market repricing by two to four quarters, sometimes longer in stressed environments. During downturns, public equities reprice immediately while private equity NAVs remain elevated. The divergence is not resilience. It is deferred recognition.

This lag suppresses reported volatility and inflates risk-adjusted performance metrics. Yet when liquidity is required—through refinancing, covenant breaches, or secondary sales—realizable values frequently fall below reported NAV. Smoothing does not eliminate loss but merely postpones it.

Liquidity risk is particularly underappreciated at CalPERS's scale. The private equity program has been persistently cash-flow negative in recent years. Capital calls exceed distributions. Exit activity lags. During stress periods, CalPERS must meet capital commitments while public assets are depressed. This forces sales of liquid holdings at unfavorable prices or reliance on short-term borrowing facilities. Benchmark reporting does not incorporate these liquidity costs. They are externalized, yet they are real.

Quantifying the economic damage clarifies the stakes. Using Ennis's regression-based alpha estimate of approximately negative 1.2 percent annually and applying it to an average private equity NAV of \$70 to \$90 billion yields annual opportunity losses of roughly \$800 million to \$1 billion. Over a decade, even without compounding, the cumulative loss ranges from \$10 to \$15 billion. With compounding over fifteen to twenty years, foregone value plausibly exceeds \$20 to \$30 billion. These figures are conservative and do not incorporate liquidity drag, borrowing costs, or secondary-sale discounts.

Governance failures allow this dynamic to persist. Board materials emphasize since-inception IRR and long-term headline returns while omitting PME, volatility, and cash-flow metrics necessary for prudent evaluation. Custom policy benchmarks embed quarter-lagged public indices and assumed illiquidity premia, making them easier to outperform than investable alternatives. Compensation frameworks tie incentives to these engineered benchmarks. Performance versus a lagged composite becomes the objective, not performance versus opportunity cost.

Consultant validation reinforces the loop. Peer comparisons normalize mediocrity. If the entire peer universe underperforms passive benchmarks, relative standing remains intact. Underperformance becomes industry standard rather than fiduciary breach.

Under California Constitution Article XVI, Section 17, trustees are bound by duties of loyalty and prudence that parallel ERISA standards. Exclusive benefit, informed oversight, and cost reasonableness are not aspirational ideals. They are constitutional mandates. Reliance on non-investable benchmarks, opaque valuations, and compensation frameworks insulated from opportunity cost raises serious fiduciary questions.

Reform options available to CalPERS exist along a spectrum. Immediate transparency measures would require publication of PME results, time-weighted returns, net cash-flow data, and volatility analysis. Benchmark realignment would tether performance and compensation to investable public equivalents. A freeze on new commitments would allow natural runoff without forced sales. Targeted secondary divestments could convert illusory NAV into realizable capital. Even partial reductions in exposure—five to seven percentage points—could plausibly recover \$10 to \$15 billion over a decade.

The broader debate now unfolding in public commentary reflects these structural concerns. Independent analysts have characterized private equity as a “roach motel” of illiquidity in tightening credit conditions.¹¹⁸ Industry critics have warned that rising rates and payment-in-kind financing resemble late-cycle LBO stress. Policy advocates have documented decades-long evidence that pension funds frequently underperform simple stock-and-bond allocations once fees are considered. Political controversy has emerged around communications touting private equity performance during board election cycles, suggesting narrative management has replaced neutral disclosure.

Taken together, these critiques lead to a single conclusion. The private equity allocation at CalPERS is no longer a neutral portfolio choice. It is a structural exposure with embedded fee drag, valuation opacity, liquidity risk, and governance capture. The narrative of superiority depends on metric selection, smoothing conventions, and benchmark design. When measured against investable alternatives using transparent methodology, the excess return premium largely disappears.

Private equity has evolved from a promised alpha engine into a systemic source of opportunity cost. At CalPERS’s scale, each basis point misallocated translates into tens of millions of dollars. Each percentage point compounds into billions over time. Continued expansion under current governance structures does not represent prudent evolution, rather, escalation of known risk.

¹¹⁸ <https://www.nakedcapitalism.com/2024/06/private-equity-becomes-roach-motel-as-public-pension-funds-and-other-investors-borrow-as-funds-remain-tied-up.html>

Absent meaningful reform—whether through enhanced transparency, benchmark realignment, incentive restructuring, or allocation reduction—the economic and fiduciary consequences will compound year after year. The issue is no longer whether private equity once delivered value. The question is whether it does now, net of cost, risk, and liquidity burden. The empirical record, increasingly difficult to obscure, suggests that it does not.

In January 2026, CalPERS staff presented what was styled as a Board Education Day deck entitled “The CalPERS Private Equity Turnaround.” The presentation did not constitute a neutral reassessment of private equity’s long-term contribution to beneficiary outcomes. It was a carefully constructed narrative designed to retroactively legitimize past allocation decisions and prospectively justify further expansion of private equity exposure using the same valuation conventions, benchmark structures, and performance reporting methodologies that previously coincided with what staff itself has characterized as a “lost decade.” The document is significant not because it demonstrates durable value creation, but because it reveals the structural limitations that prevent the Board from evaluating whether such value has in fact been created.

The most revealing sentence in the entire presentation appears early and passes without emphasis. On page four, staff describes private equity returns as “smoothed (lower realized volatility) ... marked at estimated market values.” That statement is not technical filler—it is an admission. Smoothing through appraisal-based valuation and lagged mark-to-model conventions is the defining structural feature of private equity performance reporting. The presentation acknowledges that smoothing exists and then proceeds, in subsequent slides, to compare these smoothed returns against fully mark-to-market public equity indices and to claim superior risk-adjusted performance. Both propositions cannot be true simultaneously. If volatility is suppressed because valuations adjust slowly, then Sharpe ratios and other risk metrics are mechanically inflated. If volatility is artificially dampened, comparisons to public markets are distorted. Yet the presentation relies on that distortion as evidence of outperformance. It concedes the mechanism and then uses the effect as proof of success.

The most striking example of narrative inversion appears in Slide 15, which argues that private equity exit prices are, on average, approximately twenty-eight percent higher than valuations marked two quarters earlier, and that this differential demonstrates conservatism in valuation. The economic logic is backwards. Exit uplift reflects leverage dynamics, selective realization of winners, control premiums embedded in negotiated sales, and timing advantages during favorable market windows. It does not demonstrate that prior marks were conservative; it demonstrates how leveraged equity behaves at liquidity events. Independent academic research has consistently documented that private equity valuations lag public markets and suppress volatility until losses are forced into recognition. Exit

premiums are not validation of conservative marking—they are features of leveraged financial engineering and selective realization. The slide transforms a structural weakness into a rhetorical virtue.

The benchmark comparisons throughout the presentation similarly avoid the central fiduciary question. Private equity is compared to quarter-lagged FTSE All-World indices, quarter-lagged Russell 2000 indices, the State Street Private Equity Index, and consultant-constructed peer universes. None of these answer the fundamental question: did private equity generate net value after fees, leverage, illiquidity, and risk relative to a simple investable public alternative? Lagged benchmarks are structurally flattering. Uninvestable indices avoid opportunity-cost accountability. Peer comparisons normalize underperformance if the peer group collectively lags passive markets. The deck explicitly notes that an illiquidity-adjusted comparison would be “uninvestable.” That admission is revealing. The appropriate comparison—one grounded in what beneficiaries could actually hold—would not favor the narrative. Rather than confront that implication, the presentation sidesteps it. The reinterpretation of the so-called “lost decade” between 2009 and 2018 further illustrates narrative construction. Staff attributes foregone gains of more than \$11 billion dollars to insufficient private equity exposure during that period.

This argument presupposes that private equity was reliably generating net alpha during those years. Ennis’s longitudinal analysis demonstrates just the opposite: after the Global Financial Crisis, incremental allocation to alternatives was associated with declining pension alpha, with each additional percentage point allocated to alternatives reducing excess return by approximately nine basis points annually. CalPERS’ allocation trajectory and performance history align closely with this pattern. The “lost decade” was not evidence of too little private equity. It was early evidence of diminishing marginal value from alternatives as scale increased and fee drag compounded.

Conspicuously absent from the staff presentation is Public Market Equivalent analysis. PME is not a marketing metric—it is a fiduciary metric. It answers a simple question: would equivalent cash flows invested in a public index have performed as well or better? CalPERS’ private equity program clusters around PME ratios near 1.0 in numerous vintages, indicating little to no persistent net alpha after fees. Some vintages underperform outright. The deck instead relies on Internal Rate of Return, a timing-sensitive metric easily influenced by leverage and capital call sequencing and incapable of facilitating apples-to-apples comparison with time-weighted public returns. While IRR is a persuasive statistic in fundraising decks prepared by investment managers, PME is the statistic that informs fiduciary duty. The absence of PME from a document presented as educational is telling.

The broader industry context further undermines the CALPERS “turnaround” narrative. Leading economist and Co-Director of the Center for Economic and Policy

Research, Eileen Appelbaum's recent analysis documents a collapse in exit activity following 2022, increased reliance on continuation vehicles, expansion of NAV-based lending, and growth in so-called "Zombie funds" unable to return capital to limited partners.¹¹⁹ These developments are not signs of structural health. They are signs of liquidity strain and financial engineering substituting for realized value creation. Pension Stakeholder research continues to document persistent underperformance of private equity net of fees relative to passive public alternatives.¹²⁰ SEC risk alerts have repeatedly identified improper or undisclosed fee allocations within private equity structures.¹²¹ Forbes has reported a surge in liquidity stress across private equity portfolios.¹²² The Financial Times has explicitly cautioned CalPERS against further deepening its exposure to increasingly opaque structures.¹²³ None of this context appears in the Education Day narrative in a way that materially informs fiduciary evaluation.

Perhaps the most damaging data point in the CalPERS record is its own peer ranking. As of December 31, 2022, CalPERS ranked thirtieth out of thirty large public pension funds in three-year private equity performance. The subsequent improvement highlighted in short-window comparisons coincided with a period in which public markets repriced sharply downward while private valuations adjusted slowly. When valuations lag, relative rankings improve mechanically as public assets fall and private marks remain elevated. That phenomenon is valuation lag masquerading as success.

Fees remain the permanent structural headwind. Private equity costs CalPERS approximately five billion dollars annually when management fees, carried interest, fund expenses, consultants, and internal oversight infrastructure are aggregated. Any gross return advantage must first overcome that structural drag before beneficiaries realize net value. The presentation references co-investment savings but does not demonstrate that net returns exceed passive public alternatives after the fee burden. The complexity of fee arrangements and confidentiality provisions CalPERS has entered into with its managers makes public scrutiny and independent verification impossible. SEC examinations repeatedly identify improper or opaque fee allocations

¹¹⁹ Eileen Appelbaum, *Private Equity Struggles as Investors Pull Back* (Jan 2026).

¹²⁰ <https://pestakeholder.org/reports/private-equity-underperforms/>

¹²¹ https://www.sec.gov/investor/alerts/ib_fees_expenses.pdf

¹²² <https://www.forbes.com/sites/hanktucker/2026/01/29/why-private-equity-is-suddenly-awash-with-zombie-firms/>

¹²³ <https://www.ft.com/content/ca30fa31-5d6d-469b-99d1-dbf3733d0da4>

in private equity funds. Complexity does not merely complicate oversight it shields potential violations of law.

Recent reported double-digit returns must be viewed against this backdrop. Exit activity remains constrained. NAV-based lending supports valuations. Older vintages remain unrealized. Public markets often outperform on a time-weighted basis over comparable periods. Short-term outperformance during periods of valuation lag does not establish durable net alpha. It establishes the persistence of smoothing.

Private equity reporting conventions compound these illusions. IRR assumes reinvestment at internal rates that cannot be replicated in public markets. Valuations lag price discovery. Benchmarks are often lagged or uninvestable. Fees are frequently discussed separately from performance rather than integrated into opportunity-cost comparison. Without independent verification—which is impossible due to lack of transparency—internal performance figures become narrative tools rather than fiduciary evidence.

The governance dimension is inseparable from the performance dimension. The Board presentation devotes space to morale surveys, industry awards, and employee engagement metrics. None measure net value added to beneficiaries. When internal cultural indicators replace opportunity-cost analysis in performance discussions, governance has drifted from its fiduciary core. The cumulative record does not demonstrate that private equity at CalPERS has generated durable net value relative to simple public alternatives. It demonstrates that valuation lag, benchmark engineering, IRR framing, and narrative emphasis can create the appearance of turnaround without resolving structural underperformance. Independent academic research, investigative journalism, and industry commentary converge on the same conclusion: once fees, leverage, and opportunity cost are properly accounted for, large public pensions do not reliably earn persistent net alpha from private equity. CalPERS' experience is not exceptional—it is illustrative.

Private equity combines the highest fees, lowest transparency, longest duration, and greatest managerial discretion of any asset class in the portfolio. At CalPERS, the same institution selects managers, constructs benchmarks, reviews valuations, and narrates performance. No organization can credibly audit itself under those conditions. The “turnaround” deck is not proof of success. It is evidence of structural self-validation. That is precisely why this is not merely an investment discussion. It is an Inspector General issue. An independent Inspector General with statutory authority, budgetary independence, subpoena power, and reporting obligations to beneficiaries and policymakers would introduce an external check on benchmark construction, valuation methodology, fee aggregation, and compensation alignment. The current governance structure relies on internal validation and consultant affirmation. When the same ecosystem designs, measures, and rewards performance, independence evaporates. Structural self-evaluation is not oversight.

If CalPERS wishes to demonstrate that private equity expansion serves beneficiaries, independent oversight is not optional. It is the only mechanism capable of breaking the feedback loop between valuation smoothing, benchmark engineering, compensation design, and strategic expansion. Without independent scrutiny, the cycle will continue, and the next “turnaround” presentation will look remarkably like this one.

- **Private Credit Performance, Risk, and Fiduciary Exposure**

CalPERS has pushed its private credit commitments to \$42.6 billion.¹²⁴ At that scale, this amounts to a structural exposure capable of influencing total fund performance, reported volatility, asset allocation modeling, and ultimately funding assumptions. The headline performance number—roughly 12–13 percent reported returns for fiscal 2025—is being treated as validation of the strategy. However, private credit is under stress at this time and the short-term performance numbers are very likely to be negative if marked to market. The reported returns coincided almost perfectly with one of the fastest interest rate increases in modern history.

Private credit portfolios are dominated by floating-rate loans. When short-term rates jumped from near zero to 5 percent and above, coupon income mechanically surged. As rates stabilize or fall, that tailwind disappears while credit risk—refinancing pressure, covenant erosion, rising payment-in-kind activity—remains embedded.

The illusion of stability is reinforced by valuation mechanics. Private credit is not continuously marked in transparent markets. It is valued quarterly, typically using manager-supplied inputs and internal discounted cash-flow models. The result is equity-like returns with bond-like smoothness—until losses are forced into recognition. The Center for Retirement Research has documented how appraisal-based pricing suppresses measured volatility. The CFA Institute has warned that analysts must “unsmooth” illiquid returns to approximate true risk. Even then, unsmoothing rarely captures the full economic exposure.¹²⁵

The recent disruption in the private credit market—widely referred to as the “Blue Owl episode”—is not an isolated event but rather a structural stress test of an approximately \$1.8 trillion asset class.¹ The episode has exposed a fundamental mismatch between model-based valuation practices and market-clearing price discovery, particularly under conditions of investor-driven liquidity demand. The immediate implications are stark: the era of “liquid” private credit for retail investors

¹²⁴ <https://www.calpers.ca.gov/investments/about-investment-office/investment-organization/private-debt-performance/printfunds>

¹²⁵ <https://rpc.cfainstitute.org/blogs/enterprising-investor/2024/is-illiquidity-a-blessing-in-disguise-for-some-investors>

appears to be over. With major funds slamming the gates on redemptions and the SEC launching investigations into valuation practices, the market is repricing risk at a pace not seen since the 2023 regional banking crisis. What began as a localized liquidity mismatch at Blue Owl has blossomed into a broader crisis of confidence, threatening the capital-intensive business models of some of the world’s largest alternative asset managers.¹²⁶

Private credit expanded rapidly in the post-2008 period under the premise that illiquidity, leverage, and reduced regulatory oversight could be transformed into enhanced yield without a commensurate increase in risk. That premise is now being challenged. Across multiple large platforms, redemption requests, gating mechanisms, and widening discounts to net asset value (“NAV”) have revealed that reported valuations may not reflect realizable exit prices under stressed conditions.

The implications are not limited to a single manager. Rather, they reflect structural characteristics of the asset class, including reliance on internal valuation models, limited secondary market liquidity, and delayed loss recognition.

Private credit is frequently mischaracterized as a form of enhanced fixed income. However, in structure and risk profile, private credit more closely resembles private equity. It is typically implemented through limited partnership structures, relies on discretionary valuation inputs, embeds multiple layers of fees, and lacks continuous market pricing.

As a result, reported performance tends to exhibit artificially low volatility due to appraisal-based pricing. This “smoothing” effect can distort risk assessments and lead to systematic over-allocation when incorporated into asset allocation models.

The distinction between model-based valuation and market-based pricing becomes critical under conditions of liquidity stress. As noted in contemporaneous reporting, “marks depend on models; markets depend on buyers.” When buyers demand liquidity, the divergence between those two systems becomes observable.

CalPERS’ private credit program has grown to approximately \$42.6 billion in commitments.¹²⁷ Within that allocation, capital is concentrated among a relatively small group of large alternative asset managers.

¹²⁶ <https://markets.financialcontent.com/stocks/article/marketminute-2026-3-6-the-blue-owl-crack-up-why-private-credits-golden-era-just-hit-a-wall>

¹²⁷ <https://www.calpers.ca.gov/investments/about-investment-office/investment-organization/private-debt-performance/printfunds>

Based on CalPERS disclosures, major commitments are:

- Blackstone credit strategies: approximately \$7 billion
- Ares Management credit funds: approximately \$9.8 billion
- Oak Hill Advisors (OHA): approximately \$6.6 billion¹²⁸
- Antares Capital: approximately \$3.6 billion (with Ares)
- Blue Owl (Owl Rock): approximately \$2.1 billion
- PIMCO (asset-based finance): approximately \$1.5 billion
- Oaktree Capital: \$1 billion in commitments¹²⁹
- Apollo (historic commitments)

This concentration raises a critical fiduciary issue. The question is not whether the portfolio appears diversified across managers, but whether the underlying exposures—often overlapping in strategy, borrower base, and valuation methodology—are independently verified and monitored at the position level.

Recent market developments provide direct evidence of stress within the private credit ecosystem. Multiple large platforms—including Ares, Apollo, Blackstone, and Blue Owl—have experienced elevated redemption requests and have implemented measures to limit investor withdrawals. Ares, Apollo, Blackstone, Blue Owl are trading at discounts to NAV (up to 25%).¹³⁰ Apollo Global Management Inc. and Ares Management Corp. recently became the latest firms to limit redemptions.¹³¹ Ares Management is leading a \$1.7 Billion Private-Credit Continuation Vehicle with Antares.¹³²

These developments are significant because they represent observable market signals contradicting reported valuations. When funds must restrict redemptions or transact at discounts to NAV, the reliability of model-based pricing becomes subject to question.

¹²⁸ <https://www.calpers.ca.gov/investments/about-investment-office/investment-organization/private-debt-performance/printfunds>

¹²⁹ <https://www.calpers.ca.gov/investments/about-investment-office/investment-organization/private-debt-performance/printfunds>

¹³⁰ https://www.reuters.com/business/most-bdcs-trade-below-asset-values-private-credit-concerns-mount-2026-03-26/?utm_source=chatgpt.com

¹³¹ https://www.wealthmanagement.com/alternative-investments/private-credit-funds-trap-5-billion-as-investors-rush-for-exit?utm_source=chatgpt.com

¹³² https://www.wsj.com/articles/ares-management-leads-1-7-billion-private-credit-continuation-vehicle-with-antares-a260d648?utm_source=chatgpt.com

Governance and valuation concerns revolve around whether transactions involving distressed or illiquid assets were independently valued and whether purchases were conducted at arm's length or through existing manager relationships.

At this time, it appears the riskiest private credit loans are for software companies, and the risk is far larger than thought and reported. According to The Wall Street Journal, the 4 largest funds (Blue Owl, Apollo, Ares, and Blackstone) claimed 19 percent software exposure but that the actual number was 25 percent.¹³³ Bloomberg Law quotes CEO Marcie Frost minimizing CALPERS AI/software-driven stress in private credit, stating the pension has a small allocation to private debt and that the team is “not too concerned” about software exposure.¹³⁴

CalPERS' private credit program has reached a scale at which valuation practices, liquidity assumptions, and governance controls have a material impact on total fund performance and reported risk.

The events of March 2026 do not represent an isolated disruption but rather a structural warning. Private credit may exhibit stability in periods of benign market conditions; however, under stress, it behaves as credit—subject to default risk, liquidity constraints, and price discovery.

Accordingly, the fiduciary evaluation of private credit must focus not on reported returns, but on the integrity of valuation processes, the transparency of fee structures, and the robustness of liquidity management under adverse conditions.

- **Real Estate Performance, Risk, and Fiduciary Exposure**

CalPERS' real estate program has long been presented to trustees, beneficiaries, and the public as a stabilizing pillar of the portfolio—an allocation that provides inflation protection, income generation, and diversification during volatile market cycles. The rhetoric has been remarkably consistent over time. What has been far less consistent is the economic reality. When examined over multiple cycles rather than through isolated reporting periods, the history of CalPERS real estate investing reveals something very different: a pattern of valuation lag, liquidity risk, leverage exposure, and episodic losses that repeatedly surface only after economic deterioration is already well underway. The persistence of these outcomes is not merely the result of

¹³³ <https://www.msn.com/en-us/money/companies/private-credit-s-exposure-to-ailing-software-industry-is-bigger-than-advertised/ar-AA1ZGB5p>

¹³⁴ <https://news.bloomberglaw.com/employee-benefits/calpers-unfazed-by-software-stress-in-private-credit-ceo-says>

difficult market cycles but reflects structural governance weaknesses that allow risk to accumulate, losses to be reframed, and lessons to be forgotten.

The scale of the program makes these issues impossible to dismiss as marginal investment noise. With roughly \$50 billion in reported real estate exposure, CalPERS operates one of the largest institutional real estate portfolios in the United States. At this size, real estate is not simply a diversifier at the edge of the portfolio; it is large enough to influence total fund performance, funded status, and the narrative surrounding the system's investment success. When the asset base is measured in tens of billions of dollars, small distortions in valuation or benchmarking translate into billions of dollars of perceived stability—or instability. Appraisal lag becomes a policy-level reporting issue rather than an accounting footnote. Liquidity mismatches affect rebalancing and cash-flow management. Benchmark construction influences not just performance reporting but the narrative framework through which trustees and beneficiaries evaluate whether the strategy is working.

The post-2022 interest-rate environment provides a revealing example of how these dynamics operate. When the Federal Reserve began raising rates aggressively, duration-sensitive assets—including core real estate—faced mechanical repricing pressure as discount rates increased and capitalization rates adjusted upward. In public markets this repricing was immediate. Listed real estate investment trusts fell quickly as investors reassessed valuations and financing conditions. Transaction markets also adjusted rapidly as buyers demanded higher yields. Private real estate valuations, however, move more slowly because they depend on periodic appraisals rather than continuous market pricing. This structural lag means that short-term performance comparisons often create the illusion that private real estate is holding up better than publicly traded alternatives when in reality the economic adjustment has simply not yet appeared in the reported numbers.¹³⁵

That lag became visible in fiscal 2023 when commercial real estate began dragging down CalPERS' overall results. Industry reporting noted that the system's real assets portfolio—dominated by commercial property—posted a negative return of roughly 3.1 percent, offsetting gains elsewhere in the portfolio. The losses were not catastrophic when viewed in isolation, but they demonstrated that the real estate program continued to behave as a drag on total fund performance even after years of restructuring following the Global Financial Crisis. The more important observation is that these losses appeared gradually, reflecting the delayed recognition inherent in appraisal-based valuation systems. Economic deterioration

¹³⁵ <https://www.costar.com/article/2114079003/commercial-real-estate-drags-on-calpers-annual-returns>

occurred first in public markets and transaction activity; reported performance followed later.

Yet even as those losses were emerging, the strategic narrative surrounding the program remained optimistic. In 2024, industry coverage reported that CalPERS intended to “move up the risk curve” in real estate, signaling a willingness to increase exposure to strategies that carried higher expected returns but also higher complexity and opacity. The language itself deserves attention. Moving up the risk curve after a period of underperformance is not simply a tactical allocation shift. In institutional portfolios it often reflects a deeper governance dynamic: when conservative strategies fail to deliver target returns, institutions reach for additional yield by accepting greater leverage, development exposure, or illiquidity. In the context of a public pension system that had already experienced repeated real estate setbacks, the decision to increase risk rather than tighten oversight suggested that the program’s core lessons had not been internalized.¹³⁶

By 2025, the narrative had evolved again. Reporting on CalPERS’ most recent commitments described a renewed push into real estate investments framed around the goal of “generating consistent yields.” Approximately \$1.4 billion in new allocations were announced with staff emphasizing that the core portfolio had outperformed its benchmark and that valuations appeared to be stabilizing even amid widespread market write-downs. The phrase “consistent yield” is rhetorically powerful, but it also illustrates how appraisal-based benchmarks shape performance narratives. When both the portfolio and the benchmark rely on lagged valuations, relative outperformance can emerge simply because both series move slowly. Stability measured against another slow-moving index does not necessarily indicate economic resilience. It can reflect little more than the chronology of how valuations are recorded.¹³⁷

This pattern of reframing outcomes through benchmark comparisons has deep historical roots in the CalPERS real estate program. During the Global Financial Crisis, the portfolio experienced one of the most dramatic collapses in its history. For the year ended September 2009, the real estate benchmark declined approximately 22 percent, while the CalPERS real estate portfolio itself fell nearly 49 percent—more than double the market decline. Investigative reporting at the time tied the magnitude of the losses to heavy leverage, speculative development strategies, and

¹³⁶ <https://www.perenews.com/calpers-looks-to-move-up-the-risk-curve-in-real-estate/>

¹³⁷ <https://www.marketgroup.org/news/calpers-latest-re-commitments-focus-on-generating-consistent-yields>

inadequate oversight. Real estate had been positioned as a stabilizing allocation but instead became a source of systemic damage to the portfolio.

The aftermath did not produce the kind of structural reforms that might have prevented a recurrence. In the years following the GFC, the program was described as undergoing restructuring and rebuilding, yet many of the underlying governance dynamics remained intact. External managers continued to play a dominant role, valuation practices remained dependent on appraisals, and performance narratives were still framed relative to private-market benchmarks rather than transparent opportunity-cost comparisons.

By 2015, the lingering consequences of earlier strategies surfaced again when CalPERS sold approximately \$3 billion in real estate assets to a Blackstone affiliate. The transaction was presented publicly as portfolio management and strategic repositioning, but the broader context suggested something more fundamental. Selling large portions of the portfolio to one of the world's largest private equity managers effectively outsourced risk management rather than confronting the governance weaknesses that had contributed to the losses. Liquidation can acknowledge a mistake, but it does not by itself correct the structural conditions that produced it.

A closer look at several high-profile investments underscores how governance weaknesses have repeatedly manifested in practice. The Stuyvesant Town and Peter Cooper Village investment in Manhattan resulted in losses estimated at roughly half a billion dollars after aggressive assumptions about rent conversions and leverage proved unsustainable. The Page Mill Properties investment ended in bankruptcy and roughly \$100 million in write-offs, accompanied by controversy over tenant displacement and prolonged resistance by CalPERS to releasing documents about the deal. The LandSource development venture in California exposed the pension fund to the risks of speculative land development and ultimately collapsed in bankruptcy during the housing downturn. Each case combined economic losses with governance concerns—optimistic underwriting, leverage exposure, delayed recognition of deterioration, and transparency only after problems became unavoidable.

Viewed individually, these episodes might be described as unfortunate investments caught in unfavorable market cycles. Viewed together over a span of more than fifteen years, they reveal a recurring pattern. Losses occur. The program restructures. Benchmarks evolve. The narrative shifts. Risk gradually re-accumulates. Transparency does not materially increase. Different leadership teams and market environments come and go, yet the structural dynamics remain remarkably similar.

The underlying mechanism that allows this repetition is valuation lag. Because private real estate assets are appraised periodically rather than priced continuously, the portfolio's reported volatility is lower than the volatility of the economic value of

the underlying properties. During downturns this smoothing effect creates the appearance of resilience because losses appear slowly. During recoveries it produces the opposite effect because valuations catch up to prior declines even as public markets are already improving. This lead-lag relationship distorts risk metrics, correlations, and performance comparisons. When compensation systems, allocation decisions, and governance discussions rely on those smoothed metrics, institutions may underestimate risk precisely when exposure is increasing.

- **Performance Conclusion**

When the investment performance of CalPERS is evaluated across the Total Fund and its major asset classes, a pattern emerges that is difficult to reconcile with the narrative that typically accompanies board presentations and public communications. The individual components of the portfolio differ in structure—private equity relies on leveraged buyouts and exit valuations, private credit on floating-rate lending structures and model-based marks, and real estate on appraisal-based pricing and illiquid property markets. Yet the performance dynamics across these programs exhibit strikingly similar characteristics.

Each relies on valuation mechanisms that lag public markets. Each employs benchmark frameworks that are not directly investable. Each embeds fee structures far higher than those associated with passive public exposures. And each has been justified to trustees and beneficiaries as a source of persistent excess return over simpler alternatives.

When examined individually, these characteristics may appear defensible as features of specialized investment strategies. When viewed collectively across the entire portfolio, however, they form a structural pattern. Complexity has increased. Fees have skyrocketed. Transparency has plummeted. Yet the empirical evidence shows little durable improvement in net performance relative to straightforward public-market alternatives.

The Total Fund results provide the clearest signal. Over extended horizons, CalPERS has lagged simple investable portfolios composed of global equities and core bonds by margins that translate into tens of billions of dollars in opportunity cost. This lag persists across market cycles, leadership changes, consultant engagements, and evolving asset allocation frameworks. When underperformance survives multiple regimes, it cannot reasonably be attributed to temporary market conditions. It reflects flawed structural design.

The asset-class chapters reinforce that conclusion. Private equity, once promoted as the primary engine of excess return, increasingly exhibits performance that converges toward public markets once fees, leverage, and liquidity costs are fully incorporated. Private credit, now expanding rapidly within the portfolio, displays

many of the same characteristics that have complicated private equity evaluation: valuation smoothing, limited price discovery, and high fee layers embedded within complex partnership structures. Real estate, long presented as a stabilizing diversifier, demonstrates how appraisal-based pricing can defer loss recognition and create the appearance of resilience during periods when economic value is already deteriorating.

These programs are not identical, but their performance dynamics share a common institutional architecture. The same organization selects the managers, constructs the benchmarks, reviews the valuations, and narrates the results. Consultants operate within the same ecosystem and frequently validate the same performance frameworks they helped design. Trustees rotate through board seats with limited tenure while investment staff and consultants retain the informational advantage that accompanies specialized financial expertise. In such an environment, the feedback loop between performance measurement and governance oversight becomes circular.

The consequence is not simply imperfect transparency. It is a structural environment in which persistent underperformance can coexist with internal narratives of success. When benchmarks are internally engineered rather than externally replicable, relative outperformance can be reported even as opportunity cost accumulates. When valuations rely on models and appraisals rather than continuous market pricing, volatility appears lower and risk appears more manageable than economic reality might suggest. When compensation and strategic evaluation rely on those same measures, institutional incentives align with the preservation of the narrative rather than with the correction of the underlying performance problem.

The scale of CalPERS magnifies the implications of this dynamic. A one-percentage-point difference in annual performance at current asset levels represents roughly four to five billion dollars per year. Over a decade the cumulative impact approaches fifty billion dollars even before compounding. Over twenty years the figure can plausibly exceed one hundred billion dollars. These numbers are not theoretical abstractions. They represent the economic difference between a portfolio that captures market returns efficiently and one that absorbs structural costs without delivering commensurate net value.

Persistent performance gaps of this magnitude would normally trigger a rigorous institutional review. Yet the governance architecture surrounding CalPERS diffuses accountability across multiple actors—staff, consultants, and rotating boards—none of whom individually control the full evaluation framework. Internal audit functions report through management channels. Consultants evaluate strategies they helped construct. Benchmark design resides with the same staff responsible for meeting those benchmarks. In practice, the system evaluates itself.

This structural self-evaluation is precisely why performance outcomes must be examined through an independent lens. Markets cannot be controlled, but measurement standards can be. The central recommendation that emerges from this discussion of investment performance is therefore not a specific asset allocation adjustment or tactical portfolio change. It is the creation of a governance mechanism capable of independently evaluating whether the strategies employed by CalPERS are delivering genuine economic value to beneficiaries.

An independent Inspector General would provide that mechanism. Such an office would not replace the authority of the Board or the expertise of investment staff. Its purpose would be to introduce an external analytical function with the independence and authority necessary to examine performance without reliance on internal narratives or consultant validation. The Inspector General would have the mandate to review benchmark construction, valuation methodologies, fee aggregation, liquidity assumptions, and compensation alignment. It would regularly publish analyses comparing Total Fund results to transparent, investable alternatives using methodologies such as returns-based exposure analysis and Public Market Equivalent calculations.

Equally important, the Inspector General would evaluate whether asset-class performance reporting accurately reflects economic risk. For private equity, this would include independent PME analysis, full fee aggregation, leverage and cash-flow transparency. For private credit, it would involve examination of valuation models, arm's-length transaction evidence, and stress testing of liquidity assumptions. For real estate, it would include analysis of appraisal lag, transaction-based valuation comparisons, and the interaction between leverage and portfolio risk. Across all asset classes, the Inspector General would assess whether benchmark structures systematically obscure opportunity cost.

The goal of such oversight would not be to criticize particular investment decisions after the fact. Markets inevitably produce both gains and losses. Rather, the objective would be to ensure that the measurement framework used to evaluate those outcomes reflects economic reality rather than institutional convenience. Independent oversight would restore a fundamental principle of fiduciary governance: the entity responsible for evaluating performance must not be the same entity responsible for producing it.

CalPERS has long been regarded as one of the most influential institutional investors in the world. Its governance standards therefore carry significance far beyond California. When the largest public pension system demonstrates transparent performance measurement and rigorous oversight, it strengthens fiduciary practice across the entire pension landscape. When performance evaluation becomes insulated from independent scrutiny, the opposite occurs.

The evidence presented in this discussion of investment performance reveals that CalPERS' current governance framework is not adequately aligned with the economic scale of the institution it oversees. Complexity has grown faster than transparency. Cost has grown faster than net value. Performance measurement has become increasingly dependent on internally constructed benchmarks and valuation conventions that obscure opportunity cost.

An independent Inspector General would not guarantee higher returns but would guarantee that performance is measured honestly, transparently, and in a manner consistent with fiduciary duty. For an institution responsible for the retirement security of millions of public employees and hundreds of billions of dollars in assets, that standard should not be controversial. It should be the minimum expectation.

XVI. Investment Performance Benchmarking at CalPERS

Benchmarking of pension investment performance is supposed to serve as the most basic instrument of fiduciary accountability. A benchmark is not merely a technical yardstick used by investment professionals; it is the mechanism through which trustees, beneficiaries, legislators, and the public determine whether retirement assets are being managed prudently. A proper benchmark answers a simple but essential question: could beneficiaries have achieved better results through a transparent, investable alternative at comparable risk and cost?

When that question is asked and answered honestly, benchmarking becomes the foundation of fiduciary oversight. When it is avoided or obscured, benchmarking becomes something else entirely, i.e., a narrative device that can transform mediocre or even poor investment outcomes into the appearance of success.

In large institutional portfolios, particularly those heavily invested in private markets and complex strategies, benchmark construction increasingly determines the story that performance data tells. Custom composites, inflation overlays, assumed illiquidity premia, lagged comparisons to public markets, and internally constructed policy benchmarks all influence how results appear in annual reports, board presentations, and compensation calculations. These frameworks often produce numbers that look precise and authoritative while quietly drifting away from the economic reality that beneficiaries actually experience.

The consequence is that the most important fiduciary question—whether the fund added value relative to realistic alternatives—can disappear entirely from the conversation. Instead of measuring opportunity cost, the system measures success against standards that cannot be invested in, cannot be independently replicated,

and cannot be historically reconstructed when they change. The result is a reporting environment where performance appears stronger, volatility appears lower, and risk appears more manageable than the underlying economics justify.

Benchmarking, in other words, has become one of the most powerful governance tools inside modern public pension systems. It shapes compensation incentives, strategic asset allocation decisions, consultant recommendations, and public narratives about success or failure. If the benchmark system itself is distorted, every decision built on top of it inherits that distortion.

This section examines how benchmarking practices can gradually evolve from neutral measurement tools into structural mechanisms that reshape perception, obscure risk, and insulate institutional decisions from meaningful public scrutiny. The issue is not methodological disagreement among investment professionals, rather whether the measurement system used to judge performance actually reflects the economic reality experienced by beneficiaries whose retirement security depends on the outcome.

- **Fiduciary Implications of Poor Benchmarking**

CalPERS's reliance on non-investable, internally constructed benchmarks for purposes of public reporting, executive compensation, and strategic justification does not represent a minor technical imperfection in performance measurement. It raises serious fiduciary and disclosure concerns under California's constitutional standards, which are not aspirational guidelines, but binding trust-law duties imposed upon trustees managing public retirement assets on behalf of millions of beneficiaries. These standards parallel the prudence and loyalty obligations imposed under ERISA on private retirement plans.

Article XVI, Section 17 of the California Constitution requires CalPERS fiduciaries to act solely in the interest of participants and beneficiaries, to exercise the care, skill, prudence, and diligence of a prudent expert, to minimize costs and ensure expenses are reasonable, to diversify investments so as to control risk, to monitor service providers and enforce contractual rights, and to ensure transparency and accountability in the management of trust assets. These are not flexible standards. California courts have repeatedly recognized that these duties are at least as stringent as ERISA's fiduciary obligations, precisely because the funds involved belong to public servants and retirees whose economic security depends upon faithful stewardship. As we mention in other sections of this report, these issues could jeopardize the tax-exempt status of the plan with the IRS.

A core element of fiduciary prudence is the honest evaluation of investments against realistic, available alternatives. Benchmarks that cannot be implemented in practice—benchmarks such as “public equity plus 150 basis points,” CPI-plus targets,

or weighted internal composites constructed from other non-investable measures—do not represent opportunity cost.

By relying on benchmarks that cannot be purchased, replicated, or audited, CalPERS avoids comparison to low-cost passive alternatives, masks underperformance relative to strategies that were actually available, and prevents trustees, beneficiaries, legislators, and the public from assessing whether complexity and cost are justified. Under long-standing trust-law principles, this is not simply poor practice. It is inconsistent with the duty of prudence.

Public reporting that emphasizes outperformance versus engineered benchmarks presents another, equally serious problem. Even if technically accurate within the rules of those benchmarks, the reporting risks being misleading because the benchmarks themselves are designed to lag markets, suppress volatility, assume illiquidity premia that may not exist, and benchmark staff to internally defined composites. Under California fiduciary law, trustees have an affirmative obligation to provide full and fair information. Reporting policy alpha without disclosing how benchmark design creates that alpha by construction may constitute misleading disclosure by omission, particularly where beneficiaries reasonably assume that “outperformance” reflects real economic value added.

The fiduciary duty of loyalty is implicated as well. Executive and staff compensation at CalPERS is tied directly to outperformance versus these custom benchmarks. Those benchmarks are influenced, designed, and periodically revised by the same organization that benefits from beating them. Benchmark distortion therefore translates directly into inflated bonuses and reputational advantage. This alignment creates a structural conflict of interest in which fiduciaries are rewarded for performance measured by standards they control and that systematically flatter results.

This problem is compounded by CalPERS’s public representation of adherence to professional performance standards, such as Global Investment Performance Standards (GIPS),¹³⁸ while operating under private market contracts that restrict audit rights, obscure fee layers, and prevent independent reconstruction of net-of-fee performance. Benchmark engineering and GIPS misalignment together create a reporting environment in which neither performance nor risk can be independently validated. Continued reliance on reported alpha to justify strategy and pay in such an environment raises serious questions about misrepresentation and failure to monitor service providers.

¹³⁸ CalPERS publicly asserts compliance with the Global Investment Performance Standards (GIPS), the CFA Institute’s framework designed to ensure performance reporting is transparent, comparable, and independently verifiable.

If performance reporting and compensation rely on benchmarks that do not reflect investable reality, the consequences include breach of prudence, breach of loyalty, misleading disclosure, and failure to monitor costs and service providers. Reliance on non-investable benchmarks is not a neutral methodological choice. It is a fiduciary decision with legal consequences.

A persistent and deeply troubling feature of CalPERS governance is the systematic marginalization of substantive fiduciary critique, particularly when that critique challenges benchmark design, liquidity risk, valuation practices, or concentration in mega-buyout sponsors. This pattern is visible not in isolated oversights, but in repeated omissions from official minutes, agenda summaries, and staff follow-up materials where detailed technical concerns are raised yet reduced to generic references to “public comment.”

Review of meeting transcripts reveals that critiques addressing artificial alpha, valuation lag, liquidity mismatch, secondary market risk, and consultant influence are frequently absent from formal records. The substance disappears even though the comments were made. This is not incidental. It is patterned, and it disproportionately affects critiques that would undermine staff-supported strategies or call into question reported performance.

Former board member J.J. Jelincic’s public commentary illustrates the problem clearly. His remarks consistently address the non-investable nature of benchmarks, the liquidity risks created by private market commitments, and the reliance on consultant narratives. Yet these technically grounded, fiduciary-relevant observations rarely appear in official minutes or staff responses. The absence of acknowledgment creates the false appearance that no substantive challenge was raised.

This pattern reflects structural incentives. Staff control agenda framing. Consultants reinforce prevailing narratives. Compensation depends on benchmark success. Political messaging favors stability over transparency. In such an environment, critique is tolerated procedurally but neutralized substantively. Board minutes are governance instruments. They shape the historical record of fiduciary deliberation and determine whether trustees can later demonstrate informed decision-making. Omitting substantive critique weakens the evidentiary record of oversight and shields decisions from retrospective scrutiny. Under California’s public-trust framework, such omission undermines core fiduciary obligations of transparency and accountability.

Governance capture and benchmark engineering reinforce one another. Benchmarks obscure underperformance. Suppressed critique prevents those benchmarks from being challenged. Reported success justifies continuation of the strategy and dissent is marginalized. Governance becomes self-validating rather than self-correcting. The economic consequences are real. Benchmark distortions persist. Liquidity risks compound. Concentration increases. Compensation systems reward

mismeasurement. Each year that critique is excluded from deliberation increases long-term risk to beneficiaries.

The deficiencies described in this report are structural. They cannot be cured by minor disclosure adjustments or incremental reforms. Meaningful change requires resetting performance measurement, transparency, incentives, and oversight to align with California’s constitutional fiduciary standards. CalPERS must abandon non-investable custom benchmarks and replace them with fully investable public-market equivalents that represent realistic opportunity cost—no assumed illiquidity premia, no lagged indices, and no internal composites. If a strategy cannot outperform an investable benchmark net of all costs, it cannot be justified. For private markets, CalPERS must publish consistent, auditable PME, DPI, RVPI, and TVPI metrics for every vintage and manager, alongside investable benchmarks and net-of-fee reporting. IRR alone is insufficient and misleading.

CalPERS must disclose the full stack of fees, including management fees, carried interest, portfolio company fees, expenses, subscription line effects, and offsets, reconciled annually to net returns. An independent benchmark audit must be commissioned by a firm with no consulting relationship to CalPERS or private equity sponsors. This audit must map current benchmarks to investable equivalents, quantify historical alpha distortion, reconstruct performance under those standards, and publish the results without staff filtering. Compensation must be tied solely to performance versus transparent investable indices. Benchmarks that cannot be independently verified must not be used to determine pay.

A formal, board-approved liquidity and pacing framework must integrate stress testing, secondary sale scenarios, and benefit payment obligations into asset allocation decisions. Benchmark construction must be subject to legislative oversight, with public disclosure of methodology, reconciliation when benchmarks change, and periodic hearings. Finally, governance procedures must require that substantive fiduciary critiques be preserved in official minutes and addressed formally by staff. These reforms are not radical. They are the minimum necessary to restore transparency, accountability, and economic truth. Benchmark manipulation is the silent engine of CalPERS’s illusory alpha. Until benchmarks are investable, consistent, and independently verifiable, claims of outperformance should be treated as provisional at best and deceptive at worst.

- **Benchmark Engineering**

At CalPERS, benchmark construction is no longer a neutral technical exercise performed for the purpose of accurately measuring performance against realistic alternatives. It has gradually evolved into something far more consequential and far more troubling: a governance mechanism that reshapes how performance is perceived, how risk is reported, how compensation is awarded, and how institutional

narratives are sustained both internally and publicly. The benchmarks CalPERS uses to measure performance are not simply imperfect or debatable in methodology. They are structurally incapable of answering the most basic fiduciary question that trustees are required to ask under California's constitutional standard of prudence, i.e., Would beneficiaries have been better off in a transparent, low-cost, investable alternative at comparable risk?

Because answering that question honestly would require comparisons CalPERS cannot comfortably make, the system has evolved so that the question is no longer asked at all. Instead, CalPERS measures its success against internally constructed standards that cannot be invested in, cannot be independently verified, and cannot be historically reconciled when they are altered. Benchmark engineering is not an incidental reporting quirk. It is the silent engine of CalPERS's illusory alpha. The distortions created by valuation lag, inflation overlays, illiquidity premia, and self-referential composites do not merely obscure underperformance. They transform it into reported success.

A benchmark, in fiduciary practice, is supposed to represent opportunity cost. It is supposed to answer, in concrete terms, what a prudent fiduciary could have earned by choosing a simpler, more transparent, lower-cost alternative at a similar level of risk. CalPERS's benchmarks fail this test at the most basic level because they do not represent anything that exists outside of CalPERS's own reporting framework. No fiduciary can invest in "FTSE All-World All-Cap plus 150 basis points." No portfolio manager can purchase "CPI plus 400 basis points." No trustee can allocate assets to a "weighted internal composite" that is itself built from other custom benchmarks that have been designed for internal evaluation rather than external comparability. These constructs are not opportunity-cost measures. They are scoreboards engineered to be beaten. Because they cannot be implemented in the real world, outperformance relative to them tells beneficiaries nothing about whether CalPERS added value, destroyed value, or simply moved more slowly than the markets it is implicitly compared to.

The most powerful distortion occurs in private markets, where CalPERS compares private equity and other illiquid assets to public indices that are both enhanced and delayed in ways that produce a mechanical appearance of outperformance. The delay comes from applying a lag to the benchmark so that market movements are recognized more slowly in the yardstick than they are in reality. This creates a mechanical effect that has nothing to do with investment skill and everything to do with timing. This is not a market phenomenon. It is a timing artifact embedded in benchmark design. Over very long horizons, these distortions may partially cancel out. But CalPERS does not operate on infinite horizons. Performance is reported annually. Bonuses are awarded annually. Strategic decisions are justified annually. Lag locks in gains and defers losses within the time frames that matter.

A similar substitution occurs in real assets, where CalPERS relies heavily on CPI-based benchmarks rather than transaction-based indices that reflect actual market pricing for real estate and infrastructure. Inflation-based benchmarks are smooth, slow-moving, and low volatility by design. They do not capture the abrupt repricing that occurs when interest rates change, liquidity disappears, or credit conditions tighten. By benchmarking real assets to CPI, CalPERS substitutes macroeconomic abstraction for market discipline. Drawdowns appear muted. Volatility appears lower. Valuation uncertainty is replaced by apparent stability. The benchmark ceases to measure performance against alternatives. It becomes a narrative device that shields the asset class from scrutiny.

Multi-asset and opportunistic portfolios are benchmarked not to markets, but to internally constructed composites built from other custom benchmarks. This is self-referential by design. Staff are evaluated against performance standards that they help define, revise, and adjust over time. Weights change. Components change. Benchmarks change. But historical performance is never replayed under the new definitions. A benchmark that evolves without reconciliation is not a standard. It is a moving target that prevents accountability by ensuring that past underperformance cannot be easily revisited under current rules.

Richard Ennis's research provides a numerical fingerprint of this system. Public pensions nationally, including CalPERS, often underperform simple investable passive benchmarks by roughly 1.4 percent per year while simultaneously reporting modest outperformance relative to their own policy benchmarks. The gap between those two numbers is the imprint of benchmark engineering. CalPERS exhibits every feature Ennis describes. The fund appears to beat its benchmarks while materially lagging what beneficiaries could have earned in a transparent global portfolio of public markets. It is chasing slow rabbits and declaring victory.¹³⁹

These distortions are not cosmetic. Executive and investment staff compensation is tied directly to performance versus these same custom benchmarks. Because lag, smoothing, and assumed premia inflate reported alpha, benchmark design directly influences bonuses, reputations, and career outcomes. Fiduciaries are rewarded for performance measured by standards they control and that systematically flatter results. Beneficiaries bear the cost of that illusion over decades.

CalPERS benchmarks are periodically revised, reweighted, or replaced, often during periods when performance relative to prior benchmarks would have been

¹³⁹ <https://richardmennis.com/blog/lies-damn-lies-and-performance-benchmarks-an-injunction-for-trustees>

uncomfortable to revisit. Yet CalPERS does not publish reconciliations showing how past results would appear under new benchmarks. The scoreboard is changed, but the game is never replayed. This allows performance narratives to be refreshed without confronting historical underperformance.

Under California's constitutional fiduciary standard, trustees are required to measure performance against reasonable, available alternatives. A benchmark that cannot be invested in does not satisfy this requirement. When such benchmarks are used for public reporting, strategic justification, and compensation, the issue becomes one of misleading disclosure, conflicted incentives, and imprudence. This is not a debate about methodology. It is a question of whether beneficiaries are being given a truthful account of how their money is managed.

Benchmark engineering is the silent engine of CalPERS's illusory alpha. Lagged valuations, inflation overlays, and internal composites convert economic underperformance into reported success while insulating management from accountability. Until CalPERS measures itself against benchmarks that beneficiaries could actually own, and subjects those benchmarks to independent scrutiny, claims of outperformance should be treated not as evidence of skill, but as artifacts of design.

- **Creation of "Artificial Alpha"**

The most consequential effect of CalPERS's benchmark framework is not simply that it measures performance imperfectly, but that it systematically manufactures apparent investment skill out of what is, in reality, a set of mechanical reporting choices having nothing to do with superior security selection, superior timing, or superior risk management. This phenomenon, which can fairly be described as the creation of "artificial" or "phantom" alpha, arises not from markets but from the interaction between benchmark design, valuation lag, smoothing practices, and annual reporting cycles that transform timing differences into apparent value added. This is not a theoretical concern. It is a measurable, repeatable outcome that has been documented at public pension funds across the country, and CalPERS exhibits every structural feature that produces it. This fiduciary issue is compounded by how it can be used by investment staff to manipulate their own compensation.

Investment consulting expert Richard Ennis's national research provides the starting point for understanding the scale of the issue. In a broad sample of statewide public pension systems, Ennis demonstrates that funds underperformed simple, investable passive benchmarks by approximately 1.4 percent per year while simultaneously reporting outperformance of roughly 0.3 percent per year versus their own internally constructed policy benchmarks. The implication is not subtle. There exists, on average, a 1.7-percentage-point annual gap between economic reality and reported success. This gap is the predictable mathematical consequence of comparing real

portfolios to benchmarks that are designed, intentionally or not, to move more slowly than the markets they purport to represent.¹⁴⁰

CalPERS's benchmark structure contains all the ingredients Ennis identifies as responsible for this effect. Private markets are measured against lagged public indices with assumed illiquidity premia. Real assets are measured against inflation series rather than transaction-based indices. Multi-asset portfolios are measured against internal composites constructed from other custom benchmarks. Each of these elements independently flatters results. Together, they create a systematic upward bias in reported performance that can persist for years without being recognized as a distortion.

Consider the simple mechanics of rising markets. Public equities reprice immediately. Private valuations, based on quarterly appraisals and manager discretion, adjust slowly. Benchmarks used for private markets are often lagged or enhanced with premia that further delay recognition of market movement. The result is that private assets appear to "outperform" not because they are performing better, but because they are catching up more slowly. In falling markets, the opposite occurs. Public markets drop quickly. Private valuations decline later. Losses are deferred, and private assets appear resilient precisely when reporting windows and compensation cycles are being evaluated. In both directions, relative performance is driven by timing artifacts rather than economic reality. Alpha is created by the clock, not by the portfolio manager.

This distortion directly influences how CalPERS is perceived by legislators, the media, beneficiaries, and the public. It is repeatedly cited in annual reports, legislative testimony, and internal presentations as evidence that complex, high-fee private market strategies are justified. It provides the narrative foundation for maintaining and expanding allocations to illiquid assets. It discourages serious comparison to transparent, low-cost alternatives because, on paper, CalPERS appears to be winning.

Most importantly, it affects compensation. Executive and investment staff bonuses are tied to performance relative to these same policy benchmarks. Because lagged valuations and smoothed benchmarks systematically inflate short-term relative performance, compensation is directly influenced by the presence of artificial alpha. Gains created by timing distortions are recognized immediately. Losses created by the same distortions are recognized later, often after compensation has already been

¹⁴⁰ <https://richardmennis.com/blog/lies-damn-lies-and-performance-benchmarks-an-injunction-for-trustees>

paid. What might appear, over decades, to be a wash becomes economically meaningful in annual cycles.

This is why the phenomenon cannot be dismissed as a long-term accounting quirk. Institutions do not operate on infinite timelines. They operate on fiscal years, reporting cycles, and compensation windows. Artificial alpha becomes real money within those windows. CalPERS often characterizes its benchmark framework as reflecting a long-term perspective. But long-term investing does not require non-investable benchmarks, nor does it require volatility suppression, lagged comparisons, or assumed premia that cannot be verified in practice. A fiduciary can pursue long-term objectives while still measuring performance against transparent, implementable alternatives. Artificial alpha is not patience. It is mismeasurement.

The fiduciary implications are significant. Under California's constitutional standard, trustees are required to evaluate performance relative to reasonable alternatives available to the fund. Reporting outperformance that exists only because the benchmark is engineered to be beaten raises serious concerns about prudence, loyalty, and disclosure. Prudence is compromised when opportunity cost is not honestly measured. Loyalty is implicated when compensation is tied to distorted metrics. Disclosure becomes problematic when beneficiaries are presented with performance narratives that omit the fact that those narratives are benchmark dependent.

When Ennis describes public funds as "chasing slow rabbits," he is not offering a metaphor. He is describing the mathematical outcome of benchmark engineering. CalPERS is chasing those same slow rabbits, and as long as it continues to measure itself against benchmarks that cannot be invested in, cannot be independently verified, and cannot be historically reconciled when they change, it will continue to report alpha that exists primarily on paper.¹⁴¹

The bottom line is unavoidable. A significant portion of CalPERS's reported alpha is not earned in markets. It is manufactured by benchmark design, valuation lag, and performance smoothing. Until benchmarks are replaced with transparent, investable public-market equivalents and historical performance is reconciled against those standards, reported outperformance should be viewed not as evidence of skill, but as the predictable output of a measurement system that was built to flatter results.

- **Valuation Lag, Liquidity Illusion, and Benchmark Distortion**

¹⁴¹ <https://blogs.cfainstitute.org/investor/2021/06/07/institutional-portfolio-benchmarks-slow-rabbits/>

One of the least understood, yet most powerful drivers of CalPERS's reported outperformance lies not in investment skill, but in the mechanics of how private-market assets are valued, measured, and compared to benchmarks. These mechanics operate quietly, invisibly, and persistently. They do not require intent. They require only the combination of appraisal-based pricing, delayed recognition of losses, and benchmark frameworks that move just slowly enough to convert timing differences into apparent alpha.

Private-market assets do not trade continuously. They are valued infrequently, often quarterly, sometimes less. They rely on manager-supplied data, internal valuation models, and comparable transactions that themselves lag current market conditions. When markets move rapidly, private valuations move slowly. This is not a flaw in the system. It is the system.

When public markets rise sharply, private valuations adjust upward with delay. Because benchmarks for these assets are also lagged or smoothed, private assets appear to outperform during these periods. They are not outperforming. They are simply catching up more slowly to the same economic reality.

When public markets fall sharply, private valuations adjust downward with delay. Losses are not recognized until later reporting periods. During those periods, private assets appear resilient, stable, and less volatile. They are not less risky. The risk is merely deferred. This phenomenon, known as valuation lag, does not disappear over long horizons. But CalPERS does not operate on infinite timelines. Performance is evaluated annually. Compensation is determined annually. Media narratives are constructed annually. Asset-allocation decisions are justified annually. Lag captures the upside quickly and postpones the downside until it no longer affects the reporting windows that matter most.

The result is that short-term outperformance claims—often cited as evidence that private equity, real assets, and private credit are superior risk-adjusted strategies—are largely accounting artifacts created by the interaction of slow-moving valuations and slow-moving benchmarks.

This lag has a second, equally important effect: it suppresses reported volatility. Because values change gradually rather than continuously, statistical measures of risk such as Sharpe ratios, information ratios, and downside deviation all appear artificially improved. Volatility is not reduced. It is hidden. The hidden volatility reappears when liquidity is required.

CalPERS's benchmark system measures return but ignores timing. It measures performance but ignores cash flow. It treats private-market investments as if they were continuously investable and continuously liquid, when in fact they impose

persistent cash demands on the total fund. In recent years, CalPERS's private equity and real asset portfolios have been net cash-flow negative. Capital calls have exceeded distributions. Exit activity has slowed. Fund lives have lengthened. Subscription lines and leverage have delayed realizations. The money that CalPERS has committed has not been coming back on the schedule originally expected.

When distributions slow and capital calls continue, liquidity must come from somewhere else. Liquid assets must be sold. Rebalancing flexibility is reduced. Borrowing or portfolio adjustments become necessary. None of these costs appear in performance benchmarks. Benchmarks assume reinvestment ability of returns that do not yet exist. They assume that illiquidity is a benefit rather than a constraint. They treat the absence of price discovery as stability rather than risk. When stress arrives—through market decline, benefit-payment pressure, or asset-allocation shifts—private assets cannot be sold easily. They must be sold in secondary markets, often at substantial discounts to reported net asset value. These discounts represent real economic losses that benchmarks never capture.

The problem compounds when valuation lag and liquidity stress occur simultaneously. Private-market values remain artificially high on paper precisely when liquidity needs are increasing. The fund appears well-capitalized in reports while facing real cash pressure in practice. This is not a theoretical concern. It is a structural feature of how private markets function inside large pensions.

CalPERS publicly asserts compliance with the Global Investment Performance Standards (GIPS), the CFA Institute's framework designed to ensure performance reporting is transparent, comparable, and independently verifiable. But GIPS requires that performance be reproducible, auditable, and based on fair-value principles that can be independently confirmed. Private equity contracts governing CalPERS's investments make this impossible.

CalPERS cannot independently audit underlying portfolio valuations. It cannot reconstruct net-of-fee performance with full transparency. It cannot disclose many of the fee layers embedded within partnership agreements. It cannot share data freely with independent verifiers due to confidentiality clauses. And the vast majority of private equity managers do not provide GIPS-compliant composite reporting. Compliance at the total-fund level cannot cure non-compliance at the component level. Claiming GIPS adherence while relying on contracts that prevent GIPS-level verification creates a fundamental inconsistency. It presents an appearance of reporting reliability that the underlying data does not support. When benchmark engineering and GIPS misalignment combine, reported performance becomes assertion rather than evidence.

CalPERS is governed not by aspirational guidelines but by California Constitution Article XVI, Section 17. Trustees are required to act with the care, skill, prudence, and

diligence of a prudent expert, to minimize costs, to monitor service providers, and to provide full and fair disclosure. A benchmark which cannot be invested in does not represent opportunity cost. A performance measure that relies on lagged valuations misrepresents risk. A reporting system that claims GIPS compliance while relying on non-verifiable data undermines transparency. When such measures are used to justify strategy, compensation, and public statements, the issue is no longer technical. It becomes a matter of misleading disclosure and conflicted incentives. Under trust-law principles, prudence requires comparison to realistic alternatives. Loyalty requires compensation structures that do not reward distorted metrics. Transparency requires that beneficiaries be able to understand what is happening to their money. CalPERS's current framework fails all three of these tests simultaneously.

These structural issues persist not because they are unknown, but because they are not formally acknowledged. Public comments by former board member J.J. Jelincic and others have repeatedly raised concerns about benchmark design, liquidity risk, valuation lag, and concentration. Yet official meeting minutes often record only that "public comment was received," omitting the substance of these critiques. Minutes are governance instruments. They shape the historical record of fiduciary deliberation. When substantive critique is omitted, the record shows no warning, no dissent, no need for response. Staff control agenda framing. Consultants reinforce prevailing narratives. Compensation depends on reported benchmark success. Political messaging favors stability over transparency. In such an environment, critique is tolerated procedurally and neutralized substantively. Benchmark distortion and governance capture reinforce each other. Benchmark distortion obscures performance reality. Governance capture prevents the obscenity from being challenged.

Meaningful reform does not require more disclosure language. It requires structural change. Benchmarks must be replaced with investable public-market equivalents. Private equity performance must be reported with PME, DPI, RVPI, and TVPI metrics. Full fee layers must be disclosed and reconciled to net returns. Compensation must be tied only to performance versus transparent indices. A formal liquidity stress framework must be adopted and approved by the Board. Benchmark construction must be subject to independent audit and legislative visibility. And substantive fiduciary critique must be preserved in the governance record, not erased from it. These steps are not radical. They are the minimum necessary to restore economic truth to performance reporting.

Valuation lag, liquidity mismatch, GIPS misalignment, benchmark engineering, and governance capture are not separate problems. They are interlocking parts of a system that converts economic underperformance into reported success. Until CalPERS measures itself against benchmarks that beneficiaries could actually own, verifies performance with standards that can actually be met, and subjects

performance measurement to independent scrutiny, claims of outperformance should be treated not as evidence of skill, but as artifacts of design.

- **Crypto/Digital Assets Benchmarking Impossible**

Digital assets are not really an asset class of their own, but an exposure to measure across different asset classes. This becomes more important as CalPERS moves to a total portfolio approach. CalPERS does not need to adopt a formal “crypto strategy” to accumulate material exposure to digital assets. That is precisely what makes this issue a governance problem rather than a policy debate. Exposure does not require a Board resolution, a press conference, or a strategic allocation target. It can and does arise passively, mechanically, and incrementally through index replication, venture capital secondaries, private equity co-investments, and public equity holdings in companies whose balance sheets or revenue models are materially dependent on digital asset markets.

The fiduciary issue is therefore not whether CalPERS “believes in” cryptocurrency. The issue is whether CalPERS understands, measures, discloses, stress-tests, and governs its growing exposure to digital assets in a manner consistent with its constitutional exclusive-benefit obligation. Public reporting already demonstrates that CalPERS has accumulated exposure to crypto-linked equities through its public markets program. Holdings in companies such as Coinbase and other digital-asset infrastructure firms arise naturally when those companies enter major equity indices. A pension fund that runs substantial passive and systematic mandates will inevitably hold such securities. That mechanical exposure may be defensible as part of broad market beta. What is not defensible is the absence of consolidated disclosure showing beneficiaries how much of their retirement capital is indirectly tied to digital-asset volatility.

More consequential is exposure through companies that function as leveraged proxies for digital assets. Strategy (formerly MicroStrategy), for example, has been widely treated in financial markets as a synthetic Bitcoin vehicle because of the scale of its corporate Bitcoin holdings relative to its operating business. When a pension fund holds shares in such a company, it is not merely holding software stock. It is assuming effective exposure to Bitcoin price volatility through equity structure. That exposure can be substantial, and it can be magnified by corporate leverage. Yet beneficiaries are not presented with a report describing this as digital-asset exposure. It appears instead as a line item in public equities.

Private markets compound the opacity. CalPERS’ venture and private equity programs have participated in secondary transactions and fund investments that include material stakes in crypto-related firms, including stablecoin issuers and digital infrastructure companies. These exposures often sit several layers removed from CalPERS’ direct control. They are governed by limited partnership agreements,

side letters, and confidentiality provisions that prevent public disclosure of portfolio details. Valuation occurs quarterly, often based on internal marks rather than observable transaction prices. Losses may be recognized slowly. Gains may be overstated during bull cycles. In either case, beneficiaries lack visibility.

This is not a theoretical risk. Digital asset markets have demonstrated repeated episodes of extreme drawdown, exchange failure, counterparty collapse, and regulatory shock. Bitcoin itself has experienced drawdowns exceeding 70 percent on multiple occasions. Major exchanges have failed. Stablecoins have de-pegged. Lending platforms have frozen withdrawals. Venture valuations have collapsed with little warning. In traditional public markets, such volatility would be immediately visible in daily marks. In private vehicles, it can remain embedded in appraisal models for months or years.

(We note that Bitcoin is so volatile that in 2013, HODL (Hold On for Dear Life) became a popular so-called strategy. Of course, a strategy predicated on indefinite holding, without regard to valuation, liquidity needs, or downside risk, would be inconsistent with fundamental fiduciary obligations applicable to public pensions.)

The governance question is simple: where, within CalPERS' reporting framework, is the consolidated disclosure of digital asset exposure? Where is the policy limit? Where are stress-test assumptions? Where is the documentation that the Board evaluated extreme drawdown scenarios before exposure accumulated? The absence of such guardrails does not imply malfeasance. It implies institutional inertia. Crypto exposure is entering the portfolio through mechanical index processes and venture pipelines faster than governance policy can adapt. That asymmetry is dangerous.

A prudent fiduciary framework would begin by defining digital-asset exposure broadly. It would not limit the definition to direct token holdings. It would include public companies whose valuations are materially dependent on crypto markets. It would include venture funds holding token issuers or exchanges. It would include structured notes or derivatives referencing digital assets. It would include indirect exposure embedded in external manager mandates. Once defined, exposure would be capped at a prudent percentage of total fund assets. That cap would apply on a look-through basis, not merely at the surface holding level. Exceeding the cap would require explicit Board approval and documented rationale.

Stress testing would not rely on equity-like volatility assumptions. It would incorporate historical crypto drawdowns of 60–80 percent, exchange insolvency, liquidity freeze, regulatory prohibition, and valuation shock in private markets. If a stress scenario implies unacceptable funded-status volatility or liquidity strain, exposure would be reduced accordingly. Custody and counterparty controls would require that any direct or indirect digital-asset exposure reside within regulated, audited, and legally segregated structures. Counterparties would need to

demonstrate compliance with applicable state and federal regulatory regimes, including licensing and capital requirements. Private managers would need to disclose token custody arrangements, valuation methodology, and liquidity gates.

Most importantly, CalPERS would publish an annual digital-asset exposure statement, consolidating direct and indirect exposure across asset classes. Beneficiaries would be able to see not only the size of exposure but also its contribution to return and volatility. If exposure added value, that value would be documented. If it detracted, that cost would be visible. This is not anti-crypto. It is pro-measurement. Digital assets may or may not represent a long-term technological innovation. That is a separate debate. The fiduciary obligation of CalPERS is not to predict technological revolutions. It is to ensure that any exposure to such revolutions is governed, disclosed, and subordinated to the exclusive benefit of beneficiaries.

There is a broader governance pattern here. CalPERS has historically allowed complexity to accumulate before building oversight architecture around it. Private equity, private credit, and real estate exposures grew for years before transparency concerns forced attention. Crypto may be following the same path: incremental exposure first, policy later. The risk is not simply volatility. The risk is that CalPERS discovers its digital-asset exposure only after a severe drawdown forces disclosure under political pressure. At that point, governance becomes reactive rather than proactive. A fund managing over half a trillion dollars cannot afford reactive governance in an asset class defined by extreme volatility, regulatory uncertainty, and structural fragility. Digital assets do not need to be banned from the portfolio to be governed prudently but they need guardrails, limits, consolidated reporting and stress testing. They need Board-level awareness commensurate with their risk profile. Without those guardrails, digital assets represent not a technological experiment but a governance blind spot.

Digital asset exposure at CalPERS is not, at its core, a question about Bitcoin. It is a question about institutional control. The most dangerous risks in a pension fund are not those debated publicly. They are the exposures that accumulate quietly through index mechanics, venture pipelines, private market look-through limitations, and consultant normalization. Digital assets fall squarely into that category. Exposure can grow without a board vote, without a policy statement, and without a consolidated disclosure to beneficiaries. That is precisely why the issue is not ideological—it is structural.

An independent Inspector General could determine whether CalPERS' governance architecture is capable of identifying, measuring, disclosing, and controlling digital-asset exposure consistent with fiduciary duty. At present, there is no evidence that such architecture exists in consolidated form.

An Inspector General would begin by conducting a full look-through audit of digital asset exposure across the Total Fund. This would include not only direct token holdings, if any exist, but also equity proxies, venture positions, private fund underlying holdings, structured notes, and derivative overlays. The audit would require external managers to certify whether portfolio companies derive material revenue from digital-asset activity, whether tokens are held on balance sheet, whether leverage amplifies crypto exposure, and whether any custodial or counterparty relationships create contagion risk. This audit is not currently visible in public reporting.

Second, an Inspector General would evaluate whether CalPERS has adopted formal exposure limits.

Third, an Inspector General would require CalPERS to demonstrate the funded-status impact of a severe digital-asset shock under multiple liquidity conditions. The test would assume stressed markets, illiquidity in private vehicles, valuation lag, and collateral stress in equity proxies. If CalPERS cannot show the funded-status sensitivity to a crypto shock, then exposure is unmanaged.

Fourth, the Inspector General would evaluate valuation practices. Public crypto-linked equities are marked daily. Private market vehicles holding digital assets or crypto-adjacent firms are not. Venture valuations may rely on internal models. In distressed markets, marks may lag economic reality. An Inspector General would assess whether valuation lag could temporarily shield compensation metrics, internal benchmarks, or public reporting from recognizing losses in a timely manner. Governance cannot tolerate bonus protection embedded in valuation opacity.

Fifth, custody and counterparty risk would require independent review. An Inspector General would examine whether CalPERS has documented due diligence on custodial segregation, regulatory compliance, capital adequacy, and operational risk at the counterparty level. The absence of such due diligence would constitute a material governance gap.

Sixth, an Inspector General would examine compensation alignment. If investment staff receive incentives tied to benchmark-relative performance without isolating digital-asset risk contributions, then compensation may reward volatility rather than prudence. A crypto-driven rally could artificially enhance short-term results; a subsequent collapse could erode funded status long after compensation has been paid. Multi-year deferral and claw back analysis would be part of an IG review.

Seventh, with respect to transparency, an Inspector General would require that CalPERS publish a consolidated digital-asset exposure statement at least annually. That disclosure would quantify direct and indirect exposure, outline stress-test assumptions, disclose cost structures, and identify governance controls. Beneficiaries

cannot evaluate fiduciary prudence if exposure remains embedded within opaque portfolio segments.

None of these recommendations take a position on the intrinsic merit of digital assets. Climate risk may be real. Blockchain innovation may prove durable. Or it may not. The Inspector General's function is not to forecast technological futures. It is to test institutional safeguards. Digital assets are uniquely suited to governance drift because they can enter portfolios through equity proxies and venture structures that appear, on paper, unrelated to tokens themselves. That makes them difficult for a Board to monitor without independent analytical support. Staff reporting can fragment exposure by asset class. Consultants can normalize exposure by comparison to peers. Without independent audit authority, no single actor is charged with aggregating and evaluating the total risk. That is precisely why the Inspector General model exists in other high-risk public institutions.

CalPERS is not a venture capital fund. It is a constitutionally protected retirement trust. The scale of the fund amplifies even small governance oversights into billion-dollar consequences. A digital-asset drawdown of a few percentage points of the Total Fund can translate into multi-billion-dollar volatility. If exposure is unmeasured, then volatility is unmanaged. The broader theme of this report is that performance issues at CalPERS are symptoms of governance structure. Digital-asset exposure fits squarely within that pattern. It illustrates how new complexity enters the portfolio faster than oversight adapts.

An independent Inspector General would not politicize crypto. It would depoliticize it. By imposing uniform measurement, disclosure, stress testing, and compensation alignment requirements, the IG would transform digital assets from a narrative risk into an auditable asset class exposure. Without that independent oversight, CalPERS risks discovering its true digital-asset exposure only after a severe market event forces recognition. That is not fiduciary prudence. That is reactive governance. A pension fund of this magnitude cannot afford reactive governance.

- **Contracts, Valuations, Governance Combine into Single Fiduciary Benchmark Failure**

What makes the CalPERS situation so difficult to understand from the outside is that no single element, standing alone, appears obviously fatal. Each component can be defended in isolation. Private equity contracts can be described as "industry standard." Valuation lag can be described as "normal for illiquid assets." Custom benchmarks can be described as "necessary for diversified portfolios." Confidentiality provisions can be described as "commercially required." Internal oversight structures can be described as "robust governance."

Individually, each of these explanations sounds plausible. Collectively, they form a system that is incompatible with fiduciary duty. The problem at CalPERS is not any one decision. It is the interaction of four structural elements that reinforce each other in ways that convert economic underperformance into reported success while insulating the system from meaningful scrutiny. Those four elements are contractual structure, valuation methodology, benchmark design, and governance architecture. They do not operate independently. They operate as a closed loop. Understanding that loop is the key to understanding why reform inside the existing structure has proven impossible.

The starting point is the private equity and private market contracts themselves. These agreements are not neutral documents. They are carefully engineered instruments that define who has authority, who bears risk, who controls information, and who is protected from liability. The General Partner is granted broad authority to manage the fund, determine valuations, allocate opportunities, and conduct parallel activities. At the same time, the General Partner is shielded from liability except in the narrowest circumstances, indemnified by the Limited Partners for actions taken in connection with the fund, and protected by confidentiality provisions that restrict disclosure of how the fund operates. CalPERS, as a Limited Partner, accepts these terms. This creates an asymmetry that is rarely acknowledged. CalPERS trustees remain bound by constitutional fiduciary duties that cannot be waived. The managers to whom CalPERS entrusts billions of dollars are contractually relieved from those same duties. This is the first structural break in the fiduciary chain.

The second element is valuation. Because private assets do not trade in open markets, their values are determined by the managers who control them. These valuations are based on internal models, comparable transactions, and discretionary judgments that cannot be independently verified in real time. When markets move rapidly, these valuations move slowly. Gains appear gradually. Losses appear later. Volatility is suppressed. Risk appears lower than it actually is. Performance appears smoother than reality. These valuation marks then become the foundation for reporting, benchmarking, compensation, and asset-allocation justification. What looks like performance is often simply the accounting effect of slow recognition of economic reality.

The third element is the benchmark system that evaluates these valuations. CalPERS does not measure performance against investable alternatives. It measures performance against custom composites that embed illiquidity premia, lagged public indices, inflation overlays, and internally weighted constructs. These benchmarks are not opportunity-cost measures. They are formulas that cannot be purchased, audited, or independently reconstructed. When lagged valuations are compared to lagged or smoothed benchmarks, the result is predictable. Private assets appear to outperform because both the assets and the benchmarks move more slowly than the real market. The system rewards delay.

The fourth element is governance. Oversight at CalPERS relies on the same data, the same contracts, and the same performance reports that are shaped by valuation lag and benchmark engineering. Consultants validate the structure, legal staff defend it, internal audit functions report within it and Board members are presented with performance narratives derived from it. Critique becomes difficult because the information needed to challenge the system is either contractually protected, technically complex, or framed through the very metrics that create the distortion. The governance structure cannot see the problem because it is built from the problem.

These four elements form a reinforcing loop. Contracts give managers valuation authority and limit oversight. Valuations create smoothed performance data. Benchmarks convert that data into apparent outperformance. Governance relies on that apparent outperformance to justify the contracts. The system validates itself. This is why external observers often struggle to pinpoint the problem. The evidence does not appear in one place. It appears only when the pieces are viewed together.

A fiduciary failure does not require theft, bribery, or intentional misconduct. It requires a structure that prevents fiduciaries from fulfilling their duties of prudence, loyalty, transparency, and monitoring. CalPERS' structure does exactly that. Trustees cannot prudently evaluate investments when valuations cannot be independently verified. They cannot loyally serve beneficiaries when compensation depends on distorted metrics. They cannot provide transparent reporting when contracts prevent disclosure. They cannot effectively monitor managers when the contracts limit their authority to do so. The system makes fiduciary compliance impossible.

For years, CalPERS has attempted to improve benchmarking, reporting, governance processes, and transparency. Yet the fundamental issues remain because they are rooted in the structure itself. You cannot correct valuation lag without changing contracts. You cannot correct benchmark distortion without acknowledging valuation lag. You cannot correct governance without access to the contracts and data. You cannot gain access without changing the governance structure. The loop remains intact.

The anatomy of the problem shows why incremental reform has failed. The system is self-reinforcing and self-validating. Only an independent authority, operating outside the CalPERS structure and empowered to examine contracts, valuations, benchmarks, and governance as a single system, can break the loop. That is why the need for an independent Inspector General is not a policy preference but is a structural necessity. The problem at CalPERS is not what the pension invests in. It is how the entire system measures, reports, and justifies those investments.

- **Independent IG Can Improve Benchmarking at CalPERS**

The problems revealed by benchmarking analysis are rarely the result of a single flawed decision. They emerge from the interaction of several institutional features that reinforce one another over time: complex contracts that limit transparency, valuation practices that delay recognition of economic reality, benchmark frameworks that convert those valuations into reported outperformance, and governance structures that rely on the same internally generated data to evaluate success. Each element can be defended in isolation. Together they create a system in which performance measurement gradually loses its connection to economic truth.

In such an environment, reform from within becomes extremely difficult. Staff reporting frameworks are built around existing benchmarks. Consultants validate the same performance measures they helped design. Compensation systems depend on benchmark-relative results. Board oversight relies on information filtered through those structures. Even well-intentioned trustees face an almost impossible task of evaluating the system using the same metrics that the system itself constructed.

This is precisely the type of institutional environment in which independent oversight mechanisms historically emerge. Inspector General offices exist in large public institutions because internal governance structures often lack the authority, information access, or independence required to investigate systemic problems that cross organizational boundaries.

Benchmarking failures are not simply a technical investment issue. They affect public reporting, executive compensation, asset allocation, liquidity management, and legislative accountability. Because these issues span multiple domains simultaneously—investment operations, contractual relationships, accounting practices, and governance procedures—no single internal department is positioned to evaluate them comprehensively. An independent Inspector General could address this structural gap by performing functions that the existing governance architecture cannot realistically perform itself.

First, an Inspector General could conduct a full benchmark audit of the total portfolio. This would involve mapping existing benchmarks to investable public-market equivalents and reconstructing historical performance under those standards. Such an exercise would allow trustees and beneficiaries to see how reported alpha compares with economic outcomes that could have been achieved through transparent alternatives. The purpose would not be to criticize past strategy but to restore an honest measurement baseline.

Second, the Inspector General could review benchmark construction methodology itself. This includes examining how illiquidity premia are assigned, how benchmark lags are applied, how internal composites are weighted, and how revisions are implemented over time. Importantly, the review would require reconciliation of

historical results whenever benchmark definitions change—something that rarely occurs in practice but is essential for maintaining accountability.

Third, an Inspector General could examine the relationship between benchmarks and compensation. If executive and staff incentives are tied to performance relative to benchmarks that management itself influences, the potential for structural conflict of interest becomes unavoidable. Independent oversight could evaluate whether compensation systems reward genuine economic value creation or simply the mechanical effects of benchmark design.

Fourth, the Inspector General could integrate benchmarking analysis with liquidity and valuation oversight. Lagged valuations, illiquid investments, and custom benchmarks interact in ways that can suppress reported volatility and defer recognition of losses. A comprehensive review would test whether reported performance properly reflects the economic risks borne by beneficiaries, particularly during periods of market stress.

Fifth, independent oversight could address transparency and disclosure obligations. Beneficiaries cannot meaningfully evaluate fiduciary performance if the benchmarks used to measure that performance cannot be replicated or understood outside the institution itself. An Inspector General could require standardized reporting that clearly distinguishes between benchmark-relative results and performance relative to investable alternatives.

Finally, the presence of an Inspector General would strengthen the institutional record of fiduciary deliberation. In complex pension systems, critical technical concerns are often raised in public comment or expert analysis but fail to appear meaningfully in formal governance records. Independent oversight ensures that such critiques are evaluated, documented, and addressed rather than quietly disappear from institutional memory.

The broader significance of benchmarking reform extends beyond any single asset class or investment strategy. Benchmarks influence how success is defined. They influence which strategies appear justified and which appear unnecessary. They influence compensation, public perception, and legislative oversight. When benchmark systems drift away from economic reality, the entire governance framework built upon them begins to drift as well.

For a pension fund responsible for the retirement security of millions of public servants, that drift carries real consequences. Even small distortions in reported performance, when applied to portfolios measured in hundreds of billions of dollars, translate into large differences in funded status, contribution requirements, and taxpayer obligations over time. An Inspector General would not dictate investment strategy. Nor would such an office attempt to replace the role of trustees, staff, or

consultants. Its purpose would be narrower and more fundamental: to ensure that the system used to measure investment success reflects economic reality rather than institutional convenience.

Public pension systems operate under a public trust. The credibility of that trust ultimately depends on whether beneficiaries can rely on the numbers presented to them. When benchmarking practices obscure rather than illuminate performance, independent oversight becomes not merely helpful but necessary. Restoring confidence in performance measurement requires more than new disclosure language or incremental adjustments to benchmark formulas. It requires an institutional mechanism capable of examining contracts, valuations, benchmarks, and governance practices as a single interconnected system. That is precisely the function an Inspector General is designed to perform.

Only with that level of independent scrutiny can benchmarking at CalPERS return to its proper role—not as a narrative tool, but as an honest measure of whether retirement assets are being managed in the exclusive interest of the beneficiaries who depend on them.

XVII. Fiduciary Duty to Ensure Investment Fees and Expenses Are Reasonable

Unlike most other industries, the fees money managers charge institutional and retail investors for comparable investment services vary astronomically.

Passive, or index investment management services, can be purchased by institutional investors for 1 basis point (one one-hundredth of a percent) or even “for free.”¹⁴²

Passive investment management refers to a strategy in which an investor seeks to track a specific market index or benchmark, rather than actively selecting individual investments in an attempt to outperform the market. This approach typically involves investing in a diversified portfolio of securities that mirror the composition of the chosen index, such as the S&P 500 or the Dow Jones Industrial Average.

Passive investment management is characterized by a buy-and-hold strategy, with minimal trading or adjustments made to the portfolio over time. The goal is to achieve returns that closely align with the performance of the overall market, while minimizing costs and reducing the risks associated with trying to beat the market through active management.

One of the key advantages of passive investment management is its simplicity and low cost compared to actively managed funds, as there is less need for expensive research, analysis, and frequent trading. Additionally, passive investing can provide investors with broad market exposure and diversification, which can help to reduce portfolio volatility and minimize the impact of individual stock or sector fluctuations.

Active managers, who attempt to beat the market by stock-picking, may charge pensions fees that are 100 times greater (1 percent). Alternative investment managers, including hedge, venture and private equity, may charge asset-based, performance and other fees amounting to approximately 7 percent—700 times greater fees than indexing.

Paying higher fees for active traditional or alternative asset management does not guarantee and, in fact, negatively correlates to superior net investment performance. Indeed, the overwhelming majority of active managers fail to outperform market indexes over time net of fees. The higher the fees, the greater the drag on investment returns. The biggest beneficiaries of active management often appear to be Wall Street money managers, not pension beneficiaries.

¹⁴² Certain index managers will manage large accounts at no cost, in exchange for securities lending income related to the portfolio.

A 2013 report by the Maryland Public Policy Institute and the Maryland Tax Education Foundation which examined the investment fees and investment performance of state pension funds concluded:

“State pension funds, including Maryland, have succumbed for years to a popular Wall Street sales pitch: “active money management beats the market.” As a result, almost all state pension funds use outside managers to select, buy and sell investments for the pension funds for a fee. The actual result—a typical Wall Street manager underperforms relative to passive indexing—is costly to both taxpayers and public sector employees.

For example, the top ten states—in terms of Wall Street fees—had a lower pension fund investment performance—over the last five fiscal years—than the bottom ten states ... State pension funds should consider indexing. Indexing fees cost a state pension fund about 3 basis points yearly on invested capital vs. 39 basis points for active management fees (or 92 percent less) ... By indexing most of their portfolios, we conclude the 46 state funds surveyed could save \$6 billion in fees annually, while obtaining similar (or better) returns to those of active managers.”¹⁴³

It is well established that sponsors of private retirement plans protected by the comprehensive federal law, ERISA, have a fiduciary duty to ensure that the fees their plans pay money managers for investment advisory services are reasonable. Fees paid for such retirement plan investment services have always been an important consideration for ERISA fiduciaries; however, in recent years such fees have come under increased scrutiny because of class action litigation, Department of Labor regulations, and congressional hearings.

According to the Department of Labor:

“Plan fees and expenses are important considerations for all types of retirement plans. As a plan fiduciary, you have an obligation under ERISA to prudently select and monitor plan investments, investment options made available to the plan’s participants and beneficiaries, and the persons providing services to your plan. Understanding and evaluating plan fees and expenses associated with plan investments, investment options, and services are an important part of a fiduciary’s responsibility. This responsibility is ongoing. After careful evaluation during the initial selection, you will want to monitor plan fees and expenses to determine whether they continue to be reasonable in light of the services provided.”

State and local government pensions, such as CalPERS, are exempt from ERISA and are governed by state law. However, because ERISA and state law protections both

¹⁴³ Wall Street Fees, Investment Returns, Maryland and 49 Other State Pension Funds by Jeff Hooke and John J. Walters, July 2, 2013.

stem from common law fiduciary and trust principles, best practices for public pensions are frequently similar to those found in ERISA.

At the outset, sponsors of public, as well as private retirement plans must take steps to understand the sources, amounts, and nature of the fees paid by the plan, as well as the related services performed for such fees. After all, a plan sponsor cannot determine the reasonableness of fees without a comprehensive understanding of the services received in exchange for fees paid.

Whether a plan's fees are reasonable depends upon the facts and circumstances relevant to that plan. The plan sponsor must obtain and consider the relevant information and then make a determination supported by that information.

- **Opaque “Alternative” Investment Fees and Expenses**

In the past two decades, public pensions, including CalPERS, have allocated ever-greater assets to more complex, opaque so-called “alternative” investment vehicles, such as hedge, private equity and venture funds, as well as fund of funds. Overall, state and local plans have reportedly increased their holdings from 8 percent in 2001 to 34 percent in 2022.¹⁴⁴ (Based upon our forensic investigations, we believe the actual percentages are far higher.) This shift has brought dramatically higher investment fees—fees which are often not fully disclosed and may be much more difficult for pensions to monitor.

According to a 2023 study by Pew:

“Public pension plans’ use of alternative investments has more than doubled over the past 15 years. And with that, total investment fees also have increased, with state funds reporting costs in excess of \$10 billion annually. From 2006 to 2019, fees as a share of total investments grew from 0.26% to 0.35%—a 30% increase as a percentage of assets.¹⁴⁵

In addition, public funds are paying more than \$4 billion annually in unreported fees associated with alternative investments, according to Pew. The hidden costs of private equity investments – which include carried interest, monitoring costs, and portfolio company fees – were not reported as investment expenses among most of

¹⁴⁴ https://crr.bc.edu/wp-content/uploads/2022/11/IB_22-20.pdf

¹⁴⁵ <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2023/10/transparency-in-investment-disclosures-helps-promote-effective-public-pension-administration>

the 73 large public funds Pew examined, according to a 2017 report from the non-profit group.¹⁴⁶

According to Pew:

“Accounting and disclosure practices also vary widely among pension plans and have not kept pace with increasingly complex investments and fee structures, underscoring the need for additional public information on plan performance and attention to the effects of investment fees on plan health. Full and accurate reporting of asset allocation, performance, and fee details is essential to determining public pension plans’ ability to pay promised retirement benefits. With more than \$3.6 trillion in assets—and the retirement security of 19 million current and former state and local employees at stake—sound and transparent investment strategies are critical.”¹⁴⁷

While Pew found that since 2016, plans have made progress on transparent fee disclosure, many state plans still do not provide the information stakeholders need to accurately assess investment performance. Whether a plan includes or omits performance fees when calculating investment management costs is a significant variable. The average value of undisclosed private equity fees, including carried interest, can equal 1.5 percent or more of annual assets, or about half of pension funds’ total private equity management costs.¹⁴⁸

- **Bogus and Inflated Alternative Investment Fees and Expenses**

A 2014 internal review by the United States Securities and Exchange Commission found that a majority of certain alternative investment managers, i.e., private-equity firms, inflate fees and expenses charged to companies in which they hold stakes, raising the prospect of a wave of sanctions against managers (including potentially some of the many private equity managers CalPERS invests in) by the agency, said Bloomberg.¹⁴⁹

¹⁴⁶ <https://www.institutionalinvestor.com/article/2bsvw78twewe3ztxmu58g/portfolio/the-bill-for-hidden-private-equity-fees-4-billion>

¹⁴⁷ https://www.pewtrusts.org/~/media/assets/2017/04/psrs_state_public_pension_funds_increase_use_of_complex_investments.pdf

¹⁴⁸ <https://www.pewtrusts.org/en/research-and-analysis/issue-briefs/2023/10/transparency-in-investment-disclosures-helps-promote-effective-public-pension-administration>

¹⁴⁹ Bogus Private-Equity Fees Said Found at 200 Firms by SEC, Bloomberg News, April 7, 2014.

More than half of about 400 private-equity firms SEC staff examined charged unjustified fees and expenses without notifying investors.

Not long after the SEC's revelations, CalPERS openly acknowledged that it could not say how much carried interest it had paid out over the years to private equity firms because it did not track the amount.¹⁵⁰ To fill the data gap, CalPERS sent out inquiries to some of its fund managers,¹⁵¹ and the pension plan came up with a figure of \$3.4 billion paid out in carried interest from 1990 to June 2015.¹⁵² In short, the nation's largest public pension had to ask its money managers how much they had taken in fees from the plan over past decades and trust those managers who provided information (not all did) were, in fact, telling the truth about the amounts taken and the legitimacy of such fees. CalPERS's staff and investment cost measurement consultants evidently were incapable of calculating the historic fees and legitimacy on their own. Shortly thereafter, CalPERS adopted a policy to start disclosing carried interest and performance fee data.¹⁵³ Finally, in 2016, California passed AB 2833 requiring public pensions in California to disclose private fund fees, including carried interest. Those events helped to shape public perceptions of problematic practices in private markets.

"The private-equity model lends itself to potential abuse because it's so opaque, according to Daniel Greenwood, a law professor at Hofstra University in New York and author of a 2008 paper entitled "Looting: The Puzzle of Private Equity." The attraction of the funds is that the managers have broad discretion, which also means that investors have a hard time knowing what the managers are doing, he said."¹⁵⁴

According to another expert cited in the Bloomberg article:

¹⁵⁰ <https://www.nakedcapitalism.com/2015/06/calpers-admits-it-has-no-idea-what-it-is-paying-in-private-equity-carry-fees.html?>

¹⁵¹ CalPERS stated that 98 percent of the private equity funds it queried complied with requests for carried interest data. Thus, the total carried interest was almost certainly higher than disclosed in 2015.

¹⁵² <https://www.latimes.com/business/la-fi-calpers-private-equity-fees-20151125-story.html>

¹⁵³ <https://www.pew.org/en/research-and-analysis/issue-briefs/2016/02/making-state-pension-investments-more-transparent>

¹⁵⁴ Bogus Private-Equity Fees Said Found at 200 Firms by SEC, Bloomberg News, April 7, 2014.

“The industry is going to be forced into change because, frankly, when your big investors are public plans and other money that’s run by fiduciaries, you can’t afford as a business matter to be deemed to be engaging in fraud. Fraud doesn’t sell very well.”

Increased use of alternative investments has bolstered calls for more effective risk disclosures, according to Pew.

Pension plans’ growing use of alternative investments in recent years and the lack of standardized disclosure practices have spurred a variety of interventions by regulatory and nongovernmental entities to promote greater consistency in reporting:

- GASB in 2020 launched a research project to evaluate whether existing guidance on disclosing investment fees charged by private investment managers is sufficient.
- More than 180 asset managers and other investment organizations, including some U.S. public pension funds, have endorsed a set of comprehensive fee disclosure practices that the Institutional Limited Partners Association (ILPA), a member organization for private equity managers, introduced in 2016.
- Two private companies serving institutional investors launched the Global Pension Transparency Benchmark (GPTB) in 2021 to provide pension fund managers around the world with a holistic approach to assessing transparency and improving plan outcomes. GPTB evaluated the top five funds in each of 15 countries—75 funds in total—and found a need for substantial improvement in transparency worldwide. The study ranked U.S. public pension funds ninth out of the 15 countries, noting that U.S. funds “did not provide much relevant cost information.”¹⁵⁵

Accordingly, public pensions, such as CalPERS, which choose to gamble in opaque asset classes—such as private equity funds, specifically cited by regulators for charging bogus fees in violation of the federal securities laws—must establish heightened safeguards to ensure that all fees paid to such managers are properly reviewed and determined to be legitimate, as well as fully disclosed to participants. In our opinion, as detailed further below, CalPERS has consistently over the decades massively misrepresented (understated) the total investment management fees it pays to Wall Street.

¹⁵⁵ <https://www.pew.org/en/research-and-analysis/issue-briefs/2023/10/transparency-in-investment-disclosures-helps-promote-effective-public-pension-administration>

XVIII. CalPERS Oversight of Total Investment Costs

- **CEM Benchmarking**

In addition to using CEM Benchmarking Inc. for rating its overall transparency in recent years, CalPERS has long used the firm as one of its independent benchmarks for evaluating the costs (fees, administrative expenses, etc.) incurred in running its investment program. CEM’s website states that the information it provides to pensions, their stakeholders and other investors globally relates to the investment performance and cost of \$15 trillion in participating assets. CEM says:

“CEM works with over 400 fund sponsors worldwide. We provide our clients with objective, actionable benchmarking insight into how to maximize value for money in investments and pension administration.”

“Our reports and insights provide actionable insights and are used strategically as well as to help meet fiduciary responsibilities.”¹⁵⁶

In other words, says CEM, both pensions and stakeholders rely upon its findings, as disclosed, in evaluating and executing investment strategies. The cost information the firm provides is intended to, and does, impact investment vehicle selection because costs are understood to materially impact performance.

For this reason, we believe it is appropriate for legislators, regulators, law enforcement and pension stakeholders to examine whether the investment cost and other information disclosed by the firm to the pension and, in turn, by the pension to its stakeholders is accurate, as well as fully and fairly presented.

- **McKinsey Minority Ownership in CEM**

CEM Benchmarking is privately held, “private equity-backed”¹⁵⁷ and headquartered in Canada. As mentioned earlier, at a recent CalPERS Stakeholder Forum, the Director, Client Coverage of CEM stated that CEM “is a fully independent, employee-owned third-party company...”¹⁵⁸

¹⁵⁶ <https://www.cembenchmarking.com/>

¹⁵⁷ <https://pitchbook.com/profiles/company/391737-97>

¹⁵⁸ <https://www.youtube.com/watch?v=0KRpgE9-5eA>

McKinsey & Company has disclosed on its public website that it is a minority investor in CEM.¹⁵⁹ McKinsey is one of the most powerful consulting firms in the private markets industry, influencing billions in transactions and hundreds of portfolio companies worldwide. Firms that routinely hire McKinsey include Blackstone, Carlyle, KKR, TPG, Advent, EQT, Warburg Pincus, and many public pensions' external managers. It is involved in deal screening and due diligence; portfolio company restructuring and growth programs; advising private equity General Partners on how to present themselves to institutional investors such as CalPERS; advising institutional Limited Partners (including public pensions) and producing the industry's most influential research reports. McKinsey may advise both General and Limited Partners which raises questions about potential conflicts of interest. Its consulting work profoundly shapes what deals get done, how they are run, how they are valued, and how the industry justifies fees and returns to public pensions.

The scale of McKinsey's private equity practice is significant. The firm claims to work with the leading private equity firms representing more than 70 percent of global AUM. In a typical year, McKinsey conducts hundreds of due diligences and private equity work is one of McKinsey's highest-margin practices.

McKinsey influences public-pension investment decisions in a number of overlapping ways. For example, CalPERS has brought McKinsey in to present capital-market scenarios and return expectations as input to its Asset-Liability Management (ALM) work. A 2017 CalPERS board presentation, "The Real Economy and Future Investment Returns," is explicitly branded "McKinsey & Company" and provides scenarios for future U.S. equity returns for the fund's ALM discussions.¹⁶⁰ Those scenarios feed into expected return/discount-rate debates, the perceived "return gap" between what the portfolio can deliver in public markets versus returns needed to achieve the pension's assumptions and any "extra" return that must come from private equity, private credit, and other alternatives. Once the board accepts those capital-markets assumptions, staff and external consultants can argue that higher private-markets allocations are "necessary" to close the gap. McKinsey's public-pension "best practice" pieces recommend professionalized, larger internal

¹⁵⁹ <https://www.mckinsey.com/about-us/overview/alliances-and-acquisitions/cem-benchmarking-and-mckinsey>

¹⁶⁰ https://www.calpers.ca.gov/sites/default/files/spf/docs/board-agendas/201701/day1/3.3-2018-alm_presentation-2-mckinsey.pdf

investment teams and heavier use of active and alternative strategies, which is aligned with public pension investment staff and private-equity managers' interests.

McKinsey positions itself as a strategic partner to Chief Investment Officers at large plans like CalSTRS. For example, a 2024 McKinsey article, *"How institutional investors can gain a performance edge,"* is built around an interview with CalSTRS CIO Christopher Ailman, presented by two McKinsey partners.¹⁶¹ This kind of "co-branded" thought leadership amplifies a shared worldview about how large public plans should seek alpha by embracing private markets. It also normalizes private-markets growth for trustees and staff who see their CIO highlighted alongside McKinsey.

McKinsey's Global Private Markets/Private Markets Review series has become one of the most widely cited data and narrative sources on private equity, private credit, and alternatives.¹⁶² These reports underline long-term outperformance of private equity versus public equity and highlight Limited Partners' intention to maintain or increase allocations. Investment consultants to pension plans cite McKinsey data when briefing boards about industry conditions and recommended pacing, embedding McKinsey's narrative in the actual decision process. For example, a 2025 CalSTRS Semi-Annual Private Equity Executive Summary from Meketa¹⁶³ cites "McKinsey Global Private Markets Report (May 2025)" as the source for industry fundraising trends and environment.¹⁶⁴ McKinsey publishes influential white papers on private credit, infrastructure investing, private equity portfolio value creation, ESG and sustainability in private markets and alternative asset growth forecasts. Many policymakers, pension boards, and journalists rely on these reports to understand the industry—despite the fact that McKinsey also consults for the firms being analyzed. McKinsey also influences the governance culture of public plans through board education and diversity/governance work. Governance and diversity work

¹⁶¹ <https://www.mckinsey.com/industries/private-capital/our-insights/how-institutional-investors-can-gain-a-performance-edge>

¹⁶² https://www.mckinsey.com/industries/private-capital/our-insights/global-private-markets-report-2024?utm_source

¹⁶³ As discussed later, Meketa Investment Group provides Private Markets/Alternative Investment consulting to CalPERS.

¹⁶⁴ <https://www.calstrs.com/files/f44076df3/INV%2B2025-09%2BItem%2B04c%2BPres%2B01%C2%A0%E2%80%93%2BPrivate%2BEquity%2BExecutive%2BSummary.pdf>

builds trust and soft power with boards at CalPERS/CalSTRS, so McKinsey materials are viewed as neutral, high-quality guidance rather than marketing.¹⁶⁵

In terms of conflicts of interest and opacity, a McKinsey subsidiary, MIO, is an SEC-registered investment advisor, a commodity pool operator registered with the Commodity Futures Trading Commission and a member of the National Futures Association. The majority of MIO's \$20 billion in assets are invested in alternative investments.¹⁶⁶ Press coverage has raised concerns about conflicts of interest when McKinsey advises clients while also investing alongside or in the funds of those clients.¹⁶⁷ Even if public pensions are not directly invested in MIO, the existence of this vehicle means that MIO clients, including McKinsey partners, can benefit from the success of private-equity funds that McKinsey helps via due diligence and strategic work and that the firm has incentives aligned with growth and profitability of private-markets managers—the same firms courting public pension capital.

McKinsey has faced scrutiny and settlements over conflicts in U.S. bankruptcy advisory situations, where its retirement plan held investments that overlapped with cases it advised on.¹⁶⁸ Separately, watchdogs have underscored that McKinsey's client list is secret, making it impossible for outside parties (including public-pension beneficiaries) to fully assess whether the firm is simultaneously serving a public pension as asset-allocation advisor, and the private-equity managers the pension is considering.¹⁶⁹ Given that McKinsey's Private Equity & Principal Investors practice explicitly markets itself as “the leading management-consulting partner to the private equity industry and its stakeholders,” the risk of overlapping relationships is obvious.¹⁷⁰

¹⁶⁵ <https://www.calpers.ca.gov/sites/default/files/spf/docs/diversity-forum-mckinsey-report-2015.pdf?utm>

¹⁶⁶ <https://www.miopartners.com/>

¹⁶⁷ <https://www.businesstimes.com.sg/companies-markets/banking-finance/mckinseys-mio-unit-case-conflict-interest>

¹⁶⁸ <https://www.consulting.us/news/427/mckinsey-faces-conflict-of-interest-questions-over-retirement-fund>

¹⁶⁹ <https://responsiblestatecraft.org/2023/02/03/do-mckinseys-defense-contracts-clash-with-foreign-clients/>

¹⁷⁰ <https://www.mckinsey.com/~media/McKinsey/Industries/Private%20Equity%20and%20Principal%20>

In conclusion, the minority stake owned by McKinsey suggests that while CEM claims independence, there is a structural tie between a major strategy-consulting firm (that services private equity firms and institutional investors) and the largest global pension benchmarking outfit.

Again, McKinsey has stated on its public website that by “combining McKinsey’s industry expertise with CEM’s dataset, we help asset owners and managers benchmark their investment and non-investment performance and help inform the strategic moves they are looking to make.” This may create potential conflicts of interest or influence lines, especially since benchmarking data (on costs, returns, net-of-fee performance, asset-allocation mixes) can shape how funds like CalPERS, and others justify decisions around private equity, private credit, real estate allocations, and fee disclosure. As a result, when CEM data is used to stress the cost or return advantages of certain asset classes, there is reason—at least in principle—for the public to be able to scrutinize not only the full data but the ownership and incentives behind the data provider.

As discussed extensively earlier in connection with CEM’s Transparency rating, we do not believe CalPERS staff can realistically monitor the potential conflicts related to CEM’s benchmarking of the pension’s investment costs. We further question whether an independent IG—even if granted preferential access to all relevant information—would find it feasible.

- **Confidentiality of CEM Reports**

CalPERS has been in CEM’s investment cost benchmarking program since its inception, i.e., almost from the birth of CEM. A September 20, 2022, CEM slide presentation¹⁷¹ indicates “CEM offers 5 benchmarking subscriptions. CalPERS was a founding participant in 4 of them.” The Investment Benchmarking Subscription was founded in 1992. Thus, CalPERS has been a key client as CEM has developed its subscription businesses. CalPERS openly confirms in multiple public documents, including each fiscal year’s Trust Level Review, that it participates annually in the CEM Benchmarking (Investment Cost Effectiveness) survey and uses it to compare

[Investors/Our%20Insights/Is%20big%20really%20beautiful%20The%20limits%20of%20pension%20consolidation/Is-big-really-beautiful-the-limits-of-pension-consolidation.pdf](https://www.calpers.ca.gov/documents/202209-financeadmin-item-6c-01-a/download)

¹⁷¹ <https://www.calpers.ca.gov/documents/202209-financeadmin-item-6c-01-a/download>

CalPERS total investment costs to a global peer group. Each report includes a cost-effectiveness section labeled “CEM Benchmarking Results.”

CalPERS does not publish or disclose the full CEM reports it receives. CalPERS includes summary benchmarking data in its Trust Level Reviews.¹⁷² CalPERS publishes occasional presentation slides with CEM benchmarking results showing cost-per-basis-point benchmarks, cost comparisons, and peer-group rankings.¹⁷³ More recently, the pension has commissioned and shown a “Pension Administration Benchmark Report–2023” based on CEM data.¹⁷⁴ In conclusion, the public record includes only summary-level reporting derived from CEM data.

The full CEM benchmarking report (with detailed cost and performance data, peer-group comparisons, underlying data tables, possibly private asset cost detail, full FTE, cost-by-category breakdowns, etc.) is not present on CalPERS’ public site or in its publicly posted board or annual reports. Further, CEM’s confidentiality policy explicitly states that input data from participating plans “will be treated ... in a confidential manner,” and that while CEM may “disclose your fund’s inclusion by name ... if your fund is part of the peer group used as the basis for the report,” it will not link that name to the underlying data or results for any single fund unless under strict confidentiality agreements.¹⁷⁵ Moreover, a 2017 CalPERS board-packet attachment containing CEM benchmarking data is labelled: “The information contained herein is proprietary and confidential and may not be disclosed to third parties without the express written mutual consent of both ...”¹⁷⁶

In conclusion, CalPERS appears to agree with CEM that full CEM benchmarking reports are proprietary or confidential, not public documents. The information it does release—Trust Level Reviews, summary slides, cost/performance aggregates—is highly selective and non-transparent in terms of raw data detail, underlying assumptions (especially around private-markets fees, carry, transaction costs), or peer-group composition. Thus, the public disclosures are insufficient for an

¹⁷² <https://www.calpers.ca.gov/documents/calpers-trust-level-review-as-of-june-30-2025-pdf/download>

¹⁷³ <https://www.calpers.ca.gov/documents/202209-financeadmin-item-6c-01-a/download>

¹⁷⁴ <https://www.calpers.ca.gov/documents/202407-full-day-2-6-presentation-cem-a/download>

¹⁷⁵ <https://www.cembenchmarking.com/confidentiality-accessibility>

¹⁷⁶ <https://www.calpers.ca.gov/sites/default/files/spf/docs/board-agendas/201705/invest/item07a-02.pdf>

independent analyst to fully audit or replicate CEM’s internal benchmarking or to verify whether, for example, costs related to private equity (especially carry, transaction fees, hidden costs) are being counted or excluded.¹⁷⁷

Since full CEM reports are withheld from public scrutiny, the selective, aggregated summaries may omit or understate material cost items (e.g., private-equity carry, transaction costs, fees buried in pooled structures). For a fund as large and complex as CalPERS (with substantial private market investments), the lack of transparency makes it impossible for anyone to independently verify that “value-for-money” claims or low-cost comparisons are actually robust. Given that CEM is partly owned (minority stake) by a consulting firm with significant private-markets business, the opacity raises conflict-of-interest and governance concerns—especially when CEM outputs are used in board materials and strategic decisions.

On October 15, 2025, we requested the following information from CalPERS related to CEM:

1. Please provide all contracts between CalPERS and CEM Benchmarking.
2. Please provide all reports and analysis produced by CEM Benchmarking related to CalPERS's investment management fees, costs and expenses.
3. Please provide all reports and analysis produced by CEM Benchmarking related to alternative investments.

On October 24, 2025, we were told that with respect to our request #9272: “Staff is searching for records responsive to your request and subject to disclosure under the PRA. We estimate a final response to your request by November 19, 2025.”

On November 19, 2025, we were told: “Staff is continuing to search for records responsive to your request and subject to disclosure under the PRA. We estimate a final response to your request by December 12, 2025.”

On December 12th we were informed, “Staff is continuing to search for records responsive to your request and subject to disclosure under the PRA. We estimate a final response to your request by January 12, 2026.”

¹⁷⁷ While CEM supposedly discusses, in its reports, investment costs that were included and excluded from comparison, as well as the methodology of their benchmark cost analysis, such critical information is not made available to the public.

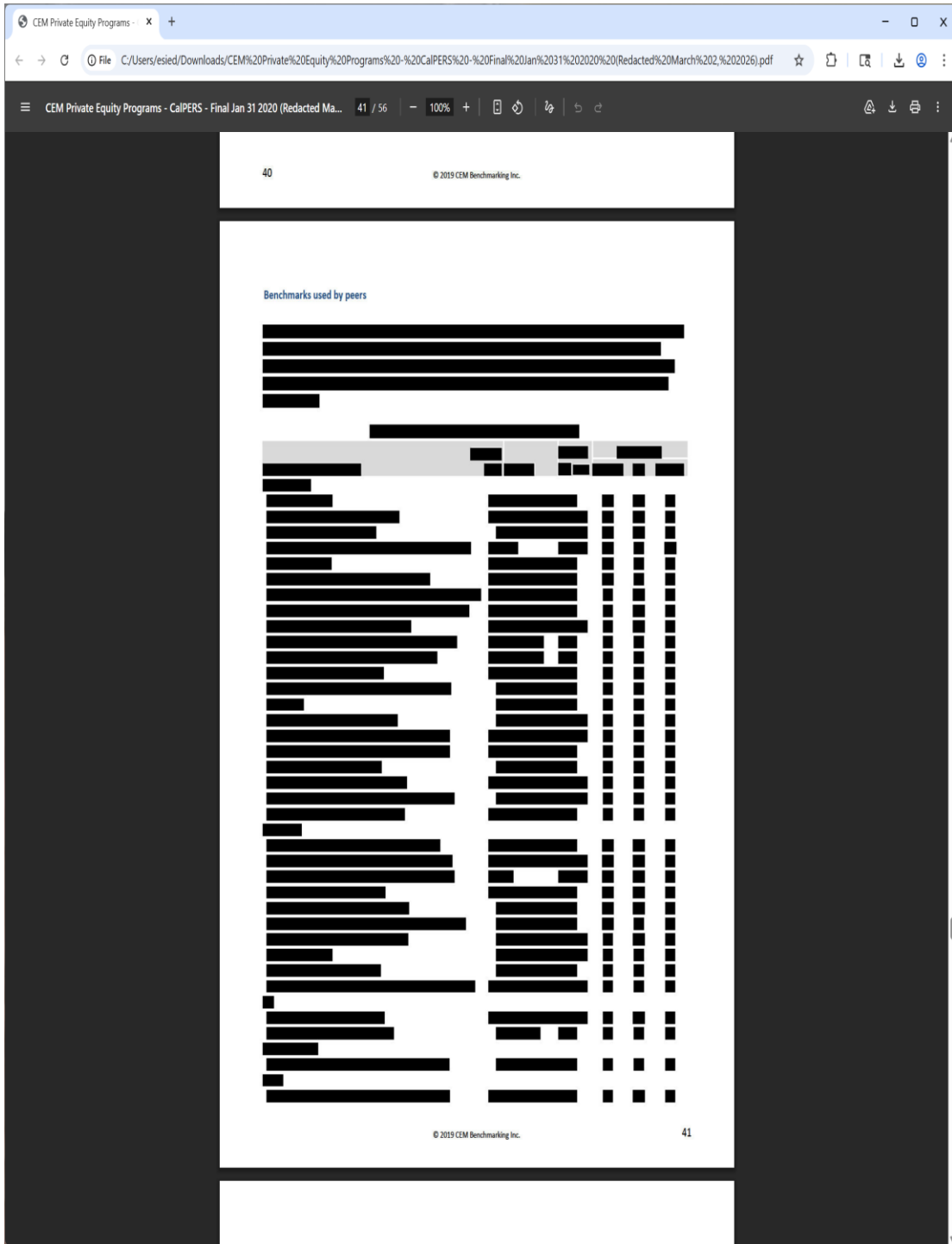
On January 29th we were informed, “Staff is continuing to search for records responsive to your request and subject to disclosure under the PRA. We estimate a final response to your request by March 2, 2026.”

On March 2nd, we were informed:

Attached is a portion of the information you requested. Portions of the response are not being provided pursuant to Government Code Sections 7922.000, 7927.705, and 7928.710, since the terms of these exemptions are met and the public interest in disclosure is clearly outweighed by the public interest in nondisclosure. Staff continue to search for and review potentially responsive information. We estimate that we will provide all responsive documents subject to disclosure under the PRA to you by April 2, 2026.

Once again, with respect to records requested that were summarily denied, it is inconceivable to us that “the public interest in disclosure is clearly outweighed by the public interest in nondisclosure.” The public interest in disclosure is clearly massive. Public scrutiny of the nation’s largest public pension investment costs is of paramount concern to stakeholders and investors globally. If the investment costs CalPERS discloses are understated or incomplete, then investors globally are potentially misled and harmed in their investment decision-making.

Below is an example of the “portion of the information requested” we were provided by CalPERS in response to our request for records regarding CEM.



In conclusion, if favorable summaries of CEM analyses are to be happily announced by CalPERS—for the world to rely upon—then there should be no hesitancy in disclosing the underlying data and documents supporting those conclusions. Further, the full findings in the CEM reports we have examined in connection with other public funds appear to conflict with the summary findings publicly stated by such

funds and raise additional concerns in our opinion. At a minimum, public review of the complete CEM report is, in our opinion, critical to understanding the findings and assessing its credibility.

In support of our views regarding the importance of transparency, we note with great emphasis that CEM says the following in its report: “The value of the information contained in these reports is only as good as the quality of the data received.” If the public cannot see the underlying data, then it is impossible to assess its validity. However, we believe that the value of the CEM reports is also heavily dependent upon the quality of the analysis and extensive use of cost estimates supplied by CEM, not merely the quality of the data provided by pensions such as CalPERS.

We note that at least one other state pension, South Carolina, has released its entire 136-page CEM analysis to the public.¹⁷⁸ Thus, it appears any supposed concerns regarding the proprietary and confidential nature of information contained in CEM analyses are not insurmountable.

We further note that the December 2018 Final Report and Recommendations of the Public Pension Management and Asset Investment Review Commission of the Commonwealth of Pennsylvania which was charged with comprehensively reviewing the investment operations of the Commonwealth’s two largest public retirement funds, with the goal of identifying efficiencies and best practices in pension fund management recommended that the two pensions collaborate on a detailed CEM administrative and investment cost benchmarking analysis, and make the detailed report(s) available to the public (not only the Executive Summary).¹⁷⁹

In Pennsylvania and South Carolina, unlike CalPERS, there is recognition that the public deserves to see the entire CEM report, not select passages.

- **Relevant Litigation**

A recent whistleblower matter at the Iowa Public Employees' Retirement System (IPERS), involves benchmarking, cost/fee-reporting, and risk disclosure and offers some insight into how benchmarking firms (like CEM Benchmarking) are used. The case validates a core argument often made by critics that benchmarking and “low

¹⁷⁸ <https://www.rsic.sc.gov/PDFs/2017.12.31percent20CEMpercent20REPORT.pdf>

¹⁷⁹ <https://www.psers.pa.gov/About/Investment/Documents/PPMAIRCpercent202018/2018-PPMAIRC-FINAL.pdf>

admin cost” reports are insufficient when pension funds invest heavily in private markets. Hidden costs, opaque structures, and internal accounting practices can dramatically distort the real economics.

The case also underscores the need for public funds’ full total-cost disclosure—not just administrative or performance fees, but all expenses, transaction costs, leverage costs, carried interest, portfolio-company fees, and risk metrics. Finally, the case shows why independent—or at least external—watchdogs matter. Whistleblowers may see what official reports and standard audits miss.

A former IPERS official, Rich Wiggins (hired June 2022 as “investment risk and operations officer”), filed a lawsuit alleging that IPERS’ leadership (including its Chief Investment Officer and CEO) “routinely overstated the fund’s performance, concealed certain expenses, and understated its investment risk.”¹⁸⁰ The complaint claims, among the problems that fees and expenses were “buried within transaction costs” so they couldn’t be itemized, thus the board and public may have been misled about how much was spent.

IPERS used a “benchmarking process” for returns that allegedly made underperforming investments “impossible to miss.” Specifically, the fund allegedly benchmarked large parts of the portfolio “directly to itself,” which the whistleblower argues was designed to generate misleading outperformance. The suit claims that the board was fed “false information,” and that Wiggins was fired in retaliation after raising concerns. If true, the allegations suggest serious issues, including systemic misreporting of fees/expenses, risk underestimation, and governance failures. The case is ongoing as of 2025.

IPERS publicly lists “CEM Pension Administration Benchmarking Results” on its website under “Plans & Performance.”¹⁸¹ The 2024 CEM “Pension Administration Benchmark Report” for IPERS shows its costs per active member and annuitant and compares them to a peer group. The report states that total pension-administration cost was \$51 per member/annuitant versus a peer average of \$139.¹⁸² The benchmarking performed by CEM for IPERS, according to CEM’s methodology description, covers pension-administration costs and service metrics (call volumes,

¹⁸⁰ <https://iowacapitaldispatch.com/2025/07/29/fired-ipers-official-says-state-board-was-fed-false-information/>

¹⁸¹ <https://ipers.org/about/plans-performance>

¹⁸² <https://ipers.org/media/307/download>

member support, etc.), excluding investment management costs. Again, CEM’s benchmarking for administration does not cover investment fees, carried interest, private-asset expenses, or other investment-management costs—which are often where the largest hidden fees reside.

Similarly, with respect to CalPERS, a September 20, 2022 CEM slide presentation¹⁸³ includes the Key takeaway from one its four benchmarking subscriptions— investment benchmarking—that through December 2020, the pension’s investment cost, excluding private asset performance fees and transaction costs, was 20.2 bps.

“This was 14.3 bps below the peer benchmark of 34.4 bps. CalPERS was low cost because it had a lower cost implementation style and it paid less than its peers for similar services.”¹⁸⁴

At face value, being “14.3 basis points cheaper than peers” sounds like effective cost control. However, that figure omits the largest and most controversial component of CalPERS’ investment expenses: private asset performance fees—that is, the carried interest and incentive profit-sharing paid to private equity, real estate, and other alternative managers.

Those fees can dwarf management fees in size. For example, CalPERS’s FY 2023 Comprehensive Annual Financial Report shows total performance fees of roughly \$1.2 billion, mostly from private equity. If included, those costs can raise CalPERS’ true “all-in” cost closer to or even above the peer median. So, the 20.2 bps figure represents only the base cost of running the portfolio, not the total economic cost to beneficiaries. Finally, transaction costs are excluded from the benchmark cost analysis.

¹⁸³ <https://www.calpers.ca.gov/documents/202209-financeadmin-item-6c-01-a/download>

¹⁸⁴ <https://www.calpers.ca.gov/documents/202209-financeadmin-item-6c-01-a/download>

XIX. CalPERS History of Consistently Understating Investment Costs

While CalPERS discloses far more today than it did 20 years ago—including annual private-equity carried interest and California Assembly Bill 2833 (AB 2833) fee tables—like all other public pensions in the herd it leads, it still does not disclose all investment management fees and expenses in a “true total cost” sense. A significant portion of costs remains embedded, estimated, or simply unreported. As a result, CalPERS financials statements are, and have for decades been, materially incorrect. Whether CalPERS’s board and staff, even today, know the full amount of the investment expenses the pension pays (or monitor the legitimacy of such charges) is uncertain. Based upon our expert experience, we doubt the board and staff possess the information necessary for full disclosure to the public. However, despite any past statements by CalPERS to the contrary, there is no doubt that full cost and expense information is readily available. If the pension was truly committed to public scrutiny versus industry secrecy, it could have disclosed—decades ago—all-in costs related to its private investments.

- **2005–2014: Only Management Fees Disclosed, Performance Fees Invisible**

From 2005-2014, CalPERS’ CAFRs/basic financial statements and investment reports aggregated “investment expenses” (internal costs and invoiced external management fees) but did not separately report private-equity carried interest or many indirect costs. When CalPERS first disclosed carried interest in 2015, multiple news outlets noted that previous reporting covered only management fees paid to private equity managers. One contemporaneous article explicitly stated that “Calpers previously only reported management fees paid to private equity managers” and that for FY2015 that figure was \$414 million.¹⁸⁵ In other words, for earlier years as well, carried interest and many fund-level expenses were not in the public numbers; returns were reported net of these costs, but the costs themselves were not separately disclosed. So, in this period, CalPERS was broadly in line with industry practice: management fees were disclosed, yet far greater performance fees and many “look-through” costs were concealed.

- **2015: “We Don’t Know—Cannot Know--What We Pay Wall Street,” First Carried Interest Disclosure**

¹⁸⁵ <https://www.fnlonon.com/articles/calpers-hidden-private-equity-fees-20151125>

In 2015, following release of our findings of under-reporting of investment management fees at state pensions in Rhode Island and North Carolina and facing a wave of media criticism,¹⁸⁶ CalPERS publicly acknowledged its fee disclosures had long been wildly understated. Reports in the New York Times¹⁸⁷ and Fortune¹⁸⁸ and CalPERS board workshop coverage highlighted that CalPERS had not been systematically tracking, i.e., did not actually know—indeed, supposedly “*could not track*”—the total carried interest it had paid to its private-equity managers.¹⁸⁹

This admission—by the nation’s leading, largest public pension—that it had poured tens of billions of state retirement assets into private equity funds as to which it did not and could not fulfill its fiduciary duty to monitor the legitimacy of fees should have provoked a national outcry since it amounted to granting Wall Street a license to steal. Under applicable law, no fiduciary should ever invest in any asset where the fees are not known and trackable.

Further, if the nation’s largest public pension did not and could not track the private equity fees it paid, presumably all the other smaller public pensions in America could not either.

Said Fortune’s Dan Primack:

In April, a senior staffer at the California State Employees’ Retirement System (CalPERS) told investment committee members that the \$300 billion public pension giant “could not track” the incentive fees (i.e., carried interest) that it had paid out to private equity fund managers. Over the past week, I’ve severely criticized this response, suggesting that it reflected a massive breakdown in financial controls.

Capital Weekly noted:

¹⁸⁶ Apparently, part of the media criticism was that “in 2011 CalPERS dropped a consultant, LP Capital Advisors, that had been monitoring its private equity portfolio, which has about 350 managers with 700 funds and a net value last year of \$31 billion. Brad Pacheco, a CalPERS spokesman, said the consultant’s reports were incomplete, inconsistent and covered the total private equity fund, not the CalPERS share of carried interest.” <https://capitolweekly.net/calpers-private-equity-carried-interest-profits>

¹⁸⁷ <https://www.nytimes.com/2015/06/26/business/dealbook/calpers-disclosure-on-fees-brings-surprise-and-scrutiny.html?ref=todayspaper>

¹⁸⁸ <https://fortune.com/2015/07/01/following-criticism-calpers-asks-private-equity-funds-for-profit-data/>

¹⁸⁹ <https://capitolweekly.net/calpers-private-equity-carried-interest-profits/>

The CalPERS board member who raised the tracking issue, J.J. Jelinic, estimated last April that the carried interest could be \$600 million to \$900 million a year, adding to the \$1.6 million in external management fees reported last fiscal year.

At that time—over a decade ago—as a result of the obvious under-reporting of fees by CalPERS, we first proposed a crowdfunded campaign for a forensic investigation of the pension.¹⁹⁰ As we stated in connection with the crowdfunding campaign:

CalPERS' investments have been controversy-ridden since the early 2000s, including a “pay to play” scandal that implicated the CEO and some board members. In 2011, the fund paid \$11 million to a Washington, D.C., law firm and its advisors to conduct an internal review which found support for allegations of corruption, bribery and influence peddling. CalPERS defended the substantial fees paid to the law firm, noting that it used the findings to negotiate \$215 million in fee reductions from private equity managers. In September, 2014, the CalPERS announced it would shed its entire \$4 billion investment in hedge funds as part of an effort to simplify its assets and reduce costs. While CalPERS stated that the decision wasn't based on the performance of the program, the hedge funds earned 7.1 percent during a fiscal year when all of the fund returned 18.4 percent. The annualized rate of return on its hedge fund investments over the last 10 years was 4.8 percent.

As reported in The New York Times at that time, “A former lawyer at the Securities and Exchange Commission is raising funds on Kickstarter to investigate Calpers to determine how much it pays in private equity fees.”¹⁹¹ The 2015 crowdfunding effort failed to meet its funding goal and, as a result, through today, CalPERS's reporting of investment costs has not been reviewed by an independent expert and the disclosure is not complete. In short, Wall Street has secretly profited as under-reporting of fees has persisted.

CalPERS's admission that it had not and could not track private equity fees prompted scrutiny from journalists and academics and is cited in later legal scholarship as part of the “precipitating events” for California's public pension fee-transparency push.¹⁹²

In 2015, CalPERS investment cost adviser, CEM, concluded that the difference between what pensions reported as expenses and what they actually charged investors averaged at least two percentage points a year. And this estimate, CEM

¹⁹⁰ <https://www.kickstarter.com/projects/opers/calpers-crowdfunded-pension-forensic-investigation?ref=email>

¹⁹¹ <https://www.nytimes.com/2015/06/26/business/dealbook/calpers-disclosure-on-fees-brings-surprise-and-scrutiny.html>

¹⁹² <https://law.baylor.edu/sites/g/files/ecbvkj1546/files/2023-11/9%20Clayton.pdf>

acknowledged, was probably low.¹⁹³ CEM has stated private equity fund of funds costs average over 5 percent. Professor Ludovic Phalippou, at the Said School of Business at Oxford, found that the average private equity buyout fund charged more than 7 percent in fees each year.¹⁹⁴

In February 2015, CalPERS publicly announced it would begin reporting total private-equity carried interest for FY2014-15, “after a multi-year systems effort.”¹⁹⁵ In November 2015, CalPERS released, for the first time historical total private-equity performance fees. What CalPERS had previously said was impossible—tracking incentive fees paid to private equity managers suddenly, under public pressure—became possible. And other major pensions were expected to follow the leader, to the chagrin of Wall Street. As the Los Angeles Times observed:

The nation’s largest public pension fund peeled back a layer of secrecy to reveal that it has paid private equity managers \$3.4 billion in bonuses since 1990, a hefty figure sure to heighten arguments over whether the controversial sector is worth its high risk and expense...

CalPERS’ disclosure, although not the first of its kind, is considered a landmark because of the system’s size and influence in the market. It’s expected to lead major pension funds to demand similar, or even more, disclosures from a multitrillion-dollar industry that has been insulated from calls for reform by the relatively rich returns it generates.¹⁹⁶

For FY2014-15 specifically, press reports summarized, \$414 million in base management fees and \$700 million in profit-sharing or carried interest.¹⁹⁷ It was noted “the CalPERS disclosure doesn’t cover all of its private equity expenses. It doesn’t include deals that are no longer active. It also doesn’t include data from the 2 percent of CalPERS’ private equity managers that refused to supply the data to the pension fund.”¹⁹⁸

¹⁹³ https://www.cembenchmarking.com/Files/Documents/CEM_article_-_The_time_has_come_for_standardized_total_cost_disclosure_for_private_equity.pdf

¹⁹⁴ https://papers.ssrn.com/sol3/papers.cfm?abstract_id=999910

¹⁹⁵ <https://law.baylor.edu/sites/g/files/ecbvkj1546/files/2023-11/9%20Clayton.pdf>

¹⁹⁶ <https://www.latimes.com/business/la-fi-calpers-private-equity-fees-20151125-story.html>

¹⁹⁷ <https://www.sacbee.com/news/business/article46215810.html>

¹⁹⁸ The very fact that the nation’s leading public pension did not compel all of its managers to disclose all incentive fees paid over time is telling. In our opinion, under no circumstances should a public

Among those that did disclose their profit-sharing fees to CalPERS, the biggest profit-sharing dollars went to the fund's most important private equity manager: Apollo Global Management. The New York firm, which manages billions of dollars for CalPERS, has taken \$742.4 million in profit sharing over the years through various private equity funds it runs. No. 2 was The Carlyle Group, a Washington, D.C., firm that has received \$432.5 million in profit sharing.

Finally, even with the added incentive fee disclosure, total investment costs were still not fully disclosed.

- **2016–2018: AB 2833 Alternative Investment Vehicle (AIV) Fee Tables**

In 2016, California enacted California Assembly Bill 2833 (AB 2833) which requires private-fund managers who take money from California public plans to provide annual disclosures of all fees, expenses, and carried interest paid by the plan to the fund, manager, and “related parties”, plus the plan's pro-rata share of portfolio-company fees/expenses. It also requires public plans, including CalPERS, to disclose this information at least annually in a public meeting/report. AB 2833 was the first law of its kind and was driven, in part, by revelations that CalPERS did not know or disclose the total private-equity fees it paid prior to 2015.

The bill initially required full fee disclosure, including fees paid by portfolio companies but after lobbying pressure by public plans (including CalPERS) and industry groups, the bill was watered down, shifting from total-fee disclosure to only each plan's pro-rata amount, and narrowing the “related party” definition. Managers do not have to disclose total fees earned from all investors, total portfolio-company fees and complete related-party transactions. The final bill excluded many affiliates, subsidiaries, and special-purpose entities that private-equity firms use to charge extra fees.

pension fiduciary permit an external investment manager to receive fees from a pension without full disclosure to the pension and public.

These changes critics argued would make it easy for General Partners to obscure the full scale of fees.¹⁹⁹ Disturbingly, California's public pensions and industry groups united in opposition to full disclosure to the public.²⁰⁰

From about 2017 onward, CalPERS began publishing "Alternative Investment Vehicle (AIV) Fee & Expense Disclosure (AB 2833 Report)" tables covering Private Equity, Real Assets, and sometimes other alternatives. CalPERS board agenda materials and attachments describe these tables as reflecting "all disclosures required by Assembly Bill 2833 with respect to CalPERS active Alternative Investment Vehicle investments" as of each June 30.²⁰¹ Columns include items like management fees, fund expenses, carried interest distributed, and portfolio-company fees allocated to CalPERS.

However, by 2017 the trade press was already pointing out that even the new private equity fee disclosures still omitted significant fund expenses. A 2017 Buyouts article noted that CalPERS "touts declining PE fees" but the totals "don't factor in fund expenses", reinforcing that the fees disclosed to the public understate total private-equity costs.²⁰²

- **2019–2025: More Granular Schedules, Same Structural Blind Spots**

Recent CalPERS Basic Financial Statements include detailed schedules labeled "Total Investment Expenses—All Funds," with breakdowns of internal and external investment expenses. One recent (2020) schedule explicitly notes:

"Investments listed reflect only those investments with management fees, rebates, offsets, and/or carried interest incurred within the fiscal reporting period."²⁰³

¹⁹⁹ <https://law.baylor.edu/sites/g/files/ecbvkj1546/files/2023-11/9%20Clayton.pdf>

²⁰⁰ Pew's 2016 report on state pension investment transparency cited CalPERS' new carried-interest disclosure as a positive step but stressed that the move highlighted a "widespread problem" of underreported manager fees across public retirement systems.
https://www.pew.org/~media/assets/2016/02/making_state_pension_investments_more_transparent.pdf

²⁰¹ <https://www.calpers.ca.gov/documents/201712-invest-item04f-02/download>

²⁰² <https://www.buyoutsinsider.com/calpers-touts-declining-pe-fees-doesnt-factor-fund-expenses/>

²⁰³ <https://www.calpers.ca.gov/documents/202011-financeadmin-item-6a-01-a/download>

The above disclosure language is important in that it indicates these tables cover only certain invoiced or recognized fees in the fiscal year, not a full economic “true total cost” including everything netted from the investment’s net asset value.

CalPERS continues to publish AB 2833-style AIV fee tables for private equity, real assets and other alternatives (e.g., absolute return strategies). These show, at best, only all fee/expense categories defined in the statute for each AIV as of each year-end.²⁰⁴

In 2020, CEM Benchmarking analyzed 24 large global funds and concluded that true total investment cost (internal + external fees, carry, transaction costs) averaged 74.2 bps, but the average total cost reported in financial statements was only 37.5 bps. That is, only about 51% of actual costs were reported. Roughly half went unreported, primarily because transaction costs are absent; embedded private-markets expenses are not itemized and net asset value-based netting hides real economic costs.²⁰⁵

Our research indicates that, at best, only half of true total investment management costs are included in asset owner financial statements. Across the industry this means an enormous amount of costs actually incurred go unreported. Tens of billions of dollars are not reported by asset owners.

We believe our estimate that 49 per cent of costs go unreported in financial statements of annual reports is conservative and the extent of under-reporting is likely to be higher across the entire industry.

Since CalPERS is a long-time CEM client and participant in its benchmarking database, it appears to be within the population CEM is analyzing.

For over a decade, the widely-published findings of our forensic investigations have routinely exposed fees related to alternative funds and fund of funds in the 7-10 percent range.²⁰⁶ Our 2013 forensic investigation of the Rhode Island Employees Retirement System forced the pension to increase disclosed fees from \$8 million to \$188 million over time.²⁰⁷ Our 2014 investigation of the \$87 billion State Employees’

²⁰⁴ <https://www.calpers.ca.gov/documents/201912-invest-item06f-01-a/download>

²⁰⁵ <https://www.top1000funds.com/2020/11/asset-owners-report-half-of-all-costs/>

²⁰⁶ <https://www.forbes.com/sites/edwardsiedle/2012/06/26/jp-morgan-hedge-fund-of-funds-out-of-this-world-fees-and-egregious-conflicts/?sh=61def7b72e50>

²⁰⁷ <https://www.scribd.com/document/176896709/Rhode-Island-Public-Pension-Reform-Wall-Street-s-License-to-Steal>

Retirement System of the State of North Carolina revealed that the pension paid undisclosed fees approximately \$500 million, in addition to the \$500 million in fees it disclosed.²⁰⁸ More recently, our 2024 forensic investigation of Minnesota state pensions forced the funds to increase disclosed fees by a staggering 400 percent.²⁰⁹

Probably the worst-kept secret in the pension industry is that the majority of alternative investments costs are kept secret.

We note with great emphasis that since CalPERS is not tracking all the investment fees its managers may withdraw from pension accounts, in the absence of any diligent monitoring the risk of illegitimate withdrawals is dangerously high, in our opinion.

- **Types of Private Equity Fees and Whether CalPERS Discloses**

Below is a table showing all major private equity fee types, the typical industry ranges, and whether CalPERS clearly reports, partially reports, or does not report each fee type based on, CalPERS CAFRs; CalPERS Private Equity Program Annual Reviews; CalPERS Private Asset Fees & Costs disclosures; CEM Benchmarking findings and public statements acknowledging non-reporting (e.g., carried interest disclosure gaps before 2015, partnership expenses, portfolio-company fees).

Fee Type	Typical Fee / Amount	CalPERS Reporting Status
1. Management Fee (Fund-Level)	1.5%–2% per year of commitments (then of invested/remaining capital)	Reported (but only the amounts invoiced to CalPERS, not portfolio-company offsets or waivers)
2. Performance Fees (Carried Interest)	20% of profits (can be 25–30% at mega-funds)	Partially Reported — disclosed only since 2015; no itemization by fund; not tied to portfolio-company fee waivers; not reconciled with net performance

²⁰⁸ https://www.seanc.org/assets/SEANC_Pension_Investigation_Highlights_Recommendations.pdf

²⁰⁹ https://freebeacon.com/wp-content/uploads/2024/10/Minnesota_Mirage_In_Template_Final.pdf

Fee Type	Typical Fee / Amount	CalPERS Reporting Status
3. GP Catch-Up Mechanism	GP receives 100% of distributions until full carry reached	Not Reported — appears nowhere in CalPERS reporting; only the resulting carry is shown, not catch-up structure
4. Fund Organizational Expenses	\$1–10M per fund	Not Reported (CalPERS acknowledges these are absorbed into “capital calls”)
5. Fund Administration (Legal, Audit, Tax, Compliance)	0.15–0.50% of commitments annually	Partially Reported — aggregated into “partnership expenses”; not detailed
6. Custody, Accounting, Valuation Fees	Varies; large funds may charge \$1–5M annually	Partially Reported — appears in private asset fee tables only as a lump sum
7. Broken-Deal Expenses	\$1–5M per failed transaction	Not Reported — charged at fund level; CalPERS does not itemize
8. Transaction Fees Paid by Portfolio Companies (Acquisitions/Disposals)	1–2% of enterprise value; can exceed \$100M on large buyouts	Not Reported — CalPERS does not disclose portfolio-company-level fee flows
9. Monitoring Fees (Portfolio Company)	\$1–10M per year per company (sometimes higher)	Not Reported — neither amounts paid nor offsets received are itemized
10. Advisory / Consulting Fees (Portfolio Company)	\$500K–\$5M per year per company	Not Reported
11. Directors’ Fees	\$50K–\$200K per board seat	Not Reported
12. Accelerated Monitoring Fees	Lump-sum multi-year fee acceleration (often \$10M+)	Not Reported
13. Financing Fees (Debt Arrangement)	Tens of millions per transaction	Not Reported

Fee Type	Typical Fee / Amount	CalPERS Reporting Status
14. Fund-Level Borrowing / Subscription Line Interest	Credit line interest 4–8%; millions annually	Partially Reported — CalPERS references subscription lines but does not show cost impact
15. Placement Agent Fees	1–2% of capital raised	Not Reported — only disclosed historically during the Villalobos scandal
16. ESG / Sustainability Fees	\$250K–\$1M per fund or portfolio company	Not Reported
17. Insurance, Cybersecurity, Data Fees (Affiliate-Owned Providers)	\$500K–\$5M per year across portfolio	Not Reported
18. Executive Search & Consulting Fees (Affiliate Entities)	Widely varies	Not Reported
19. Fund-of-Funds Fees (if used)	0.5–1% management + 5–10% carry (additional layer)	Reported (CalPERS rarely uses FoFs today; historically partial)
20. Co-Investment Fees	Often 0% fee/0% carry, but can be 1% & 10%	Reported — when CalPERS uses structured co-invest vehicles; itemization limited
21. GP-Directed Secondary Sale Costs	Discounts (5–20%); banker fees	Not Reported — CalPERS does not disclose discounts or banker fees from its 2022 and 2024–2025 secondary programs
22. Management Fee “Waivers” (Tax Optimization)	Converts fee to carried interest; multi-million impact	Not Reported — CalPERS benefits or losses unknown
23. Affiliate Transaction Fees (e.g., captive consulting arms)	Varies, often several million annually	Not Reported
24. Subscription Line Utilization Impact on Performance	IRR inflation of 100–300 bps	Not Reported in cost terms (only narrative references)

Fee Type	Typical Fee / Amount	CalPERS Reporting Status
25. Partnership-Level Taxes, Excise, and Filing Fees	Tens to hundreds of thousands per fund	Partially Reported — included only in aggregated “partnership expenses”
26. Miscellaneous Pass-Through Costs (travel, jets, conferences, fines, etc.)	\$1–5M+ per year	Not Reported

In summary, it appears approximately 20-30 percent of total economic costs are fully reported; 20-25 percent are partially reported; and 45-55 percent are not reported—a calculation which is consistent with CEM’s finding that public pensions disclose only approximately half of costs.

- **CalPERS Total True Private Equity Cost Model**

Below is a total true private equity cost model for CalPERS, based upon all reported and unreported categories.

Cost Category	Annual Cost (Approx.)
Management Fees	\$1.1–1.2B
Carried Interest	\$1.5–1.8B
Partnership Expenses	\$0.2–0.3B
Portfolio-Company Fees	\$0.75–1.5B
Broken-Deal Costs	\$0.1B
Organizational Expenses	\$0.1B
Subscription Line Costs	\$0.15–0.2B
Secondary Sale Costs (annualized)	\$0.05–0.08B
Misc. Pass-Through / Affiliate Costs	\$0.15–0.2B

The Grand Total of true annual cost of CalPERS private equity is a low estimate of \$4.1 billion; high estimate \$5.5 billion and midpoint estimate of \$4.8 billion. We note that CalPERS’ reported private equity costs are generally only \$1.0–1.5 billion per year. Our analysis suggests CalPERS’ disclosed amount is 35–40 percent of total economic cost, which is consistent with CEM’s findings.

Assuming CalPERS' private equity portfolio (\$75 billion) earned 12–14 percent gross returns, the gross return amounts to \$10 billion annually. The true total costs amount to an estimated \$5 billion annually, leaving a net return of \$5 billion annually or 6.5 percent. This aligns with academic results, i.e., private equity net returns average 6 percent over long horizons after all fees.

- **CalPERS Private Equity Performance Versus S&P 500 Index**

So, how does CalPERS's realistic net private equity return once all economic costs are included (6–7 percent net), compare to the long-term return of the S&P 500 index which is publicly traded (liquid), low cost, and fully transparent?

Metric	CalPERS Private Equity (True Net)	S&P 500 Index (Net)
Gross return	12–14%	10–11%
True total costs	~5B/year (~6–7%/yr drag)	Negligible (~0.02%/yr)
Net annual return	6–7%	9–11%
Volatility	High, opaque	Moderate, transparent
Liquidity	10–14 years	Daily
Transparency	Low	High
Governance risk	High (fees, zombie funds, extensions)	None

The S&P 500 outperforms CalPERS private equity by 3–4 percentage points per year on a true net basis. The 3–4 percent return gap for \$75 billion invested by CalPERS amounts to \$55 billion lost over 10 years due solely to fees and underperformance relative to public equities. A staggering \$241 billion is lost over 20 years by choosing private equity over a passive public-equity alternative. The latter amount alone is far greater than CalPERS' entire unfunded liability (\$140–\$160 billion), equivalent to decades of employer contribution increases and larger than the annual budgets of many states.

From a fiduciary perspective, to justify private equity over the S&P 500 after costs, CalPERS would need sustained, provable gross outperformance of 4–5 percent per year for 20 years. No large public pension—including CalPERS—has ever demonstrated such outperformance.

In conclusion, there is no point in debating the true all-in investment costs. Absent an accounting and full transparency, pension stakeholders can never be certain of the true costs; with scrutiny, the true costs can be precisely determined and publicly disclosed, consistent with applicable fiduciary duties—restoring financial integrity to the pension. CalPERS can and should disclose all fees.

As CEM notes in a private equity whitepaper, cost disclosure and transparency can lead to better decisions. Says CEM:

“Clearly there currently are challenges with collecting full private equity costs, but the exercise can yield benefits beyond improved disclosure and transparency. Understanding true costs can lead to lower costs through negotiation with managers. Additionally, understanding costs may lead to more efficient investment vehicle selection because high costs will materially impact private equity performance.”

In conclusion, there is never any justification for a pension to fail to demand full disclosure of fees from investment managers since failure to understand true costs may lead to less efficient investment vehicle selection, negatively impact performance and even allow looting.

Again, allowing external investment managers to take monies without fiduciary review amounts to a license to steal.

- **Independent IG Could Improve Cost Disclosure**

An independent Inspector General would materially improve the disclosure of investment costs at CalPERS—especially in private investments—by independently reconciling what is paid with what is reported, auditing vendor methodologies, and enforcing uniform, public “true total cost” reporting. The improvement would come from independent verification and accountability, not from additional self-reported data alone.

In our opinion, an exhaustive investigation into all past payments to investment managers should be immediately undertaken, as well as recovery pursued with respect to any illegitimate payments. Finally, disclosure of historic costs and performance should be adjusted to correct any past underreporting of fees and overstating of performance.

If CalPERS, the nation’s leading public pension were to investigate and fully disclose all of its alternative investment costs and performance results, the impact upon alternative investment General and Limited Partners globally could be devastating.

XX. Money For Nothing: Billions Wasted On Committed Uninvested Capital

Among the most controversial practices in private equity and private credit is the industry's two-track accounting. That is, investment management fees are charged on 100 percent of "committed capital," including capital that has not yet been drawn or invested, while performance is reported on invested or "called capital," excluding the uninvested portion on which fees are still charged. This asymmetry has been criticized for decades by prominent investors, including Warren Buffett and Charlie Munger, who repeatedly warned—at Berkshire Hathaway annual meetings and in shareholder letters—that private funds often earn fees on money they are not managing while reporting returns only on money that is invested.

The result is a systematic inflation of reported performance and a systematic understatement of true costs borne by limited partners.

When an institutional investor commits capital to a private fund, that capital is typically drawn over several years. Yet during the commitment period, management fees are commonly charged on the full commitment amount, regardless of how much capital has actually been invested. Paying fees on committed, uninvested capital results in exponentially greater fees on assets under management on a percentage basis.

For example, imagine CalPERS contractually agrees (commits) to invest \$100 million (capital) in a private fund over the next ten years, but in the early years only \$10 million has been drawn and invested. If the fee is 2 percent annually on committed capital (including the uninvested amount of \$90 million), CalPERS will be charged fees of 2 percent annually on \$100 million or \$2 million, not 2 percent of \$10 million or \$200,000—even though the adviser is only actually managing (investing) \$10 million of the pension's assets initially. In other words, a 2 percent management fee becomes an astronomical 20 percent fee on assets actually being managed during early years—before any performance fee (carried interest), transaction fees, or fund expenses are considered.

This is not an exceptional case; it is a core feature of the private-fund business model.

Charging fees on committed but uninvested capital decouples fees from services rendered (capital not invested is not being managed); front-loads compensation to managers regardless of performance; reduces net returns even before carry is applied; incentivizes slow capital deployment, because fees are earned whether

capital is invested or not; and masks true cost when performance is reported only on invested capital.

In plain terms, fees on committed, uninvested capital amount to paying managers for doing nothing—no service whatsoever is provided in exchange for the lavish fee. In our opinion, such fees add insult to injury since these types of investment funds already charge exponentially higher fees than traditional stock and bond managers. For example, the bulk of private capital funds—82 percent—charge performance fees (aka “carried interest”) of 20 percent, in addition to asset-based fees of 2 percent, as well additional operational and organizational fees.

Not surprising, savvy institutional investors are increasingly resisting paying lavish fees to private managers based upon their capital commitments and opting for alternatives that do not charge such fees. Fees on committed capital are not inevitable. Some institutional investors now negotiate fees only on invested capital, lower rates during the commitment period, fee holidays, or step-downs tied to deployment. Evergreen and semi-liquid vehicles often do not charge fees on uninvested commitments at all. The fact that such terms are achievable underscores that fees on committed, uninvested capital are a choice, not a necessity.

According to CalPERS Trust Level Review, Section IV. PERF Allocation, Private Assets Pacing, as of June 30, 2025, the pension had contractual unfunded commitments related to private assets in the following amounts (in millions):

Private Equity: \$31,362
Real Estate: \$2,670
Infrastructure: \$4,836
Private Debt: \$23,268

Total: \$62,136

CalPERS itself states:

“Total contractual unfunded commitments to private assets at fiscal year-end were \$62.1 billion, an increase of \$8.8 billion from the prior fiscal year-end value. Unfunded commitments shown here are primarily due to obligations of PERF as a Limited Partner in externally managed funds. These commitments represent a potential future draw on PERF liquidity which CalPERS has little or no ability to influence.”

We note with great emphasis: CalPERS cannot unilaterally slow, accelerate, or renegotiate these commitments, yet fees may be accruing on them.

Management fees on committed capital typically range from 1.56 percent to 2 percent during the commitment period. Assuming CalPERS pays fees of 2 percent on total unfunded commitments, this amounts to an estimated annual waste of approximately \$1.24 billion. Even if the effective rate were materially lower, the wasted dollars remain extraordinary.

As discussed extensively earlier, it is unclear whether CalPERS monitors or even knows the full fees—including fees on committed, uninvested capital—it pays its investment managers. For example, in a September 2025 release,²¹⁰ CalPERS presents a chart that compares private equity value added vs. fees and profit sharing, where total fees disclosed to the public are \$1.14 billion—less than the estimated fees on committed, uninvested capital alone.

It does not appear fees on committed, uninvested capital, are disclosed anywhere on a standalone basis. Given the magnitude of CalPERS' unfunded commitments, the controversial nature of fees on uninvested capital, the availability of alternative fee structures, and the lack of clear public reporting, fees on committed, uninvested capital should be explicitly disclosed to beneficiaries, employers, and taxpayers. In our judgment, stakeholders would reasonably object to paying billions in fees on assets that have not yet been invested—particularly when returns are reported on a different base, total costs are not fully reconciled, and the pension remains significantly underfunded.

At CalPERS, this practice is not a technical footnote—it is a multi-billion-dollar governance issue that demands clear disclosure, independent oversight, and active negotiation, not passive acceptance.

- **Independent IG Could Save Billions Ending Paying Fees For Nothing**

Fees paid on committed but uninvested capital persist largely because they are not clearly disclosed or independently scrutinized. An independent IG could bring those payments into plain view, where their economic irrationality and misalignment with beneficiary interests would be difficult to defend—making their continuation highly unlikely. An effective IG could ensure billions in savings by eliminating fees imprudently paid on committed uninvested capital alone.

²¹⁰ <https://news.calpers.ca.gov/calpers-now-why-private-equity-is-important-to-your-pension/>

XXI. “Catastrophic” Tax Consequences of Public Pension Mismanagement

Public pension plans (like CalPERS) are established as tax-exempt governmental plans under Internal Revenue Code § 115 and § 414(d). As a result, the plans themselves do not pay federal income tax on investment income. If plans misstate their investment performance results—intentionally, or unintentionally—the tax consequences can be “catastrophic,” according to tax experts. If the plan’s reported returns are incorporated into bond offering documents, and those are false or misleading, this can trigger SEC or IRS scrutiny of the issuer’s tax-exempt bond status.

Other fiduciary breaches may also threaten a public pension’s tax-exempt status.

For example, in 2021, when internal documents at Pennsylvania’s largest pension fund—the Public School Employees’ Retirement System—revealed a performance calculation error, the FBI and SEC launched investigations, the fund’s board began its own probe and 100,000 public school employees reportedly suddenly faced paying more into the retirement system. The error related to “data corruption” in just a single month—April 2015—over the near-decade-long period included in the performance calculation.

During the December certification, the fund’s annual investment return was calculated to be 6.38 percent. Although this fell short of the pension fund’s assumed rate of return of 7.25 percent, it barely surpassed the 6.36 percent threshold needed to avoid an increase in pension payments for 100,000 school workers. The state’s “risk sharing” law means school employees, along with taxpayers, have to contribute more when the pension’s investment portfolio underperforms.

The mistake may have inadvertently prevented an increase in teachers’ pension contributions while at the same time passing the costs onto the commonwealth’s taxpayers. According to The Philadelphia Inquirer, teachers would have had to pay an estimated \$25 million a year extra if returns had come in lower.²¹¹ After re-calculation, the corrected 9-year return was revised down from 6.38 percent to 6.34 percent, which meant the 6.36 percent threshold was missed, triggering the risk share mechanism.

Again, while the one-time error was small, it falsely boosted the \$64 billion fund’s performance over a financial quarter just enough to wrongly lift the fund’s financial returns over a key state-mandated hurdle used to gauge performance.

²¹¹ <https://www.ai-cio.com/news/pennsylvania-psers-hires-law-firms-probe-reporting-error/>

The board had little choice but to fix the number. A top tax lawyer warned the board that failure to do so would be “catastrophic” and force half a million current and retired school workers to pay future income taxes on pensions immediately.²¹²

The SEC investigated the external consultant’s (Aon) role in calculating performance returns and found that Aon misled PSERS by furnishing inconsistent quarterly returns and failing to investigate discrepancies properly. Without admitting or denying the SEC’s findings, Aon consented to a settled order finding that it violated Section 206(2) of the Advisers Act, censuring it, and ordering it to pay a civil penalty of \$1 million and disgorgement and prejudgment interest of \$542,187.²¹³ In January 2024, PSERS publicly announced that the SEC had “concluded its investigation without recommending enforcement action” against PSERS itself.²¹⁴

Gross mismanagement or fraud in public pension financial reporting can also jeopardize the tax-exemption of associated municipal bonds, which would have enormous fiscal fallout. Any potential pension performance or investment fee disclosures which are erroneous may be of concern to the SEC.

For example, in 2014, the Securities and Exchange Commission brought securities fraud charges against the state of Kansas stemming from a nationwide review of bond offering documents to determine whether municipalities were properly disclosing material pension liabilities and other risks to investors. According to the SEC’s cease-and-desist order instituted against Kansas, the state’s offering documents failed to disclose that the state’s pension system was significantly underfunded, and the unfunded pension liability created a repayment risk for investors in those bonds.²¹⁵

In 2013, the Securities and Exchange Commission charged the State of Illinois with securities fraud for misleading municipal bond investors about the state’s approach to funding its pension obligations. The SEC investigation revealed that Illinois failed to inform investors about the impact of problems with its pension funding schedule as the state offered and sold more than \$2.2 billion worth of municipal bonds from

²¹² <https://lebtown.com/2021/06/01/internal-psers-documents-show-how-pas-biggest-pension-fund-got-key-financial-calculation-wrong/>

²¹³ <https://www.sec.gov/newsroom/press-releases/2024-9>

²¹⁴ <https://www.pa.gov/agencies/psers/newsroom/pa-psers-statement-to-members-on-sec-investigation-and-orders>

²¹⁵ <https://www.sec.gov/newsroom/press-releases/2014-164>

2005 to early 2009. Illinois failed to disclose that its statutory plan significantly underfunded the state’s pension obligations and increased the risk to its overall financial condition. The state also misled investors about the effect of changes to its statutory plan.²¹⁶ This enforcement action marked the second time that the SEC had charged a state with violating federal securities laws in their public pension disclosures. The SEC charged New Jersey in 2010 with misleading municipal bond investors about its underfunding of the state’s two largest pension plans.²¹⁷

Finally, we note that while the risk that any misstatements of CalPERS’s investment performance could result in catastrophic tax consequences may seem remote today, the Trump administration’s recent threats to revoke universities’ tax-exempt status—most notably against Harvard University—are unprecedented.²¹⁸ These actions may signal a credible immediate danger that public pension plans, like CalPERS, could lose their tax-exempt status. The political climate of challenging tax exemptions more broadly underscores the importance of rigorous compliance and transparent financial reporting in all tax-exempt sectors, including public pensions.

By way of example, as discussed further below, recently House Republicans began probing whether CalPERS prioritized a “radical” Environmental, Social, and Governance (ESG) agenda in investments, suggesting it could threaten the fund’s tax status.²¹⁹

- **Independent IG Reduces Risk of Tax Catastrophes**

An independent IG at CalPERS could materially reduce the risk of performance misstatement, tax catastrophe, and securities-law exposure by inserting independent controls at the exact failure points exposed by the PSERS case—before errors flow into certifications, contribution triggers, or bond disclosures. The IG turns pension reporting from a reputational exercise into a controlled, auditable system where small errors cannot snowball into catastrophic legal and tax consequences.

²¹⁶ <https://www.sec.gov/newsroom/press-releases/2013-2013-37htm>

²¹⁷ <https://www.sec.gov/news/press/2010/2010-152.htm>

²¹⁸ <https://www.wsj.com/us-news/education/trump-harvard-tax-exempt-status>

²¹⁹ <https://news.bloomberglaw.com/employee-benefits/republicans-investigating-certain-calpers-investments-over-esg>

An independent IG reduces the likelihood of a PSERS-style disaster at CalPERS by catching errors before certification; ending single-point-of-failure reliance on consultants; preventing threshold gaming; protecting tax-exempt status through prompt correction; strengthening bond disclosures subject to SEC scrutiny and making transparency the safest option, not the riskiest.

XXII. Private Markets Investment Risks

As indicated earlier, CalPERS has a 40 percent target allocation to private markets that includes private equity, private debt, and real assets (which includes real estate and infrastructure). These are the highest-cost, highest-risk of all investments and the least transparent.

The initial and ultimate question private investments pose for public pension fiduciaries is: When, if ever, and under what circumstances, conditions or safeguards, should public pensions invest in private funds which are unwilling to submit to public scrutiny? Is it ever appropriate to invest government workers' retirement savings with "black box" private fund managers who refuse to disclose to pension stakeholders, critical information such as the investment strategies, related risks, conflicts of interest, use of leverage and myriad outlandish fees and expenses? How is it possible to verify valuations, investment performance and even compliance with law if there is no or little transparency related to these highest-cost, highest-risk investments?

One of the most significant shifts in public pension investing over the past two decades has been the expansion into opaque alternative investments.

According to the Center for Retirement Research at Boston College:

Overall, state and local plans have increased their holdings from 9 percent in 2001 to 34 percent in 2022... By 2022, the maximum held was over 50 percent and only 5 percent of plans held less than 10 percent.²²⁰

If CalPERS is potentially committing tens of billions to private investments utterly lacking transparency presumably the justification is that these black box investments are worth the massive additional risks, i.e., private investments will substantially

²²⁰ <https://crr.bc.edu/public-pension-investment-update-have-alternatives-helped-or-hurt/>

outperform lower-cost, lower-risk, fully-transparent, unlevered, public-traded investments.

As to whether the shift toward alternatives has helped or hurt pension investment performance, the Center warns the impact of alternatives is complicated by the fact that the reported fair value for many alternative investments is based on appraisals that may differ meaningfully from the true market value. Additionally, plans report performance for alternatives with a quarter lag. As a result, the yearly performance reported for many plans often contains imprecise and outdated valuations of alternatives.

The Center concludes:

Overall, greater allocation to alternatives helped pension fund returns prior to the global financial crisis, but has harmed them since – with no significant impact when looking over both the pre-and post-crisis periods. Additionally, the reported data from pension funds suggest that greater holdings of alternatives have been associated with lower volatility in annual returns. Unfortunately, it is difficult to know how much of the reduction in the volatility is real rather than the product of lagged and imprecise valuations for some alternative assets.

Further:

The analysis concludes that the investment performance of pension funds since 2001 has been below actuarial expectations and that plans' increasing reliance on alternative investments has not helped – although it may have dampened volatility.

According to the New York Times, “attracted by promises of high returns, many public pension funds have been loading up on private equity but may not fully appreciate the dangers.”²²¹

“... reports posted by Oregon and other public pension funds routinely understate these risks, new research has found. The new findings are from Michael Markov, a mathematician who heads MPI, a financial technology company. He provided early warnings about the fraudulently consistent returns in Bernard L. Madoff's Ponzi scheme. I've known Mr. Markov for years. And he now says that, on average, the risks being carried by public pension funds are at least 20 percent greater than they are reporting, largely because they aren't taking account of the true risks embedded in private equity.”

²²¹ <https://www.nytimes.com/2023/08/04/business/private-equity-public-pension-funds.html?smtyp=cur&smid=tw-nytimesbusiness>

Finally, a recent report published by the American Federation of Teachers and Americans for Financial Reform Education Fund concluded that private equity does not deliver the superior returns that its advocates insist justify pension fund investment in this sector, and such investment would be highly risky for retail investors.²²²

The private equity industry defends its debt-fueled leveraged buyout model as necessary to provide purportedly high yields, and it argues that expanding into other parts of the U.S. retirement system would offer advantages to more working people. But extensive data and analysis by the AFT and AFREF tell a different story:

- Private equity profitability has been in year-over-year decline for the past 20 years.
- One study found that Florida pensions would have earned a billion dollars more between 1988 and 2011 if they had not invested in private equity.
- Private equity executives frequently manipulate how they report asset values.
- Stability is a selling point for private equity, but volatility in actual asset values is just as high as in the public markets.
- The internal rate of return, the common way private equity funds report returns to investors, is an easily and often gamed measure.
- Fee structures—paid directly by investors or indirectly through portfolio companies—are prone to extensive manipulation.
- Excessive fees can also damage portfolio companies' financial health and further hamper investor returns.
- The benchmarks that private funds use to justify their stewardship of companies are inaccurate reflections of their portfolios.
- Private equity secondary markets—a new and growing practice where an investor buys an existing interest from a limited partner investor in a private equity fund—confirm that sellers take substantial losses when they sell fund shares, calling fundamental asset values into question.

“Private equity has a track record all right: one of extracting huge fees from our members’ retirement savings and with zero transparency and disappointing returns,” said AFT President Randi Weingarten.

- **CalPERS Misleads Public About Private Equity Costs and Risks**

²²² <https://www.aft.org/press-release/private-equity-delivers-high-risk-low-returns-and-costly-fees>

At the outset, we note that particularly with respect to its communications regarding its rapidly growing private equity investments, CalPERS regularly provides incomplete (at best) and potentially misleading information to the public. When a leading public pension fiduciary managing hundreds of billions in taxpayer-backed liabilities provides unbalanced information about high-risk private equity investing, it's dangerous. CalPERS can distort policy, weaken oversight, and—if copied by other pension plans—magnify systemic risk.

For example, in September 2025, *CalPERS Now: Why Private Equity is Important to Your Pension*,²²³ the pension presents a strongly positive case for private equity in pensions but doesn't present a complete picture. It emphasizes the upside (historical returns, growth, fees saved via co-investments, and selective transparency) but underplays or omits important risks and critiques.

Ironically, if a private equity investment manager had published this same article aimed at the general public, written in a promotional tone, with performance figures, claims of outperformance, and no risk disclosure, it would raise significant compliance red flags under U.S. securities laws, SEC advertising and solicitation rules, and fiduciary duty standards for private fund advisers.

While CalPERS is not a private equity manager, investors (including other public pensions) who look to the nation's leading public pension for sophisticated private equity guidance, could be seriously harmed.

The pension boasts its “strong” recent investment results were “driven largely by the strength of our private equity investments.” CalPERS had “increased our private equity investments from \$50 billion to \$92 billion, diversifying the investments to reduce risk, selecting higher-returning investment managers and maintaining a disciplined approach to the asset class.”

“These (private equity investments) account for about 60% of our investments since 2022.”

The high-risk, speculative nature of private equity is not mentioned once.

Indeed, the single reference to “risk” in the announcement suggests that by almost doubling its private equity exposure to \$92 billion, CalPERS, somehow, reduced risk.

Gambling on private equity has strengthened the pension, says CalPERS:

²²³ <https://news.calpers.ca.gov/calpers-now-why-private-equity-is-important-to-your-pension/>

“Private equity is just one piece of the puzzle, but it’s an important one. It helps us grow the fund and keep your pension secure for the long term. The results speak for themselves: Private equity has been our strongest-performing asset classes for the last 20 years, delivering billions in profits that help strengthen the pension fund.”

Under “What about transparency?” CalPERS incongruously states that private equity’s limited disclosures are somehow consistent with the fund’s commitment to transparency:

We understand that some members have questions about private equity because these companies don’t report as much information publicly as those listed on exchanges. That’s why we’re committed to transparency.

And then:

What we don’t do is detail the individual companies in which the private equity funds have invested, which is exempt from disclosure under California law. Doing so would hurt our competitiveness and make it harder for us to get the best deals for our members.

The profound dangers related to lack of transparency in private equity are not mentioned once.

Instead, CalPERS repeats unsubstantiated, oft-cited industry arguments, including claims that the “best deals” demand secrecy and private equity portfolio holdings are somehow exempt from disclosure under applicable law.

In short, says CalPERS, full transparency hurts and secrecy strengthens, pensions.

In fact, the lack of transparency in private equity creates a range of risks—financial, governance, legal, and reputational—that are especially serious for public fiduciaries managing retirement assets. Private equity’s lack of transparency is far more than a mere inconvenience—it’s a structural risk factor. It conceals true performance, inflates reported success, obscures costs, and undermines fiduciary oversight. For public systems like CalPERS, opacity magnifies political, legal, and reputational vulnerabilities because taxpayers and retirees have a right to know where their money is and how it performs. If valuations later prove inflated, the ensuing losses can damage trust not only in the fund but in public institutions more broadly.

The exponentially higher-cost related to private equity is not mentioned once.

The article gives superficial treatment to fees, but doesn’t explore how they erode returns. The article fails to mention that private equity fees are astronomically greater (700xs) than traditional public equity investments. Further, since annual fees compound (and fees paid reduce the capital that can compound), even modest extra

fees can meaningfully erode long-term returns. The SEC warns investors that “fees aren’t just one-time deductions—they compound.”²²⁴

In the chart where CalPERS compares private equity value added vs. fees and profit sharing, total fees disclosed to the public are \$1.14 billion on \$92 billion in assets, or 124 bps. CalPERS does not disclose that the private equity all-in fees (including, but not limited to, management and performance fees, fund level expenses, portfolio company monitoring and transaction fees, transaction costs and financing expenses, fund of funds or secondary investment fees, and organizational and setup costs) are often far greater, in excess of 6-7 percent.

Underreporting private equity fees is clearly beneficial to the pension and its investment staff (who often receive bonuses or career advancement tied to reported performance metrics). By keeping total fees understated or fragmented across line items, CalPERS can avoid headlines about “billions paid to Wall Street.”

Private equity managers benefit because large reported fees invite public and legislative backlash. Indeed, the mutual incentive to underreport or obscure fees lies at the center of the transparency and accountability problem in public pension private equity programs. Both sides—public pensions and private equity managers—can benefit, at least in the short term, from downplaying the real costs. Not surprising, the fee disclosure is grossly incomplete and misleading to stakeholders and investors globally.

- **CalPERS Advocates for Private Equity, Boasts Industry Awards**

The CalPERS release is persuasive in its advocacy role and its timing raises serious public policy concerns. It appears that the pension is broadly promoting private equity investing—without critical risk disclosures—at the very moment when the Wall Street is pushing private equity exposure into more retail or 401(k) settings. Critics are justifiably concerned that average savers do not fully understand the unique risks (illiquidity, valuation opacity, mismatch of time horizons).²²⁵ Misinformation about private equity by the nation’s largest public pension is especially troubling at this time.

²²⁴ https://www.sec.gov/investor/alerts/ib_fees_expenses.pdf

²²⁵ <https://www.businessinsider.com/trump-private-equity-retirement-plan-risk-401k-retail-investor-warning-2025>

In another example of CalPERS private equity puffery, the pension announced with great fanfare (*CalPERS Wins Highly Coveted Private Equity Industry Award*)²²⁶ that in 2022 and 2023, Private Equity International—a private equity trade publication—named the pension as Limited Partner of the Year in North America. “CalPERS has received the award recognizing it as one of the “best and most successful” firms in the private equity industry,” the pension boasted.

“The CalPERS Private Equity team works hard every day to achieve outstanding returns for our members,” said Anton Orlich, managing investment director for Private Equity. “We are honored that our peers in the industry have recognized CalPERS for its achievements as we continue to focus on strengthening the pension fund.””

CalPERS runs the largest private equity portfolio among public pension funds valued at nearly \$92 billion. It should come as no surprise that industry professionals would select the limited partner with the largest private equity holdings (i.e., paying the most in fees) for this award—an award which the pension characterizes as “highly coveted.” Coveted by whom—public pension fiduciaries? Such industry awards tend to reflect the interests and incentives of the private equity industry itself, not the fiduciary interests of pensioners. That is, the award signals industry popularity, not necessarily fiduciary prudence.

For a public pension system whose fiduciary duty is to beneficiaries, not fund managers, celebrating an industry popularity contest is, at best, naïve or self-serving. Worse still, bragging about being the “favorite client” of fee-hungry investment managers undermines CalPERS’ credibility as a tough negotiator. Retirees and taxpayers expect CalPERS to minimize costs and exercise oversight—not to seek approval from the very vendors it pays. True fiduciary strength is measured by independence, transparency, and discipline—not by accolades from those with commercial interests in continued high fees and allocations.

The irony is that a genuinely rigorous limited partner—one that pushes hardest on fees, transparency, and conflicts—would be least likely to be celebrated by the industry press.

Public pensions often mistake industry validation for independent confirmation of success—when in fact it reflects the industry’s sales incentives. In that sense, CalPERS calling the award “highly coveted” is classic public-relations inflation: the adjective adds gloss without conveying independent rigor.

²²⁶ <https://news.calpers.ca.gov/calpers-wins-highly-coveted-private-equity-industry-award/>

Despite CalPERS's communications, the enormous risks related to private market investments generally and commonplace industry abuses are well-known. In fact, many of the risks, conflicts of interest involving self-dealing and other abuses are regularly disclosed in the offering documents—documents which CalPERS has been unwilling to provide to the public.

In order to educate CalPERS stakeholders as to the substantial risks and industry abuses, we offer the following partial list related to private equity investments.

- **List of Private Equity Risks**

1. **High-risk, speculative investments:** Private equity offering documents generally prominently state (in capital, bold letters) that an investment in a private equity fund is speculative, involves a high degree of risk, and is suitable only for persons who are willing and able to assume the risk of losing their entire investment.
2. **High-cost, involving myriad opaque asset-based, performance and other fees and expenses:** Private equity investments charge myriad opaque fees and expenses exponentially (10x) greater than traditional stock and bond funds. It is difficult to determine the total cost of investing in these funds because disclosure of fees and expenses is generally incomplete.
3. **Illiquid, lacking a public market:** Private equity investments generally do not permit redemptions during the life (generally 10-13 years, but may be as long as 50 years) of these investments. The partnership interests offered are illiquid. No public market for the partnership interests exists and none will be developed. The pension will not be able to redeem or sell.
4. **Lack of transparency:** These investments utterly lack a hallmark of prudence—transparency. The information they provide to investors is limited, often incomplete and impossible to verify.
5. **Largely “unconstrained” and may change investment strategies at any time:** Private equity funds generally disclose specific risks related to investment strategies they may pursue. However, the managers reserve the right to pursue virtually any investment strategy—at any given time. Thus, it is impossible for investors to know for certain at any given time the composition of a fund's portfolio, the appropriateness of the investments and the related risks.

For example, some funds invest in potentially usurious payday loans to the poor, controversial life settlements purchased from the elderly terminally ill, and highly-volatile crypto currency.

6. Use of leverage: Private equity funds generally reserve the right to engage in borrowing, or leverage, on a moderate or even unlimited basis. Leverage increases dramatically the risks related to investing in a fund and the degree of leverage may change at any time.

The pension will have no control over and will never know the degree of leverage employed at any given time. That's why it could lose everything.

7. No assurance of diversification: Since funds generally reserve the right to invest 100 percent of their assets in a given sector or investment, such as cash, there is no assurance of diversification.

8. Lack of comprehensive regulation in the U.S: Private equity funds are not subject to the same degree of regulation as mutual funds and other U.S. registered funds.

9. Heightened offshore legal, regulatory, operational and custody risk: Many private equity funds are organized and operate in offshore tax havens, such as in the Cayman Islands, which lack the legal, regulatory and operational safeguards offered in the U.S. Also, fund assets may be held, or custodied, offshore. Funds which are incorporated and regulated under the laws of foreign countries present additional, unique risks which fiduciaries and stakeholders should consider.

10. Myriad conflicts of interest, self-dealing practices: Private equity funds generally disclose myriad conflicts of interest involving the investment managers to the funds and others. For example, managers routinely disclose they may keep the best investment opportunities for themselves or "friends and family."

11. Valuation Uncertainties: In private equity funds, the investment manager determines the value of the securities held in the fund's portfolio. Such valuation affects both reported fund performance as well as the calculation of the management fee and any performance fee payable to the manager. The investment managers are subject to a conflict of interest because they can profit from inflating values. Further, the performance fee structure creates an incentive to the investment manager to engage in speculative investments and thus a potential conflict with the interests of pension investors.

11. Business practices that may violate ERISA: Private equity fund offering documents often disclose that investors agree to permit managers to withhold complete and timely disclosure of material information regarding assets in their funds. Further, investors in the fund may agree to permit the investment manager to provide certain mystery investors with greater information and the managers are not required to disclose such arrangements to pensions. As a result, the pension is at risk that other unknown investors are profiting at its expense. Finally, the offering documents often warn that the nondisclosure policies may violate applicable laws. That is, certain practices in which the manager engages may be acceptable to high-net-worth individuals (or unknown to them) but violate laws applicable to ERISA and state pensions.

12. SEC finds pervasive private equity bogus fees and illegalities: A majority of private-equity firms inflate fees and expenses charged to companies in which they hold stakes, according to a 2014 internal review by the SEC, raising the prospect of a wave of sanctions against managers (including potentially some of the Fund’s private equity managers) by the agency. More than half of about 400 private-equity firms that SEC staff examined charged unjustified fees and expenses without notifying investors.

13. Private equity transaction fee securities law violations: Transaction fees charged by private equity funds, sometimes called the “crack cocaine of the private equity industry” (because the fees are not traditionally subject to minimum performance requirements), are increasingly opposed by savvy public pensions.

14. Private equity monitoring fees tax law violations: With respect to private equity so-called monitoring fees paid by private equity owned portfolio companies, whistleblower claims have been filed with the Internal Revenue Service alleging that these fees are being improperly characterized as tax-deductible business expenses (as opposed to dividends, which are not deductible), costing the federal government hundreds of millions of dollars annually in missed tax revenue.

15. Private equity management fee waiver tax law violations: The IRS has in recent years been examining the propriety of private equity management fees waivers, which have allowed many fund executives to reduce their taxes by converting ordinary fee income into capital gains taxed at substantially lower rates, costing the federal and governments billions of dollars annually in missed tax revenue.

16. Private equity under-reporting of massive fees: The rates of return and hidden costs related to private equity are difficult for even sophisticated investors in these deals to identify. While certain fees associated with private equity funds are widely known—managers typically charge investors 1 to 2 percent of assets and 20 percent of portfolio gains—other charges, including transaction fees, legal costs, taxes, monitoring or oversight fees, and other expenses charged to the portfolio companies held in a fund are less visible—including unauthorized or bogus fees.

In our forensic investigations of over \$2 trillion in retirement plans, we have never encountered a pension that fully understood the dangers of investing in alternatives and adequately monitored the myriad risks. In our expert opinion, it is highly unlikely CalPERS’s board and staff ever obtained, reviewed—understood, prior to committing capital—all the information related to each and every private equity fund and monitors on an ongoing basis these opaque, costly and risky investments.

As mentioned earlier, prior to commencement of our investigation, CalPERS announced on CNBC that it would not provide us with any of the records related to

the pension's private investments. Thus, the public cannot determine whether the pension even has all the relevant documents and has thoroughly reviewed them.

- **Independent IG Can Improve Private Investment Cost and Risk Disclosures**

By introducing independent verification into the public-communications process, an independent IG would significantly strengthen the credibility, balance, and accountability of CalPERS' disclosures regarding private investment costs and risks—areas where complexity and opacity have historically undermined public confidence.

At CalPERS, communications directed to the public about private equity, private credit, and other alternatives have tended to be selective (emphasizing gross or benchmarked returns, not net costs); aggregated (blending fee categories that obscure material cost drivers); narrative-driven (framed to justify strategy rather than honestly present trade-offs); and validated by vendors (consultants, benchmarking firms) subject to potential conflicts of interest due to their commercial ties. Even when disclosures are technically accurate, the overall message is often misleading to the public by omission, particularly regarding fees on committed uninvested capital; carried interest mechanics and timing; portfolio-company fees; secondary-sale discounts; liquidity and exit risk; and sensitivity to questionable valuation assumptions. The problem is not lack of disclosure volume—it is lack of independent verification and balance, i.e., quality versus quantity.

An independent IG would improve confidence by verifying prior to public claims that statements about cost efficiency, transparency leadership, or net value-added are supported by reconciled, complete cost data, not simply conflicted consultant summaries or benchmarks. This discourages overconfident or one-sided messaging and forces communications to align with economic reality. An IG could ensure that public communications addressing private investments also fully describe material downside risks; explain fee asymmetry (exponentially-greater private investment fixed fees versus uncertain, speculative returns); disclose liquidity constraints and exit uncertainty; and present scenario sensitivity (what happens if assumptions miss). This mirrors standards expected in regulated investment communications—even though CalPERS is not subject to SEC advertising rules. While CalPERS often cites third-party ratings or benchmarks to validate transparency, an IG could ensure that the limits of those ratings are clearly explained, material non-disclosures are not obscured by high scores, and vendor-provided validations are not presented as independent assurance. This would significantly improve public understanding and reduce potential harm to the public related to CalPERS misinformation.

An IG can recommend or require that CalPERS communications include plain-language explanations of complex fee structures, examples showing effective fees (not just headline rates), and clear tables reconciling “what we paid” versus “what we report.” Such additional disclosure improves accessibility and trust—especially for non-expert stakeholders. An IG can identify and correct inconsistencies between annual reports, transparency reports, board presentations, press releases, and testimony. Consistency is essential to credibility. Today, different CalPERS documents often tell different versions of the same story and confuse the public.

The IG would not write press releases, would not advocate for or against private equity and would not replace management’s communications role. Instead, the IG would act as a truth-enforcing backstop which would improve trust. Public trust improves when claims are independently checked, bad news is disclosed alongside good news, and explanations withstand scrutiny even when markets turn. An IG improves communications not by making them more promotional, but by making them more credible.

XXIII. “Zombie Fund” Heightened Risk

The life cycle of a private equity fund can be broadly divided into four distinct stages. Fundraising is the first stage and involves raising capital from investors. Private equity firms will seek to raise capital from accredited investors such as high-net-worth individuals, pension funds, and institutional investors. These investors provide the capital required to invest in private companies and generate returns for the fund. The investment stage is the second stage of the private equity life cycle, and it involves identifying and acquiring companies with the potential for growth and profitability. Portfolio management stage is the third stage, and it involves working closely with the companies in which the private equity firm has invested to increase value. Finally, the exit stage is crucial to the success of the private equity fund, as it is how investors receive their returns. Private equity firms will have a target return on investment that they aim to achieve, and the exit stage is where they can realize this return. These firms can exit their investment via an IPO, merger, sale to another company, or even another private equity firm.

The typical liquidation period for alternative investments ranges from 3 to 12 years. The majority of the distribution is received during the liquidation period; however, it is not uncommon for a minimal amount of the fund to remain open while awaiting final close.

When alternative investments fail to fully liquidate within the stated term of the fund, numerous concerns arise, including whether some or all investment fees will continue to be charged, as well as whether the valuation of portfolio investments and performance reporting has been accurate over the life of the fund.

For example, following the wreckage of the 2009 Global Financial Crisis (GFC), many private equity managers (unable to raise new capital because of poor performance) extended the lives of their troubled funds, milking management fees from investors for mediocre and over-leveraged assets for years. These funds were referred to as “Zombie Funds” by the financial press.

A Zombie Fund is a private investment fund that has stopped making new investments, has failed to achieve exits for its remaining portfolio companies, and continues operating primarily to collect management fees rather than generate returns for investors. In short, it’s a fund that refuses to die—consuming management fees but producing little or no return for investors. Today, a fund with a vintage year before 2014 and still active but not liquidated would likely be flagged as a Zombie.

Said Forbes:

Though It’s hard to put numbers on how many once thriving private equity managers joined the ranks of the walking dead as a result of the GFC, Triago estimates that there were some 1,100 zombie funds in 2019; that is fee-collecting funds more than 10 years old with assets still in their portfolios, yet run by managers unable to raise a new fund (using a yardstick of 10 years). Funds that began investing in 2008 held \$220 billion in unrealized investments in their portfolios ten years later, more than any other private equity vintage has ever held at that stage ...²²⁷

Major public pensions have been found to be at risk from Zombie funds:

Even in 2023 some major investors still seem to be suffering from the 2009 Global Financial Crisis-generated spike in zombie funds. In a survey of 10 major public retirement systems in September, Bloomberg found that on average 4 percent of their private equity holdings were still locked in funds that began investing prior to 2009, with one group’s concentration - the North Carolina state pension fund - hitting 11 percent. Zombie funds and managers can be a serious drag on private equity performance.²²⁸

²²⁷ <https://www.forbes.com/sites/antoinedrean/2023/10/20/no-where-to-run-no-where-to-hide-the-private-equity-zombies-return/?sh=76f6029c7553>

²²⁸ <https://www.bloomberg.com/news/features/2023-09-24/private-equity-zombie-firms-leave-pension-funds-with-hard-choices>

A new class of Zombie funds is reportedly emerging due to the recent sharp rise in interest rates:

With the world's most influential benchmark for the cost of debt, the U.S. federal funds rate, rising to 5.25-to-5.50 percent from a floor of zero over the 16 months through July - the fastest sustained hike in 40 years - the \$9 trillion-in-assets private equity world must brace for a sharp rise in poorly performing portfolios and the emergence of a new class of the walking dead among private equity managers.²²⁹

According to CalPERS financial statements as of December 31, 2024, there were 108 out of 420 total private equity funds, or nearly 26 percent that had a vintage year more than 10 years old (i.e., 2014 or earlier). The combined Cash Out & Remaining Value of these potential Zombies was \$55.91 billion, with \$4.76 billion supposedly still sitting in "remaining value." Within that, 60 funds were 2010-vintage or older and still had \$1.4 billion of remaining value—i.e., tail-end assets that haven't been fully liquidated.

As noted in Institutional Investor:

In recent years, the returns of many top private equity leveraged buyout funds have barely beaten the stock market as some funds can't sell huge chunks of their portfolio, according to a new academic analysis.

For funds between seven and nine years old, "half of the stated asset value consists of unsold deals that are 'marked to market' by the private equity managers," according to a study by Jeffrey Hooke, a senior finance lecturer at Johns Hopkins Carey Business School who focuses on the alternative asset class.

What's particularly striking in Hooke's analysis is how long it is taking private equity funds to sell off their portfolio companies, which is making them even less competitive with, say, an S&P 500 index fund.²³⁰

In 2024, industry research suggests that over \$829 billion globally was locked in Zombie private equity funds.²³¹ U.S. public pensions hold a large share of that amount, given their early entry into private equity during the 2000s boom.

²²⁹ <https://www.forbes.com/sites/antoinedrean/2023/10/20/no-where-to-run-no-where-to-hide-the-private-equity-zombies-return/?sh=76f6029c7553>

²³⁰ <https://mail.aol.com/d/search/keyword=hooke/messages/APdkVVAdL0a0Zk-HfA6OkHOB3Z4>

²³¹ <https://www.linkedin.com/pulse/zombie-funds-proliferate-all-time-high-buyouts-bwfme/>

Zombie funds are a threat to public plans in that the capital invested is illiquid—not available to meet benefit payments, the funds continue to charge 1-2 percent management fees even if there's little activity, and fund values are almost certainly overstated, as are performance, and the funded status of the plan. Also, there is a governance burden in that pension staff must monitor and report on hundreds of small, illiquid legacy funds. Finally, exposure to “dead” funds signals weak oversight of managers and poor alignment with managers, as well as undermines public trust in pension governance.

CalPERS's alternative investments subject to extended liquidations should be closely examined and fully disclosed to the public. The “tail-end” risk is real here, as 60 funds with 2010 or earlier vintages still carry \$1.4 billion in remaining value and 2014 and older vintage funds indicate total unliquidated value of \$4.76 billion. This amounts to a classic “aging portfolio” exposure where extensions and General Partner-led deals become more likely—and where fiduciary concerns are most acute (fees, conflicts, diminished Limited Partner leverage). There is ample reason to believe, in the opinion of experts, that the delayed liquidations may be “red flags” for abusive practices, including, but not limited to, questionable valuations.

As noted in the Wall Street Journal recently, “An exit drought in private equity has left some \$668 billion sitting in funds a decade or more old, racking up costs.”²³²

- **Independent IG Can Improve Transparency and Reduce Zombie Fund Risk**

An independent IG could improve transparency and reduce Zombie fund risk at CalPERS primarily by doing two things CalPERS does not do today publicly. That is, first, force standardized, fund-by-fund disclosure of tail-end exposures and economics, and, second, independently test whether extensions, fees, and valuations are defensible.

At the pre-commitment stage, an IG can improve transparency and reduce Zombie fund risk by forcing daylight on whether CalPERS is accepting poor, i.e., “tail-friendly” terms that allow funds to extend profitably for the General Partner. A pre-commitment “terms scorecard” can be published for every new commitment indicating the basis upon which fees will be charged (e.g. commitments versus invested capital); step-downs after the investment period; extension rules (how many, whose consent, what disclosure); General Partner removal thresholds; and

²³² <https://www.wsj.com/articles/stuck-private-equity-deals-saddle-investors-with-endless-fees-aaf5f044>

advisory fees/portfolio-company fee offsets. Pursuant to a “red-flag” policy, any proposed investment lacking meaningful fee step-downs in late life, or strong Limited Partner controls on extensions, would trigger a public IG memo explaining why CalPERS nevertheless proceeded. Such measures reduce the risk CalPERS gets locked into “fees that never die” structures that become costly once exits stall (a central issue in the current exit drought discussion).²³³

To guard against underperformance being masked by marks and extensions once the fund is in motion (during the investment stage), an IG can also require a public baseline file for each fund at commitment which includes factors such as strategy, expected holding period, governance terms and fee schedule.

The IG can also publish a Quarterly Tail-End Dashboard (fund-by-fund) providing information such as vintage year, age, original term, extension history, remaining value/percentage of original commitment, remaining companies/assets, fees paid this year and fee basis. In an environment where aging funds and delayed exits are already widely recognized as a systemic issue, a dashboard makes it impossible for “quiet Zombies” to hide in aggregate reporting.

When exiting funds is hard, managers increasingly use continuation vehicles and General Partner-led secondaries which are ripe for conflicts and valuation games. For every extension or General Partner-led deal, an IG Fairness Review (public summary) should examine alternatives that were considered, any conflicts involved, price discovery process, any Independent fairness opinion—including who paid for it and scope limits. A liquidation plan should be required for any fund beyond a set age threshold (e.g., 10–12 years). The goal at the exit stage is to stop extension abuse and combat General Partner conflicts.

Wall Street Journal-style “endless fees” dynamics persist because Limited Partners often believe they have no better option than to wait. An IG can change that dynamic by forcing CalPERS to document and defend why waiting (and paying) is the best available choice.

An IG also improves governance by adding targeted independent audit power that staff and board processes do not provide, such as tail-end forensic audits focused on valuation practices, fee basis compliance, expense allocations and side-letter enforcement (fee breaks, “Most Favored Nation” provisions). A credible IG

²³³ <https://www.goodwinlaw.com/en/news-and-events/news/2025/06/announcements-privateequity-pif-stuck-private-equity-deals-saddle-investors>

whistleblower hotline and protection increase the likelihood that internal concerns about marks, fee abuse, or conflicted restructurings surface early. If CalPERS persists in withholding details regarding private funds as “confidential,” the IG can publish a withholding log detailing what information was withheld, the legal basis and why the public interest allegedly favors nondisclosure. This is crucial when beneficiaries are being asked to trust valuations and fee statements.

An IG’s performance should be judged based upon concrete metrics, such as reduction in tail-end exposure; percentage of private equity assets in funds older than, say, 10 years; total remaining value in, say, pre-2014 funds; reduction in tail end fees; acceleration of wind-downs and improvements in valuation credibility.

In conclusion, a truly independent IG would reduce Zombie-fund risk at CalPERS by making it hard to hide, hard to extend without consequences, and hard to keep charging full fees on shrinking, illiquid leftovers—especially during an exit drought where the industry is already grappling with large piles of decade-old “tail-end” assets and persistent fee drag.

XXIV. CalPERS Secondary Sales Lack of Transparency, Inflated Valuation Concerns

Over the past decade-plus, CalPERS has been a repeat, large-scale participant in the secondary market for private investments—both as a seller and as a buyer.²³⁴ CalPERS has used neutral terms—such as “mature,” “legacy,” “tail,” “seasoned”—when referring to the problematic funds it sells that are beyond the core value-creation window, often operating under extensions, producing low or slow distributions, and still generating a governance burden (and sometimes a fee/expense drag). Such language is consistent with the private equity industry’s “tail-end” framing, as opposed to the term “Zombie” funds used by the media.

The reasons CalPERS says it engages in secondary sales include:

1. Liquidity management: turning illiquid fund interests into cash when distributions are weak (especially post-2022).

²³⁴ <https://www.bloomberg.com/news/articles/2012-04-09/calpers-said-to-sell-1-5-billion-private-equity-stakes>

2. Portfolio rebalancing/overallocations: when private market Net Asset Values remain “sticky” while public markets move, allocations can drift.
3. Reducing tail-end drag: exiting older vintages where the rate and consistency at which a fund is returning actual cash to investors over time is low and governance burden is high.
4. Program redesign: shifting away from historical patterns (e.g., mega-buyout heavy) toward different segments (middle market, growth, venture, emerging managers)—often funded by recycling capital through secondaries.

To date, CalPERS secondary sales of private equity interests have profoundly lacked transparency. For the public to evaluate whether its secondary sales have helped or hurt beneficiaries, key facts must be disclosed, such as the exact fund list sold (beyond partial trade reporting), marking policy used at sale, gross versus net discount (including deferred payments/structures), total transaction costs (banker fees, legal, internal), and a clean accounting of the opportunity cost (i.e., where the proceeds were redeployed and how that investment performed).

More disturbing, based upon standard industry practice, we believe the public may reasonably be concerned that the values of certain of the remaining private equity portfolio holdings may be overstated, i.e., not appropriately discounted.

In Limited Partner-led secondary transactions, it is market practice for sellers to prioritize the disposition of fund interests that are most liquid, widely held, and operationally transferable, as these assets attract the broadest buyer interest and command the highest prices. Accordingly, it is reasonable to infer that large-scale secondary sales by CalPERS would initially consist of its more liquid private equity holdings, with less liquid, older, or more complex fund interests, requiring potentially far greater discounts, remaining in the portfolio. As the nation’s largest public pension, its secondary sales are scrutinized by its board, media, and stakeholders. Large reported discounts create reputational and political risk.

- **History of Secondary Sales**

In 2012, the pension reportedly sold about \$1.5 billion in private equity stakes—which was one of the larger secondaries at the time. No detailed public list or discount was disclosed.²³⁵

²³⁵ <https://www.bloomberg.com/news/articles/2012-04-09/calpers-said-to-sell-1-5-billion-private-equity-stakes>

In 2013, CalPERS decided to sell its management-company stake in Carlyle via the group's secondary offering. CalPERS framed this as a disposition through the offering, not the sale of a limited partnership interest.²³⁶

In November, 2015, the pension reportedly sold \$1 billion of private equity fund stakes to more than 10 buyers, but did not publicly disclose any discount, fund list, or transaction costs.²³⁷

In October 2015, Blackstone announced it would acquire \$3 billion of secondary global real estate interests from CalPERS (described by Blackstone as largest real estate secondary at the time).²³⁸ The pricing and discount was not disclosed by CalPERS.

In June 2018, CalPERS Investment Committee transcript referenced "liquidating nearly \$3 billion with the commingled funds secondary sale" and "legacy asset sale."²³⁹ No discount was disclosed.

In 2022, CalPERS hired Jefferies to run a multi-billion-dollar private equity portfolio sale. Multiple outlets reported that the \$6 billion Limited Partner-stakes sale was priced at about a 10 percent discount to the portfolio's September 2021 value.²⁴⁰ CalPERS did not publish a full fund list, or all transaction costs. Even when the overall discount is widely reported, the public still cannot fully quantify the economic impact without full deal terms and underlying portfolio composition.

Said Bloomberg:

The deal is not only the largest of its kind by Calpers, but private equity executives said it's probably the biggest-ever involving second-hand fund stakes changing hands.

²³⁶ <https://www.privateequityinternational.com/calpers-to-sell-stake-in-carlyle>

²³⁷ <https://www.secondariesinvestor.com/calpers-sells-1bn-of-private-equity-fund-stakes/>

²³⁸ <https://www.blackstone.com/news/press/strategic-partners-fund-solutions-to-acquire-3-billion-of-secondary-real-estate-interests-from-calpers-in-largest-secondary-transaction-to-date>

²³⁹ https://www.calpers.ca.gov/documents/201604-invest-transcript-ic-a/download?utm_source=chatgpt.com

²⁴⁰ <https://www.bloomberg.com/news/articles/2022-07-07/calpers-unloads-record-6-billion-of-private-equity-at-discount>

Trading in such size came at a price: Calpers sold its holdings at a roughly 10% discount to their value in September 2021, some of the people said. The fund softened the blow thanks in part to how it structured the deal, they said.

In 2024-2025, CalPERS continued test pricing for additional limited partner-led sales.²⁴¹ In January 2025, CalPERS reportedly sold another \$3-4 billion of legacy stakes to a consortium of investors led by Ardian, AlInvest and Partners Group.²⁴² CalPERS did not disclose the pricing or discount. Thus, contemporary market averages (88-90 percent of Net Asset Value) may be a reasonable yardstick for what similar large limited partner portfolios were selling for at that time.

As of July 2025, Jefferies noted:

Global secondary market volume... increased 51%... from H1 2024. This represents the largest year-over-year H1 volume increase and the most active 6-month period in market history... LPs increasingly turned to the secondary market to generate liquidity, rebalance portfolios and manage overallocations, particularly as traditional exit channels remained subdued (emphasis added). Average pricing for all LP portfolios was 90% of NAV (emphasis added).²⁴³

For 2025, additional sales were reported as being marketed or shopped.²⁴⁴

- **Independent IG Can Improve Secondary Sale Transparency and Reduce Overvaluation Risk**

An independent IG can materially reduce valuation risk, selection bias, and hidden costs in private-investment secondary sales by changing what is disclosed, when it's disclosed, and who validates it. The goal is to ensure the public can tell whether secondary sales helped or hurt beneficiaries, and whether remaining marks are credible.

Secondary sales are uniquely risky (and opaque) in that they combine three hazards that don't exist in ordinary reporting of asset sales. Selection bias is a primary

²⁴¹ <https://www.buyoutsinsider.com/calpers-quietly-tests-market-for-secondary-pricing-ahead-of-potential-sale>

²⁴² <https://content.clearygotlieb.com/pe-articles/the-surge-of-secondaries-a-market-positioned-for-continued-growth/>

²⁴³ <https://www.jefferies.com/wp-content/uploads/sites/4/2025/08/Jefferies-Global-Secondary-Market-Review-July-2025.pdf>

²⁴⁴ <https://www.secondariesinvestor.com/calpers-shops-3bn-pe-portfolio-as-it-works-to-reconfigure-programme/>

concern since sellers typically offload the most liquid, transferable interests first, leaving the least liquid, most problematic assets behind. Also, while prices reveal market reality for what has been sold, remaining holdings may stay on inflated manager marks. Finally, headline discounts related to sales often mask deferred consideration, earn-outs, stapled commitments, and transaction costs that materially change (increase) the “true” discount. Absent independent oversight, these dynamics can overstate remaining portfolio value, distort performance, and shift risk to beneficiaries without their knowledge.

Pre-sale transparency efforts by the IG focus upon making the decision auditable before execution. Typically, boards and the public see a single headline about a sale with no way to judge quality or bias. The IG would require a complete list of funds proposed for sale; a selection rationale memo explaining why these particular funds were selected; and confirmation that selection was not driven solely by ease of sale or reputational optics. Also, a pre-sale mark policy disclosure should include who marks the assets, when they were last marked and any recent changes to valuation methodology. This creates a baseline that allows later testing of whether CalPERS systematically sold its best assets first.

Since reported discounts on secondary sales often ignore deferred payments, fee leakage, and deal structure, in order to ensure sale-price integrity the IG can require gross versus net discount reconciliation; full transaction-cost accounting; and buyer universe disclosure, including number of bidders, strategic versus financial buyers and any conflicts. Without this, a so-called 10 percent discount might really be far greater, say, 20–30 percent after costs and structure.

Post-sale valuation testing of the remaining portfolio is critical. If CalPERS sells its most liquid interests first, remaining holdings are, by definition, less liquid and likely worth less than their marks. A mandatory post-sale review by the IG should compare sold-fund discounts to similar unsold funds and apply implied market discounts to remaining holdings, as well as quantify the valuation gap. A forced-liquidation scenario analysis should determine the discount that would be required to sell the next 10, 20 and 30 percent of remaining value. Mark-to-market challenge memorandum should identify funds whose marks are no longer credible given observed transaction prices. This is how the pension prevents “selling price discovery” from coexisting with unchanged—and inflated—marks elsewhere in the portfolio.

Secondary activity increasingly involves General Partner-led transactions. General Partner-led deals are where valuation risk and conflicts are most acute—and least

visible. As a result, IG review in these situations should focus upon conflicts of interest, fairness-opinions and analysis of comparative alternatives to the General Partner-led sale. Upon completion of the sale, IG review should include use of proceeds disclosure and performance of the redeployed capital. A secondary sale that supposedly reduces risk but underperforms the sold assets is not neutral—it's value-destructive.

Internal reviews lack credibility when reputational risk is high. An independent IG with authority to commission independent secondary-sale audits and ability to publish public IG findings without staff veto, as well as a standing secondary-transactions report covering fund-level details, net economics, residual valuation impacts and lessons learned can improve transparency, performance, public confidence, as well as reduce risk.

Secondary sales are not just liquidity events—they are valuation truth-serum events. An independent IG makes that truth visible by forcing fund-by-fund disclosure, requiring net-economic transparency, testing remaining marks against market reality, and holding decision-makers accountable for both what was sold and what was left behind.

Without that IG oversight, secondary programs risk becoming a way to sell the easiest assets, preserve optimistic marks elsewhere, and quietly shift long-term valuation risk onto beneficiaries—exactly the outcome an IG is designed to prevent.

XXV. History of Pension Investment Consultant Conflicts Regulatory Concerns

“Pension investment consultants” provide advice to pension plans and their trustees with respect to such matters as: (1) identifying investment objectives and restrictions; (2) allocating plan assets to various objectives; (3) selecting money managers to invest plan assets in ways designed to achieve objectives; (4) negotiating investment advisory fees with managers; (5) monitoring performance of money managers and making recommendations for changes; and (6) selecting other service providers, such as custodians, administrators and broker-dealers.

Many pension plans rely heavily on the expertise and guidance of their pension consultants in helping them to manage pension plan assets. Public pensions, in particular, rely heavily on their pension consultants since these funds have lay boards that lack investment expertise.

In late 2003, the staff of the SEC—following a recommendation for a high impact pension initiative requested from Benchmark—announced an inquiry into conflicts of interest involving investment consultants to pensions, including allegations of “pay to play” practices.

“Pay to play” in the pension context refers to the common practice of investment consultants who are retained on a non-discretionary basis to provide independent objective advice regarding investment managers, requiring or encouraging managers to direct or pay trading commissions and/or other compensation to them in order to be recommended to pension clients.

When consultants recommend managers based upon their willingness to pay compensation to the consultant, as opposed to on the investment merits, they engage in self-dealing and breach their fiduciary duty to place client interests ahead of their own. Substantial harm in the form of excessive risk and fees, as well as diminished investment returns has been found to result. The SEC staff examined the divergent sources of consultant compensation and the related conflicts; whether such amounts and conflicts were properly disclosed; and whether pensions were being harmed by such practices.

On May 16, 2005 the staff of the SEC’s Office of Compliance Inspections and Examinations issued a report which, in part, concluded that conflicts of interest were pervasive and disclosure practices lacking in the investment consulting industry.²⁴⁵

- **Fiduciary Duty to Monitor Consultant Conflicts**

On June 1, 2005 the SEC and U.S. Department of Labor issued a publication entitled “Guidance Addressing Potential Conflicts of Interest Involving Pension Consultants.” To encourage the disclosure and review of more and better information about potential conflicts of interest, the DOL and SEC took the unusual step of developing and issuing a set of questions to assist plan fiduciaries in evaluating the objectivity of the recommendations provided, or to be provided, by a pension consultant. That is, a form of questionnaire was provided for plan sponsors to use in their dealings with their consultants and for consultants to voluntarily make available.²⁴⁶

²⁴⁵ Staff Report Concerning Examinations Of Select Pension Consultants May 16, 2005, The Office of Compliance Inspections and Examinations, U.S. Securities and Exchange Commission.

²⁴⁶ Selecting and Monitoring Pension Consultants, Tips for Plan Fiduciaries, U.S. Department of Labor, May 2005.

As the DOL noted at that time:

“Findings included in a report by the staff of the U.S. Securities and Exchange Commission released in May 2005 ..., raise serious questions concerning whether some pension consultants are fully disclosing potential conflicts of interest that may affect the objectivity of the advice they are providing to their pension plan clients... SEC staff examined the practices of advisers that provide pension consulting services to plan sponsors and trustees. These consulting services included assisting in determining the plan’s investment objectives and restrictions, allocating plan assets, selecting money managers, choosing mutual fund options, tracking investment performance, and selecting other service providers. Many of the consultants also offered, directly or through an affiliate or subsidiary, products and services to money managers. Additionally, many of the consultants also offered, directly or through an affiliate or subsidiary, brokerage and money management services, often marketed to plans as a package of “bundled” services. The SEC examination staff concluded in its report that the business alliances among pension consultants and money managers can give rise to serious potential conflicts of interest under the Advisers Act that need to be monitored and disclosed to plan fiduciaries.”

Most significantly, conflicts of interest at investment consulting firms were found to result in substantial financial harm to plans by the Government Accountability Office in a 2007 report.²⁴⁷

In its report, the GAO took the extraordinary step of quantifying the harm a conflicted adviser to a plan can cause. "Defined Benefit plans using these 13 consultants (with undisclosed conflicts of interest) had annual returns generally 1.3 percent lower ... in 2006, these 13 consultants had over \$4.5 trillion in U.S. assets under advisement," the report stated.

As one observer noted, “That's a \$58.5 billion reduction in returns. And this was only a small sample of the pension-consulting universe.”²⁴⁸

If the GAO estimates are correct, investment consultant conflicts of interest could cost a \$560 billion pension, such as CalPERS, approximately \$7.3 billion annually or \$116 billion over a ten-year period with compounding. As mentioned elsewhere, the unfunded actuarial liability of the pension is \$168 billion. Thus, the estimated cost of

²⁴⁷ Defined Benefit Pensions: Conflicts of Interest Involving High Risk or Terminated Plans Pose Enforcement Challenges, GAO, June 28, 2007.

²⁴⁸ Four-year SEC probe of pension consultants barely yields slap on wrist, Boston.com, October 2, 2007

conflicts amounts to approximately two-thirds of the unfunded liability, or, alternatively stated, “but for” the conflicts the pension would be nearly fully funded.

Failure to disclose conflicted sources of compensation and the amounts of such compensation among these trusted advisers to sponsors of retirement plans, as well as the potential economic harm to pensions resulting from such conflicted advice, has been well documented by the SEC, DOL and GAO. In summary, awareness of conflicts of interest involving pension consultants has grown and for well over a decade plan sponsors have acknowledged a duty to investigate, eliminate or at least mitigate the harm related to such conflicts.

Ironically, while disclosure of conflicts of interest in the pension consulting industry has improved over the past 20 years, the conflicts have grown to be more significant than ever. Today, many consultants derive far greater revenue from conflicted revenue streams than from providing objective advice on a non-discretionary basis.

As mentioned earlier, the SEC staff in 2005 found that many investment consultants offer, directly or through an affiliate or subsidiary, products and services to money managers that can give rise to serious potential conflicts of interest under the Investment Advisers Act that, at a minimum, need to be monitored and disclosed to plan fiduciaries.²⁴⁹

Historically, the three most common and controversial investment consultant conflict scenarios relate to:

1. Consultants with securities brokerage affiliations;
2. Educational and/or consulting services sold to investment managers; and
3. Marketing of discretionary asset management services by consultants retained on a non-discretionary basis.

- **Investment Consultants with Affiliated Brokerages**

Pension consultant gatekeepers may offer either directly or through their subsidiaries and affiliates securities trading and other services to the very money managers they recommend to pension clients. The securities commissions consultants with affiliated brokerages earn from managers may be significantly

²⁴⁹ Staff Report Concerning Examinations Of Select Pension Consultants May 16, 2005, The Office of Compliance Inspections and Examinations, U.S. Securities and Exchange Commission.

greater than the compensation received for providing pensions with supposedly objective advice regarding these managers.

There is a risk that these payments from managers to consultants may not only undermine the integrity of the advice consultants provide to pensions but also result in underperformance if assets are allocated to investment managers based upon willingness to pay, as opposed to investment merit. Further, commission payments from money managers to investment consultants can result in excessive consulting, brokerage and investment management fees.

For example, in March 31, 2000, a KPMG Performance and Operational Review of the Metropolitan Government of Nashville and Davidson County's pension investments determined that the PaineWebber investment consulting contracted fee was excessive. The fee the \$1.3 billion pension was contractually obligated to pay for consulting services was \$788,747, as opposed to an average fee for similar public funds which ranged from \$92,000 to \$163,000. However, PaineWebber actually earned a total of \$1,408,773 in commissions for the year. Similarly, investment manager fees were higher than fees paid by other similar public funds.

Subsequent investigation of the PaineWebber compensation scheme on behalf of the Nashville pension revealed significant additional fiduciary breaches, compensation and excessive fees.

The same investment consultant was investigated after he joined Morgan Stanley and was hired to provide consulting services to the City of Chattanooga pension fund.

In June 2005 the Atlanta District Office of the SEC concluded an examination of the Nashville Branch Office of Morgan Stanley. The SEC review of the pension consulting arrangement between Morgan Stanley and the City of Chattanooga public pension fund revealed that Morgan Stanley failed to fully and fairly disclose all material facts concerning its conflicts of interest, including its compensation agreements in violation of Section 206 of the Investment Advisers Act of 1940.

The SEC concluded that the disclosures made by Morgan Stanley were not sufficiently detailed in order to allow its client to evaluate investment manager recommendations and to give its informed consent to Morgan Stanley's conflicts of interest. Further, SEC determined that Morgan Stanley had failed to disclose to the pension the conflicts of interest related to the firm's financial adviser (broker) compensation program, including indirect "perks."

On July 20, 2009, the SEC instituted public administrative and cease-and-desist proceedings against the pension consultant, who, according to the SEC, was a member of Morgan Stanley's Chairman's Club, comprised of the firm's top 175 financial advisers, and ranked among the firm's top 25 financial advisers in revenue.²⁵⁰

PaineWebber and Morgan Stanley both entered into settlements with the public pension funds of the cities of Nashville (\$10 million) and Chattanooga (\$6 million) in matters involving pension consultant conflicts of interest and pay-to-play.²⁵¹

In 2009, the SEC entered a cease-and-desist order against Merrill Lynch regarding the investment consulting services the firm provided to over 100 public pension clients in Florida. According to SEC:

From at least 2002 through 2005, Merrill Lynch, through its pension consulting services advisory program, breached its fiduciary duty to certain of the firm's pension fund clients and prospective clients by misrepresenting and omitting to disclose material information. Merrill Lynch's pension fund clients came to it seeking advice in developing appropriate investment strategies and in selecting money managers to manage the assets entrusted to their care. In providing such advice, Merrill Lynch failed to disclose the facts creating the material conflict of interest in recommending clients use directed brokerage to pay hard dollar fees, and in recommending the use of Merrill Lynch's transition management desk. In addition, Merrill Lynch made misleading statements.... regarding its manager identification process.²⁵²

Following the SEC action, approximately 70 Florida public pensions settled a class action lawsuit against the firm for \$8.5 million in 2012.²⁵³

XXVI. CalPERS's External Investment Consultants

At this time, CalPERS retains three investment consultants. Wilshire Associates, Inc., is the general investment consultant with overall responsibility. Meketa Investment

²⁵⁰ <https://www.sec.gov/litigation/admin/2010/34-61278.pdf>

²⁵¹ Morgan Stanley Settles Chattanooga Suit, fundfire.com, March 24, 2006.

²⁵² <https://www.sec.gov/litigation/admin/2009/ia-2834.pdf>

²⁵³ <https://www.law360.com/articles/333752/merrill-lynch-pays-8-5m-to-settle-pension-plan-action>

Group has provided Private Markets/Alternative Investment consulting for over a decade. Wilshire Advisors is the investment consultant for private debt.

A. General/Private Debt Consultant Wilshire Associates

Wilshire Associates has served as the primary general investment consultant to CalPERS since 1983.²⁵⁴ Wilshire Advisors has been the investment consultant for private debt since 2022.²⁵⁵

The Wilshire organization has grown and changed since the 1970s.²⁵⁶

- **Conflicts of Interest Related to Wilshire’s Other Financial Activities and Affiliations**

According to the firm’s most recent Form ADV Part 2A brochure,²⁵⁷ in addition to acting as a registered investment adviser/consultant on a nondiscretionary and discretionary basis, Wilshire discloses significant other financial industry activities and affiliations, including, but not limited to, acting as an investment adviser and sub-adviser to proprietary and other mutual funds; acting as general partner and/or investment adviser to various private funds; acting as a registered Commodity Pool Operator and Commodity Trading Advisor; and certain employees are also registered representatives of a registered broker-dealer.

- **Conflicts of Interest Related to Wilshire’s Ownership Structure**

In 2021, Wilshire was acquired by private equity firms CC Capital Partner and Motive Partners.²⁵⁸ That same year, Apollo Global Management, Inc., acquired up to a 24.9 percent minority stake in Motive’s management company and Apollo and its affiliates became limited partners in Motive managed vehicles.²⁵⁹

²⁵⁴ <https://www.calpers.ca.gov/sites/default/files/spf/docs/board-agendas/201511/invest/item07c-00.pdf>

²⁵⁵ <https://www.ai-cio.com/news/calpers-selects-wilshire-advisors-as-consultant-for-private-debt-allocation>

²⁵⁶ <https://www.wilshire.com/about-us/history>

²⁵⁷ March 31, 2025.

²⁵⁸ <https://www.wilshire.com/about-us/history>

²⁵⁹ <https://www.apollo.com/insights-news/pressreleases/2021/07/apollo-and-motive-partners-form-strategic-partnership-to-capitalize-on-fintech-transformation>

Apollo’s capital base has long been overwhelmingly dependent on public retirement systems. In 2013, when asked directly whether Apollo had many public pension investors, Apollo admitted that “almost all” of its capital came from public funds—estimating roughly 75 to 80 percent.²⁶⁰ CalPERS has long been a significant investor in Apollo funds.

CalPERS–Apollo Investment Timeline

Name of Fund / Transaction	1st Year	CalPERS Commitment (\$)	Commission Paid (\$)
Apollo Investment Fund IV, L.P.	1998	150,000,000	—
Apollo Investment Fund V, L.P.	2001	250,000,000	—
Apollo Management VI, L.P.	2005	650,000,000	3,864,734
Apollo Investment Fund VI, L.P.	2006	520,000,000	—
Apollo Alternative Assets, L.P.	2006	200,000,000	4,400,000
Apollo Management VII, L.P.	2007	—	3,500,000
Apollo Equity Stake (Pre-IPO Private Exchange)	2007	601,000,000	13,200,000
Apollo European Principal Finance Fund, L.P.	2008	82,991,535	—
Apollo European Funds (multiple)	2008	—	1,000,000
Apollo Credit Opportunity Fund	2008	1,000,000,000	9,070,833
Apollo Investment Fund VIII, L.P.	2013	350,000,000	—
Apollo Investment Fund VIII (Credit Allocation)	2013	800,000,000	—
Apollo Investment Fund IX, L.P.	2019	550,000,000	—
Apollo Investment Fund X, L.P.	2023	225,000,000	—
Apollo S3 Equity & Hybrid Solutions Fund, L.P.	2025	175,000,000	—
TOTAL (Documented)		6,553,991,535²⁶¹	35,035,56²⁶²

²⁶⁰ https://www.phila.gov/pensions/PDF/IM_03_28_13_Investment_Minutes.pdf

²⁶¹ CalPERS June 2025 Private Equity Report.

²⁶² <https://oag.ca.gov/news/press-releases/brown-files-suit-against-former-calpers-officials-and-freezes-assets-alfred?>

As discussed earlier, according to the SEC, around 2007-2008, Apollo “was tricked into paying more than \$20 million in placement agent fees it would not otherwise have paid” to CalPERS insiders in a high-profile corruption “pay-to-play” scandal.²⁶³

On February 17, 2026, the American Federation of Teachers and the American Association of University Professors, both of whom represent CALPERS members, sent a letter to the SEC alleging that that Apollo’s disclosures regarding connections to Jeffrey Epstein may have inaccurate and asking the Commission to investigate.²⁶⁴

Most recently, on March 11, 2026, the AFL-CIO, America’s federation of labor unions representing nearly 15 million workers, sent a letter to Gary Cohn, Lead Independent Director of Apollo. The organization expressed “deep concern over recent controversies involving Apollo Global Management and Apollo’s Chair and CEO Mark Rowan. These include a growing list of unaddressed workers’ rights violations alleged at various Apollo-owned portfolio companies, recent revelations regarding Mr. Rowan’s political efforts to advance the Trump administration’s attack on higher education through the “Compact for Academic Excellence in Higher Education” and the extent of Mr. Rowan’s business relationship with Jeffrey Epstein.” According to the letter,

... these inconsistencies between Apollo’s stated policies and its apparent practices suggest that the Board of Directors needs to review Apollo’s compliance systems and strengthen internal controls. Under Delaware’s Caremark doctrine, boards of directors have a fiduciary duty to ensure that adequate internal reporting systems are in place and to take action when red flags indicate potential wrongdoing. We think this will help restore confidence among working people—those who work at Apollo-owned companies as well as those whose retirement assets are invested in Apollo or Apollo-managed funds.²⁶⁵

Wilshire discloses in its SEC filings that it is controlled by Monica Holdco (US), Inc. Monica Holdco (US), Inc. is in turn indirectly controlled by CC Monica Holdings, LLC, and Motive Monica LP (together with their respective affiliates, the “Owners”). CC Monica Holdings, LLC is advised by CC Capital, a private investment firm based in

²⁶³ <https://www.sec.gov/newsroom/press-releases/2012-2012-73htm>

²⁶⁴

[https://www.aft.org/sites/default/files/media/documents/2026/Letter to SEC re Apollo Global Management February 17 2026.pdf](https://www.aft.org/sites/default/files/media/documents/2026/Letter%20to%20SEC%20re%20Apollo%20Global%20Management%20February%2017%202026.pdf)

²⁶⁵ <https://aflcio.org/sites/default/files/2026-03/Letter%20to%20Apollo%20Global%20Management%E2%80%99s%20Lead%20Independent%20Director%20Gary%20Cohn%203.11.2026.pdf>

New York City. Motive Monica LP is advised by Motive Partners, a specialist private equity firm with offices in New York City and London.

Wilshire discloses numerous complex potential conflicts of interest related to its private equity ownership structure:

With respect to Wilshire's ownership structure, there exist potential conflicts of interest owing to (i) Wilshire's primary business model of evaluating and recommending third-party investment managers and private fund advisers, and (ii) the Owners' control and oversight of Wilshire. Each of the Owners are private investment firms themselves and, in addition, may own, possess a profit interest in, or are otherwise affiliated with other investment, asset management, or financial services firms. Further, various third-party financial firms and intermediaries may be investors in the Owners or their pooled investment vehicles. In each case, to the extent the Owners or their investors are within the universe of investment firms or financial services firms being evaluated, recommended, or targeted for investment by Wilshire, either for the benefit of its clients or for use by Wilshire in the performance of its duties to clients, a conflict of interest would exist, as the Owners or their investors would experience a benefit should Wilshire allocate client funds to those managers, firms, or funds or use the services of those managers or firms for its own purposes. Furthermore, the Owners could seek to influence Wilshire's decisions by advocating for businesses in which they have an interest or seeking to use their influence over Wilshire to promote their other portfolio companies or ventures.

In order to mitigate these conflicts, Wilshire states it has taken certain steps, including Wilshire will not evaluate, recommend, or invest in any of the Owners, or their funds; information barriers have been established between Wilshire and the Owners (including their personnel and affiliates) to prevent the flow of information regarding specific investments recommendations and client portfolio holdings and activities; and no Wilshire employee that is otherwise affiliated with the Owners (or their affiliates) may participate in Wilshire's investment processes or make portfolio management decisions for clients.

- **Staff Cannot Effectively Monitor Wilshire Conflicts**

In our opinion, it would be impracticable for CalPERS staff to monitor the myriad conflicts of interest related to Wilshire's private equity ownership on an ongoing basis, and challenging even for an independent Inspector General unless the IG is granted strong, explicit authorities. The difficulty arises from structural complexity, information asymmetry, ownership opacity, and the limits of standard consultant disclosures.

Since Wilshire Associates has served as CalPERS' primary general investment consultant for over four decades (and, more recently, private debt consultant through Wilshire Advisors), the firm has shaped asset allocation, benchmarking, risk frameworks, and manager selection, as well as influenced CalPERS' private markets build-out, including private debt. The firm has advised the pension across multiple asset classes and decision layers for decades. This makes Wilshire arguably the most influential external firm in CalPERS' history, and creates a classic institutional capture risk, i.e., when the same adviser defines the framework, evaluates outcomes, and recommends changes. Monitoring conflicts of interest is most difficult where influence is broad, longitudinal, and embedded.

Given that Wilshire is no longer a "pure" consultant, i.e., discloses significant other financial industry activities and affiliations, it is simultaneously evaluating third-party managers, and managing investment products and vehicles of its own. This dual role makes conflicts structural, not episodic. For CalPERS staff, this creates an immediate problem: To monitor conflicts effectively, staff would need continuous visibility into Wilshire's internal business lines, revenue sources, incentives, and employee activities. Such a level of visibility does not normally exist in consultant relationships and, if granted, would be highly problematic to Wilshire itself, as well as its other clients, in our opinion.

Wilshire's complex private equity ownership structure multiplies opacity. Wilshire's own filings acknowledge that its owners are private investment firms and that those owners and their investors may have economic interests across asset management and financial services which may give rise to conflicts if any of those interests overlap with managers Wilshire evaluates or recommends. This creates multi-layered, indirect conflicts that are extremely difficult to track in real time, including but not limited to, limited partnership interests in funds, minority ownership stakes, revenue-sharing arrangements, co-investments and portfolio-company relationships. CalPERS staff have no practical way to independently map or verify these myriad relationships on an ongoing basis.

While Wilshire states it mitigates conflicts through information barriers, such standard industry disclosures raise a key governance issue: Assertions of information barriers are not the same as verifiable compliance. To determine whether barriers are effective, staff would need access to internal communications, compliance testing results, employee role mappings, investment committee minutes, compensation structures, escalation and exception logs, as well as a highly sophisticated knowledge of industry practices and common abuses.

CalPERS staff do not have subpoena power and typically rely on annual certifications, contractual representations and high-level compliance summaries which are insufficient to verify effectiveness, especially in a firm such as Wilshire with multiple business lines, private equity ownership and global operations.

In short, CalPERS staff, even if well-intentioned and knowledgeable, face structural limits. CalPERS staff are constrained by resource limits (they oversee over a thousand consultants and managers); information asymmetry (Wilshire knows far more about itself); reliance on self-reporting and lack of continuous audit rights over consultant internal operations. Staff can, at best, monitor disclosed conflicts but they cannot reliably ferret out undisclosed, indirect, or evolving conflicts.

- **Independent IG Would Struggle to Monitor Wilshire Conflicts**

An independent IG with substantial pension investment management, as well as relevant legal, expertise, would be better positioned to monitor Wilshire's myriad conflicts—but only if equipped with the right tools, such as subpoena power, access to internal records, authority over external advisers, and recurring audit rights. Without these tools, oversight would remain reactive and partial.

In conclusion, given Wilshire's multi-decade influence at CalPERS, its expansion into investment products, and its ownership by private equity firms with broad financial interests, effective monitoring of conflicts of interest would require access to internal information and enforcement authority beyond what CalPERS staff typically possess. Even an IG would need explicit statutory powers to provide meaningful, ongoing oversight.

Finally, even if Wilshire and its private equity owners were to grant CalPERS special access to their internal operations to satisfy fiduciary concerns, it would be problematic for them and would likely prompt objections from other clients. Such preferential access would undermine equal treatment, raise contractual and fiduciary issues, and create competitive and reputational harm. That is, if CalPERS received special access, other Wilshire fiduciary clients would almost certainly demand the same, arguing that such additional information is necessary to satisfy fiduciary obligations to CalPERS, it is necessary for them as well. Conflicts of interest must therefore be addressed through system-wide disclosures or independent third-party oversight—not client-specific transparency.

- **Relevant Wilshire Litigation/Investigations**

In 2003, Wilshire stated that the Securities and Exchange Commission was examining short-term mutual fund trades the company made during the past 10 years, prompting concern among clients. Wilshire said it was cooperating with regulators and it did not believe “its conduct violated any law.” CalPERS spokesman Brad Pacheco said the pension was conducting “due diligence” about the trading strategy.

“If they had long-term investors in the same mutual funds where they were employing this strategy, those investors could have been harmed,” said David Marder, a former SEC attorney who now works at the law firm Robins, Kaplan, Miller & Ciresi in Boston. “That raises the question of whether Wilshire violated its fiduciary duty.”²⁶⁶

After the SEC released its May 2005 report that found significant conflicts of interest within the pension consulting industry, there was a high-profile congressional inquiry led by then- Representative Edward Markey (D-MA), a senior Democratic Member of the House Energy and Commerce Committee, and Rep. George Miller, the Ranking Democratic Member of the House Education and the Workforce Committee that focused on such conflicts and explicitly mentioned Wilshire Associates. Markey and Miller publicly noted that the Department of Labor had subpoenaed Wilshire Associates as part of this probe into conflicts of interest in the pension consulting industry. They urged further investigation into Wilshire’s work for the Pension Benefit Guaranty Corporation and whether that consulting was influenced by undisclosed compensation arrangements.²⁶⁷

We found no evidence that the SEC formally took enforcement action against Wilshire Associates for market timing or consultant conflicts of interest in 2005–2006. However, Wilshire was referenced in the context of broader regulatory scrutiny relating to pension consultants’ conflicts of interest.

In 2011, California’s Kern County Employees’ Retirement Association (KCERA) reportedly filed a lawsuit against Wilshire Associates for loss of about \$4 million from investing with Westridge Capital Management. Wilshire was accused of breach of fiduciary duty, negligence and for offering inappropriate investment consulting advice to KCERA. Steven Walsh, Paul Greenwood and their affiliates at Westridge/WG Trading Investors were blamed of causing the loss due to unpermitted investments and misappropriation of money for personal use. KCERA

²⁶⁶ <https://www.chicagotribune.com/2003/10/14/wilshire-associates-in-probe-by-sec/>

²⁶⁷ <https://www.markey.senate.gov/news/press-releases/april-24-2006-reps-urge-labor-department-sec-action-against-conflicts-of-interest-in-pension-consulting-industry>

had committed \$115 million with Westridge, out of which it recovered about \$72 million.²⁶⁸

B. Private Markets/Alternative Investment Consultant Meketa

Meketa Investment Group provides Private Markets/Alternative Investment consulting to CalPERS. Meketa's current Form ADV Part 2A brochure²⁶⁹ indicates Meketa is an independent, employee-owned firm, with over seventy shareholders. Unlike general consultant Wilshire, the firm does not disclose any conflicts of interest related to its ownership structure.

- **Conflicts of Interest Related to Meketa's Other Financial Activities**

Meketa's current SEC filings indicate that the firm provides a broad range of investment advisory services that fall generally into three categories: general consulting services, private market advisory services and discretionary advisory services, which includes sub-advisory services to advisors of investment companies. Meketa provides such services to investment company clients on a non-discretionary or discretionary basis. In summary, the firm is subject to a potential conflict of interest in that it both evaluates and recommends investment managers on a non-discretionary basis and is a discretionary manager itself.

The firm also discloses that it "could have an incentive to favor accounts of clients that pay higher fees than other similarly-situated clients." Further, its discretionary clients may receive preferential treatment versus nondiscretionary clients with regard to the same investment.

Where Meketa or MFM serves as the discretionary investment manager, they may have the ability to quickly implement portfolio changes, negotiate the terms that are more favorable to, and may obtain preferential rights or interests in, the same investment held by non-discretionary clients.

With regard to conflicts of interest related to compensation received from money managers, the firm discloses:

With respect to our private market advisory services, some of our personnel may have the right to serve on the advisory boards of the private pooled investment vehicles in which our clients invest, to provide advice on certain conflicts of interest and related matters. There may be instances where such persons are asked to vote on issues taking the needs of all

²⁶⁸ <https://www.institutionalinvestor.com/article/2bszd7ra5t8ebzynch0zwc/corner-office/kcera-sues-wilshire-associates>

²⁶⁹ Filed with SEC March 2025.

investors (including third party investors that are not our clients) into account. Such persons may receive reimbursements from the relevant private market investment managers for direct expenses incurred in connection with advisory board activities. In addition to the sub-advisory fees negotiated with RIC clients, Meketa may receive a profits interest grant. Profit interest grants could create an incentive to allocate investments to such RIC clients to the detriment of other clients.

Among the investment risks associated with private markets specifically, the firm discloses:

The structure of private market investments precludes investors and their representatives (including Meketa Investment Group) from actively participating in the investment decisions and management of the private market investment manager or its affiliates that manage the investments. Clients are required to rely entirely upon the judgment and the ability of the private market investment manager in making underlying investments and neither clients nor we will be able to evaluate the risks and economic merits of potential investment opportunities that come to the attention of the private market investment manager. There generally will be little or no publicly available information regarding private market investments, their investment managers, or their prospects. Many investment recommendations and/or investment decisions made by us will be based on information from non-public sources, and we often will be required to make investment recommendations and/or investment decisions without complete information or in reliance upon information provided by private market investment managers and other third parties that is impossible or impracticable to verify.

- **Staff Cannot Effectively Monitor Meketa Conflicts**

CalPERS staff are not positioned to effectively monitor Meketa's conflicts of interest on their own, given how those conflicts arise, where the information resides, and who bears institutional risk for challenging them.

Many of Meketa's most material conflicts occur outside CalPERS staff's line of sight, including discretionary mandates Meketa manages for other clients; fee differentials across clients; profit-interest grants in RIC or sub-advisory relationships; Limited Partner Advisory Committee (LPAC) roles Meketa personnel may hold for any funds CalPERS invests in; and expense reimbursements paid by General Partners to Meketa staff. This means that makes staff monitoring reactive and incomplete by design. Unless staff specifically questions Meketa about these matters, it cannot know the answers.

The core structural problem is that staff rely on the same consultant they would need to challenge. Expecting staff to aggressively police Meketa's conflicts would require staff to question the independence of advice they rely on daily, undermine

recommendations embedded in years of program design and potentially delay or unwind commitments already advanced internally. That is not a question of competence—it is an organizational conflict.

Meketa’s Form ADV discloses that it evaluates managers while also managing assets itself, may favor higher-fee or discretionary clients, may receive profit interests or reimbursements, and often relies on unverifiable, non-public GP information. CalPERS staff are not resourced or empowered to convert such ADV disclosures into decision-level conflict testing, e.g., verify whether discretionary clients received better access or terms, and audit whether Limited Partner Advisory Committee participation influenced outcomes adverse to CalPERS. Without independent verification authority, disclosure offers little protection.

Meketa itself acknowledges that many of its recommendations rely on information that is “impossible or impracticable to verify.” That admission alone makes staff-only conflict monitoring insufficient.

Even if staff suspect a conflict, escalation may be costly. Challenging a core consultant can stall programs, create board friction, invite political scrutiny, and expose staff to reputational or career risk if the concern is later disputed. Without an independent authority to absorb that risk, many issues will never move beyond informal discussion.

- **Independent IG Can Add Protection Against Meketa Conflicts**

An independent IG is not redundant to staff oversight—it is the missing governance layer that makes staff oversight meaningful. Without it, CalPERS is largely trusting the consultant to police itself, which is precisely the risk Meketa’s own disclosures acknowledge.

An independent IG does three things staff cannot. First, it shifts the burden of proof from staff having to prove a conflict exists to requiring the consultant to demonstrate independence for each decision. Second, the IG can have access to internal information about the consultant’s business and financial arrangement including cross-client relationships, compensation structures, LPAC voting records and reimbursements and side arrangements. Finally, the IG absorbs escalation risk staff alone faces. Staff can report concerns to the IG without fearing the fallout and the IG can investigate without programmatic bias. This is why inspector-general models exist in complex, high-risk environments—they are not a critique of staff, but a recognition of structural limits.

- **Relevant Meketa Litigation**

With regard to litigation involving Meketa, in 2020, the trustees of the American Federation of Musicians and Employers' Pension Fund agreed to pay approximately \$27 million to settle a class action lawsuit that accused them of making overly risky bets with the pension plan's assets.

According to the legal complaint, the plaintiffs said the plan underperformed its peers because its trustees had set an asset allocation policy that underweighted public equities during an unprecedented bull market, while overweighting higher risk and worse-performing assets.

The settlement imposed on trustees new governance provisions designed to deter them from taking what the plaintiffs called "wild and excessive" investment risks.

The settlement also required the trustees to replace Meketa Investment Group as the plan's outsourced chief investment officer (OCIO) monitor. The trustees had retained Meketa as the plan's investment consultant from 2010 through 2017. The plaintiffs said in the settlement that the "decision to hire Meketa was a disaster" and that the trustees' decision to retain Meketa as OCIO monitor "reflected their continuing breaches of duty, bad judgment, and resistance to retaining advisers with the requisite degree of independence."²⁷⁰

In 2021, a class action lawsuit was brought on behalf of the New York State Teamsters Conference Pension and Retirement Fund, under ERISA, alleging various breaches of fiduciary duty. Plaintiff alleged that Meketa used its position as the Fund's "nondiscretionary investment consultant to recommend itself for the position of the (Fund's) paid discretionary investment manager" and advised the Fund's Trustees (in its role as nondiscretionary investment consultant) that "the only way . . . to achieve the 'actuarial return target' was with . . . significantly overweighted allocations of (Fund) assets to the highest risk asset classes." Plaintiff alleged that this dual role was a conflict of interest and caused the fees the Fund paid to Meketa to "soar from \$250,000 to \$1.4 million annually."²⁷¹

In October 2022, Investigation of the Theft of Funds from Quincy (Massachusetts) Retirement Board identified that Meketa, among other parties (Aberdeen, custodian), might have failed to detect a fraudulent authorization and transfer of

²⁷⁰ <https://www.ai-cio.com/news/musicians-pension-settles-lawsuit-risky-investments/>

²⁷¹ <https://casetext.com/case/carlisle-v-the-bd-of-trs-of-am-fedn-of-ny-state-teamsters-conference-pension-ret-fund>

\$3.5 million from Quincy pension assets. The report alleges that all parties — including Meketa — “could have taken basic steps to prevent the fraud or detect it sooner.”²⁷²

In September 2023, the Construction Laborers Pension Plan for Southern California and its Board of Trustees filed an ERISA lawsuit against Meketa Investment Group and Judy Chambers. The lawsuit alleges that Meketa breached its fiduciary duty to the pension by advising it to invest \$30 million in participants’ retirement savings in a California-focused Infrastructure Fund to be managed by Onset General Partner, LLC. Onset was a hastily formed company with ties to Chambers. Meketa then essentially abandoned its fiduciary and contractual duties to review and monitor Onset’s investment program. When its investment decisions proved to be disastrous, Onset misrepresented the value and performance of the assets under its management. By 2021, Onset represented to the pension that the Infrastructure Fund had a value of almost \$55 million, far more than the true value of roughly \$12.275 million. Meketa had relied on Onset’s valuation without further investigation, according to the allegations.²⁷³

²⁷² <https://www.mass.gov/doc/quincy-retirement-board-investigation-report-october-2022/download>

²⁷³ <https://archive.org/details/gov.uscourts.cacd.898918>

XXVII. CalPERS ESG Policies

In recent years, Environmental, Social and Governance (ESG) investment strategies have continued to gain popularity among investors and financial institutions, including public pensions.²⁷⁴ However, with their rising prominence has come a growing divide in state attitudes about the ESG approach. In 2024 alone, more than two dozen ESG bills were introduced—some favorable to ESG but most oppositional—and six so far are now law.

ESG investment strategies have traditionally focused on the long-term impacts of investing in industries that could be economically, environmentally, or politically undesirable. From an investment perspective, the goal has been to limit exposure to potential risks. Some state policymaker efforts around ESG have conflated this traditional use with what is known as impact investing, a strategy that aims to achieve certain social or environmental outcomes.

According to Pew, 2024 saw an evolution toward a more measured approach—on both sides of the issue—with a greater recognition that strict pro- and anti-ESG investing mandates can lead to unintended costs and administrative challenges.²⁷⁵

Public pensions, notes Pew, tend to use ESG factors to illuminate material risks and opportunities—such as a company’s record on employee relations or compliance with environmental regulations—that should be considered as part of any financial decision-making process. That is, pensions use ESG to inform overall investment and risk management strategies. State policymakers, however, have largely viewed ESG through a “social impact” lens, which has prompted policies either prohibiting or requiring certain ESG-related investments. Not only is this view potentially out of alignment with pension systems’ fiduciary role to act in the best interest of its beneficiaries, it also risks leaving money on the table, says Pew.

Pew concludes:

Lawmakers’ and financial practitioners’ differing interpretations of ESG can lead to confusion and politicization. Recent laws governing ESG investing, whether with a favorable or

²⁷⁴ <https://www.nasdaq.com/articles/factors-behind-the-growing-popularity-of-esg-investing-2021-04-24>

²⁷⁵ <https://www.pew.org/en/research-and-analysis/articles/2024/01/24/how-emerging-financial-risks-could-affect-public-pension-fund-assets>

unfavorable view, may intend to mitigate exposure to financial risks for pension funds and other critical state investments, but in practice, some laws are having the opposite effect. These conflicting outcomes make it even more challenging to implement ESG mandates, as evidenced by a recent ruling in Oklahoma that halted the state's energy law. In her ruling, Judge Sheila Stinson wrote that it was very likely the law's "stated purpose of countering a 'political agenda' is contrary to the retirement system's constitutionally stated purpose" to act in the best interests of its beneficiaries.

These latest developments underscore the fact that policies restricting investment options often force officials to make immediate and unanticipated changes to investment and borrowing strategies and approaches. The resulting upfront transaction costs and administrative challenges could ultimately mean greater costs to taxpayers to meet states' retirement obligations...²⁷⁶

- **Primacy of Governance (G) in ESG Investing**

As many commentators have observed, for all the debate surrounding the use of ESG for investing, the "G" or governance is often overlooked.²⁷⁷

In the intricate web of sustainability, where environmental concerns and social impact often claim the spotlight, one critical pillar remains steadfast in its significance: governance, the unsung hero shaping the very foundation of ESG.

Governance is the system of rules, policies and practices by which a company is managed in a responsible, ethical and transparent manner. It involves the relationship between a company's management and its board of directors, its investors and other stakeholders, to whom it is accountable.

It therefore forms the bedrock of the ESG agenda, as it encompasses not only one-third of the ESG equation but also acts as a prerequisite for achieving all ESG goals. Behind every violation of environmental or social commitments lies a failure in corporate governance, whether it's insufficient anti-corruption measures, flawed incentive systems, conflicting lobbying efforts, ineffective board supervision or unprepared leadership.

In essence, sustainable governance lies at the core of the ESG agenda, and overlooking it can hinder a business's sustainability progress.²⁷⁸

²⁷⁶ <https://www.pewtrusts.org/en/research-and-analysis/articles/2024/06/27/a-more-measured-approach-as-states-navigate-environmental-social-and-governance-mandates>

²⁷⁷ <https://hbr.org/2022/11/its-time-to-focus-on-the-g-in-esg>

²⁷⁸ <https://sustainabilitymag.com/articles/governance-the-overlooked-foundation-of-esg-success>

For over three decades, CalPERS has built a reputation as an activist owner publishing principles that tied governance quality to long-term corporate returns. Since 1987, CalPERS has publicly named companies to its annual Focus List (a “name-and-engage” approach) based on underperformance in share value compared with industry peers, returns on investment and corporate governance practices.²⁷⁹ Beginning in 1996, CalPERS positioned itself as an active and vocal participant in the global corporate governance dialogue. With the goal of encouraging a continual debate on best governance practices globally, in 1997 CalPERS' Board adopted a set of "Global Governance Principles." Later, CalPERS embraced and adopted as its own the Statement of Global Corporate Governance Principles, as adopted in July 1999 by the International Corporate Governance Network.²⁸⁰

- **Billions Lost Through ESG Investing**

In 2000, in one of its most prominent “values/ESG”-adjacent actions, CalPERS voted to divest about \$525 million in tobacco stocks in certain passive portfolios saying an “unprecedented amount” of litigation and regulation made the industry a bad investment. The CalPERS staff had recommended against selling the stock, saying it would cost at least \$30 million.²⁸¹

In 2016, CalPERS voted not only to continue the divestment of tobacco from CalPERS's internally managed equity portfolio, but to withdraw from more than \$500 million in tobacco stocks managed by external managers. A 2018 report by Wilshire Associates, the pension system's then-general investment consultant, showed that CalPERS had lost \$3.581 billion in investment gains by divesting from tobacco stocks, or about 1 percent of current assets, during a 17-plus-year period ending June 30, 2018.²⁸²

In 2013, CalPERS adopted a set of ten Investment Beliefs (widely cited as a foundational governance document guiding investment decisions)²⁸³ “intended to

²⁷⁹ <https://mondovisione.com/news/calpers-focus-list-improves-company-performance-study-shows-2011124/>

²⁸⁰ <https://www.ecgi.global/sites/default/files/codes/documents/calpers.pdf>

²⁸¹ <https://www.latimes.com/archives/la-xpm-2000-oct-17-mn-37708-story.html>

²⁸² <https://www.ai-cio.com/news/calpers-decision-divest-tobacco-costly/>

²⁸³ <https://meketa.com/wp-content/uploads/2012/10/Investment-Beliefs-FINAL.pdf>

guide decision-making, facilitate the management of a complex portfolio, and enhance consistency.” These beliefs “which address sustainable investment, risk management, and CalPERS engagement with companies, regulators, managers, and stakeholders,” explicitly treated ESG factors as financially material. The Board consolidated this view into its Governance & Sustainability Principles²⁸⁴ (a living policy used to guide proxy voting and engagement).²⁸⁵

In 2015–2016, California’s Climate Investment Framework reveals that CalPERS developed and then approved a multi-year strategy to incorporate ESG into investment operations, including reporting/standards work and carbon-footprint assessment workstreams.²⁸⁶ In 2015, CalPERS released the results of its 2015 Principles of Responsible Investment (PRI) Assessment Report indicating the pension had received an ‘A+’ for its overarching approach to responsible investment, the highest possible grade offered by UN-backed PRI.²⁸⁷

In the 2020s, Climate has become the dominant “E” or environmental priority at CalPERS and the pension publicly committed to a \$100 billion by 2030 “Climate Action Plan” (doubling down on “climate solutions” investing).²⁸⁸ In May, 2024, CalPERS laid out the Climate Action Plan structure in a legislative presentation, calling it “one of the world’s biggest commitments to climate solutions.” The plan called for a \$100 billion climate-solutions target by end-2030 and a more than 50 percent reduction in portfolio emissions intensity, alongside engagement with portfolio companies and advocacy to promote decarbonization, integration of

²⁸⁴ <https://www.calpers.ca.gov/documents/201703-invest-item09a-02/download>

²⁸⁵ At that time, the pension noted that it “recognize(d) that much of our experience in this area comes from investments in public equities but that our evolution to a “Total Fund” approach means these Principles may need to be suitably adapted to work across other asset classes. We continue to listen and learn in this area.”

²⁸⁶ https://dof.ca.gov/media/docs/reports/other/Climate_Investment_Framework_Final_v9-21-20-600pm.pdf

²⁸⁷ <https://www.ai-cio.com/news/calpers-receives-top-score-for-esg/?yyyyymm=2014-12>

²⁸⁸ <https://static1.squarespace.com/static/6352da942b96f202952c5976/t/67ce23312b2e3d32a22292f4/1741562675468/New%2BResearch%2BCalPERS%2BClimate%2BPlan%2BIncludes%2BOil%2BMajors.pdf>

climate risks into investment decisions, and enhanced measurement and reporting of portfolio emissions.²⁸⁹

Recent reports indicate CalPERS “climate solution” assets reached nearly \$60 billion by mid-2025, driven largely by public equities and real estate appreciation and new commitments, “marking a major milestone just two years after setting its 2030 target” of \$100 billion.²⁹⁰

The economic impact of CalPERS’ climate initiatives is indeterminate because CalPERS does not report the impact in a manner that allows the public to measure value added or value destroyed. There is no proof that CalPERS’ climate investment initiatives have added value, and there is no transparency sufficient to rule out that they have cost the pension money.

From a fiduciary perspective, the burden of proof has not been met and CalPERS has structured its disclosures in a way that prevents the public from independently evaluating the economic impact.

CalPERS consistently states that Climate investing is risk management, not “values-based” investing and that the \$100 billion Climate Action Plan is expected to be return-neutral or return-positive over the long term. Crucially, CalPERS does *not* claim outperformance, does not publish a climate benchmark and does *not* publish a climate attribution analysis.

CalPERS does not disclose returns for the \$100 billion “climate solutions” sleeve; returns versus a non-climate control portfolio; incremental costs of climate integration (consultants, data, reporting, ESG overlays) or Climate-related opportunity costs (e.g., foregone investments)

As a result, it is impossible, from CalPERS disclosures, to verify that climate initiatives added value, which is a material governance issue by itself.

We can say with confidence that Climate initiatives increase complexity and costs, are heavily implemented through high-fee private markets, and CalPERS does not disclose enough data to prove net benefit and underperformance, if any, compounds over decades. We cannot say (because CalPERS does not disclose) whether climate

²⁸⁹ https://aper.assembly.ca.gov/system/files/2024-05/jih-calpers-presentation-material-2024-05-leg-session_climate-action-plan_is-2-5-29-24-1.pdf

²⁹⁰ <https://www.netzeroinvestor.net/news-and-views/briefs/calpers-bets-on-real-estate-and-equities-as-climate-solution-assets-hit-60bn>

investments beat a simple market portfolio, reduce long-term risk enough to justify the incremental costs and whether members are better off financially because of them.

- **CalPERS ESG Governance Failures**

The CalPERS ESG initiatives discussed above are, in our opinion, deeply flawed in that they focus upon external popular environment and social issues but fail to address the fund's greatest internal governance issues: a profound lack of transparency, monumental conflicts of interest and grossly misleading performance and fee disclosures to the public.

It is ironic that the only governance "ills" the pension seems unwilling to address are those within its own halls.

Most disturbing, improving transparency, conflicts of interest and reporting to the public would have an enormous impact upon the performance of the pension, potentially improving retirement security for participants and lowering taxpayer costs—objectives clearly consistent with the fiduciary duties of the fund's board.

Further, there are no costs related to improving governance of the pension, indeed, better governance through transparency will actually lower costs. For example, if CalPERS required its external investment managers to be fully transparent regarding conflicts of interest and fees, fee competition would be enhanced and any excessive, bogus or illegal fees would be eliminated. Requiring external investment managers to be compliant with environment and social concerns while they operate in secrecy, i.e., ignoring transparency governance, is absurd.

Although governance risks pose challenges, it is a crucial part of ESG. Effective governance ensures compliance, transparency, and accountability while addressing environmental and social risks. It integrates ESG considerations into decision-making, drives sustainable practices and attracts responsible investment. Strong governance builds trust, enhances stakeholder confidence and enables organizations to navigate complex ESG landscapes for long-term value creation and positive societal impact.²⁹¹

In conclusion, under traditional prudent fiduciary ERISA-like standards (recognizing CalPERS is not ERISA-governed), the pension should be able to disclose and explain to the public, the investment return related to each and every ESG strategy, compared to an appropriate benchmark, at what cost, over each period and with

²⁹¹ <https://sustainabilitymag.com/articles/governance-the-overlooked-foundation-of-esg-success>

what risk. Finally, as mentioned above, the pension’s longstanding general investment consultant, Wilshire, and its investment staff have in the past actually concluded that at least certain of its ESG initiatives (tobacco) have cost it billions over time.

- **House Republicans Probe Whether ESG Threatens CalPERS Tax Status**

Recently House Republicans began probing whether CalPERS prioritized a “radical” environmental, social, and governance agenda in investments, suggesting it could threaten the fund’s tax status.²⁹²

The Committee on Education and Workforce (Committee) is continuing to investigate whether reforms to the Employee Retirement Income Security Act of 1974 (ERISA) and Internal Revenue Code (Code) are necessary to protect workers and retirees in light of the California Public Employees Retirement System’s (CalPERS) apparent failure to properly safeguard their pension benefits. Under the Code, CalPERS as a public pension is eligible for significant tax subsidies if, among other things, its benefits are provided “for the exclusive benefit of [an employer’s] employees or their beneficiaries.” The Committee seeks information to determine whether CalPERS is undermining this requirement by prioritizing a radical Environmental, Social, and Governance (ESG) agenda over its obligation to its beneficiaries, which will inform its potential reforms to ERISA and the Code.

On February 12, 2026, House Education and Workforce Committee Chairman Tim Walberg (R-Mich.), Rep. Rick Allen (R-Ga.), and Rep. Kevin Kiley (R-Calif.) wrote to the head of CalPERS seeking information about the fund’s investments in a clean energy and technology fund.²⁹³

On October 28, the Committee learned that CalPERS lost 71 percent of its nearly half-a-billion-dollar investment in the private equity CalPERS Clean Energy and Technology Fund (CETF). Since committing to CETF in 2007, CalPERS has channeled more than \$468 million into the fund. As of March 31, 2025, the investment’s value was less than \$138.1 million.

CalPERS’ loss in CETF is just the most recent example of CalPERS prioritizing ESG considerations ahead of its responsibilities to safeguard the pension fund. Both the Code

²⁹² <https://news.bloomberglaw.com/employee-benefits/republicans-investigating-certain-calpers-investments-over-esg>

²⁹³ https://edworkforce.house.gov/uploadedfiles/02.12.26_calpers_loss_oversight_letter_will_instructions.pdf

and the California Constitution require public pension assets be managed solely “for the exclusive purposes of providing benefits” to participants and beneficiaries.

In its letter, the Committee noted that on July 29, 2024, it began its investigation into CalPERS upon learning that the pension had joined the Biden-Harris administration as an asset owner in committing to the use of “public and pension fund capital” to “promote strong labor commitments among funds, asset managers, and companies.” Information CalPERS provided in response to the Committee’s inquiry demonstrates, said the Committee, that CalPERS has not acted “for the exclusive benefit” of its employees, but has instead advanced a political and social agenda.

By way of example, the Committee noted CalPERS’ Responsible Contractor Policy requires certain core managers and contractors to agree not to oppose union organizing. The purpose of this policy is to promote union organizing, rather than to provide benefits to participants in the pension or retirement system.

Similarly, CalPERS’ investment policy is tailored around a “Sustainable Investments Program” and a “\$100 Billion Climate Action Plan.” To implement this investment strategy, said the Committee, CalPERS has expended untold and unnecessary amounts of money in violation of the Code and the California Constitution’s mandate to “defray reasonable expenses of the system.” Incurring expenses to purpose a social agenda is not a reasonable expense when the social agenda is not permitted by the California Constitution.

One example of unnecessary, and hence unreasonable, expenses cited by the Committee “are the amounts paid to employ investment managers to integrate social investing into the investment portfolio. This includes consultants, attorneys, and investment managers employed for the purpose of facilitating CalPERS social investment goals. For example, CalPERS employs a full-time Managing Investment Director, Peter Cashion, who earned \$624,024 in 2023—to integrate ESG principles across CalPERS’ entire portfolio.”

The Committee noted that CalPERS claims significant tax benefits under Code section 401(a), which applies only to plans maintained “for the exclusive benefit of [an employer’s] employees or their beneficiaries.” However, the instances cited above do not appear to be consistent with this rule. To the extent that CalPERS is using plan assets for the benefit of social or political causes, the plan’s qualified tax status is no longer valid, according to the Committee.

- **Independent IG Can Improve ESG Investing**

An independent IG at CalPERS could improve ESG investing by re-centering ESG on fiduciary governance, evidence, and accountability—especially the “G” that has deteriorated massively at the pension in recent years. The IG could improve ESG outcomes while reducing politicization, valuation risk, and hidden costs.

At the outset, it is important to note that CalPERS says ESG—especially climate—is risk management, not values-based investing, yet it does not disclose the data necessary to prove risk reduction, value neutrality, or value creation. That is a governance failure, not an environmental or social one. An IG can fix this by requiring proof, comparability, and accountability—the same standards applied to any other investment strategy.

The IG could re-anchor ESG to fiduciary governance, establishing the primacy of the “G” before “E” and “S.” At CalPERS today, ESG is discussed as a policy aspiration rather than an auditable investment strategy.

Governance failures inside CalPERS (opacity, weak oversight, misleading fee/performance disclosure) contradict the ESG principles imposed by CalPERS on external companies.

The IG could take corrective action, issuing a Governance Primacy Doctrine stating that no ESG strategy is deemed “fiducially sound” unless returns are disclosed, benchmarks specified, incremental costs quantified, and risks are measured and compared to a non-ESG control. Also, internal governance parity would be required. That is, CalPERS must meet the same transparency, disclosure, and conflict-management standards it demands of portfolio companies. As a result, ESG becomes an evidence-based investment discipline, not a reputational or political shield.

The IG could expose ESG implementation risks in private markets (such as fees, valuation, Zombie risk). At CalPERS, climate and ESG investing are largely implemented through private equity, infrastructure and real assets which are high-fee, illiquid, opaque and subject to valuation inflation and Zombie-fund dynamics. ESG rhetoric is used in connection with these investments while governance opacity persists. An IG could implement corrective actions such as require ESG-specific private-market disclosures; publish an ESG Tail-Risk Dashboard; and force reconciliation between ESG claims and actual results. The goal would be to ensure that ESG no longer masks fee drag, valuation risk, or Zombie-fund exposure.

CalPERS was once the leader on corporate governance activism, yet tobacco divestment later cost billions, climate initiatives now lack economic proof and internal governance failures remain unaddressed. An IG can require ex-post ESG

accountability reviews of tobacco (full cost, opportunity cost, lessons learned) and climate initiatives (to date). The IG can codify a rule that no ESG initiative may persist indefinitely without demonstrated fiduciary benefit. As a result, ESG evolves, improves—or ends—based on evidence, not narrative.

An IG improves ESG outcomes without adding cost by simply enforcing truth in disclosure.

In conclusion, an independent IG would transform ESG at CalPERS by making governance the foundation of ESG. Through separating risk management from values; requiring returns, benchmarks, and attribution; exposing private-market ESG risks; de-politicizing ESG through evidence, fiduciary credibility with beneficiaries and taxpayers can be restored.

Until CalPERS can prove—rather than assert—that ESG strategies add value or reduce risk at a justifiable cost, ESG remains a governance failure disguised as virtue. An independent IG is the mechanism that turns ESG from a slogan into a fiduciary discipline.

XXVIII. Emerging Cryptocurrency Risks

The question of whether cryptocurrency is a suitable investment for public pensions has garnered significant attention in recent years, as crypto firms and lobbying groups have intensified their efforts to access trillions in public investment funds—often marketing themselves as the future of finance and offering tokenized investment products. Further, the SEC's approval of crypto-based exchange-traded products (ETPs), followed by the Trump Administration's wholehearted support for crypto,²⁹⁴ has cast crypto as a legitimate asset class and created a false sense of stability in the sector.

Legendary investor Warren Buffett has repeatedly warned all investors to steer clear of cryptos, calling Bitcoin “probably rat poison squared.” Buffett argues that Bitcoin (and by extension other cryptocurrencies) are non-productive assets that don't generate cash flow, dividends, earnings, or incremental business value in the way an operating company does. Buffet regards cryptos as speculative—essentially relying on “someone else paying more later” rather than any underlying business

²⁹⁴ See, e.g., Executive Order, Strengthening American Leadership In Digital Financial Technology (Jan. 23, 2025), <https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology/>.

fundamentals. For Buffett, “investing” is about buying businesses with durable competitive advantages, predictable cash flows, strong management, etc. Crypto lacks any of these characteristics.

For public pensions, crypto investing is especially problematic in light of applicable fiduciary duties, risk profiles, liquidity needs, and reporting transparency. Crypto markets are highly volatile, subject to regulatory shocks, hacks and failures. Crypto introduces new operational risks related to safe custody, regulatory oversight, counterparty risk, and governance matters. Digital assets face rapidly evolving regulatory frameworks (securities law, tax law, state licensure). Further, public pensions are subject to public-records, governance, fiduciary standards that crypto providers do not meet. Crypto can raise additional disclosure complexities, such as location and valuation of holdings.

As Better Markets noted recently:

Crypto’s extreme volatility, susceptibility to fraud, and regulatory uncertainties raise significant fiduciary red flags. Even the U.S. Department of Labor has issued guidance urging “extreme caution” when it comes to digital asset investments in retirement plans—underscoring the risk that trustees may violate their obligations if they pursue crypto exposure without rigorous due diligence. While the DOL recently rescinded that guidance without any explanation for how the underlying risks have changed, “extreme caution” is still warranted under the fiduciary standard, whether based on federal or state law. The point is reinforced by the concerns of many beneficiaries, who fear the extreme volatility that typically comes with crypto investments.²⁹⁵

Nevertheless, state pension funds are increasingly gaining exposure to cryptocurrency assets, either directly through digital tokens such as Bitcoin or indirectly via ETPs²⁹⁶ and equity stakes in crypto companies like Coinbase. To date, several dozen states including, Ohio, Arizona, Utah, Texas, Wyoming, Florida, Pennsylvania, New Hampshire, Massachusetts, Oklahoma, North Dakota, Montana, Maryland, Kentucky, have allowed or proposed allowing such investments— typically capping them between 5 percent and 10 percent of the total portfolio.

²⁹⁵ <https://bettermarkets.org/analysis/state-pension-fund-investment-in-cryptocurrency-a-risky-gamble-with-public-retirement-security/>

²⁹⁶ Cryptocurrency offerings in any wrapper, such as an ETP, still presents the same fundamental risks. See Better Markets Supplemental Comment Letter to SEC Spot Bitcoin ETP Trading (Sept. 13, 2024), <https://bettermarkets.org/impact/better-markets-urges-sec-to-reject-listing-and-trading-of-options-on-a-spot-bitcoin-etp/>.

In 2024 and 2025 alone, over 20 states have introduced legislation enabling state treasurers, pension boards, or other fiduciaries to invest public dollars into digital assets.²⁹⁷ In some instances, these bills only apply to state reserve funds, which are “rainy day funds” that allow states to set aside surplus revenue for use in managing unexpected deficits.²⁹⁸ Other bills explicitly authorize investment by public retirement systems.

A minority of states have rejected such legislation, often due to fiscal prudence, concerns over constraints imposed by the fiduciary duty, or public skepticism of the crypto industry.²⁹⁹

As Better Markets concluded:

State governments must reject the lure of cryptocurrency in public pension investment strategies. The potential rewards are dwarfed by the systemic risks, legal ambiguities, and fiduciary concerns. Rather than embracing crypto, states should:

- Enact statutory prohibitions on crypto investment within pension plans;
- Require full public disclosure of any digital asset exposure;
- Support investor and fiduciary education on the risks of emerging financial instruments;
- Strengthen funding policies through responsible budgeting and realistic return assumptions.

Public workers and retirees depend on the stability and solvency of state pension systems. Gambling with their futures in the hopes of speculative windfalls is a violation of public trust. Crypto is no place for pension dollars.

²⁹⁷ Scott Sowers, *States loosen restrictions on pension funds and crypto*, The Bond Buyer (Apr. 01, 2025), <https://www.bondbuyer.com/news/states-loosen-restrictions-on-pension-funds-and-crypto>.

²⁹⁸ See, e.g., *Texas House Approves SB 21, Paving Way for State-Run Bitcoin Reserve*, Texas Policy Research (May 22, 2025), <https://www.texaspolicyresearch.com/texas-house-approves-sb-21-paving-way-for-state-run-bitcoin-reserve/>.

²⁹⁹ See, e.g., Helen Partz, *Connecticut lawmakers vote to prohibit crypto use in government*, Coin Telegraph (June 11, 2025), <https://cointelegraph.com/news/connecticut-crypto-investment-ban-state-politicians>. Although Arizona’s state legislature approved a Bitcoin Reserve bill, Arizona Governor Katie Hobbs vetoed the bill. PYMNTS, *Arizona Governor Shoots Down Plans for State Bitcoin Reserve* (May 4, 2025), <https://www.pymnts.com/cryptocurrency/2025/arizona-governor-shoots-down-plans-for-state-bitcoin-reserve/>. For a survey of state proposals establishing state crypto reserves, see Prashant Jha, *Race to Bitcoin Reserves: New Hampshire and Arizona Lead, Texas Close to Full Approval*, CCN (May 22, 2025), <https://www.ccn.com/news/crypto/us-states-strategic-bitcoin-reserve-2025/>.

In October 2022, in Forbes, we began writing about public pension plans gambling retirement savings in cryptocurrency—warning of lack of transparency, speculative volatility, and high risk.

If you are a participant in a state or local government-sponsored pension fund, then a portion of your hard-earned retirement savings is likely invested in cryptocurrency or a cryptocurrency-adjacent enterprise. According to a 2022 study published by the CFA Institute, 94% of state and government-sponsored pension funds are invested in one or more cryptocurrencies despite the obvious risks.³⁰⁰

Immediately following our initial Forbes article, Hank Kim, Executive Director and Counsel for NCPERS, a public pension conference promoter, posted on the organization’s blog a rebuttal arguing that our claim that “your public pension is gambling on crypto” was “simply unfounded.”³⁰¹ Ironically, as we swiftly pointed out, in addition to his paid duties at NCPERS, Kim was also Vice Chair of the \$1.9 billion Fairfax County Uniform Retirement System and, at that time, the Fairfax County Police Officers Retirement System had a staggering 13 percent of its portfolio in crypto related funds, and the Fairfax County Employees’ Retirement System had approximately 10 percent. As we concluded in a follow-up article in Forbes, “It seems some public pensions, at least in Fairfax County, are gambling far more in cryptocurrency than initially estimated.”³⁰²

California doesn’t have a law or bill that specifically authorizes CalPERS to invest in crypto and the pension does not disclose any direct crypto holdings. However, board candidates at a September 2025 forum expressed divided views when asked whether Bitcoin should be included in the pension’s portfolio.³⁰³ Reportedly, incumbent David Miller attacked challenger Dominick Bei during opening statements saying,

³⁰⁰ <https://www.forbes.com/sites/edwardsiedle/2022/10/03/yikes-your-state-pension-is-now-gambling-on-cryptocurrency>

<https://www.forbes.com/sites/edwardsiedle/2022/10/29/pension-funds-or-cryptocurrency-whats-the-bigger-scam>

<https://www.golocalprov.com/news/state-pensions-fully-protected-under-law-fuggedaboutit-siedle>
<https://pensionwarriorsdwardsiedle.substack.com/p/state-pensioners-brace-for-crypto>

³⁰¹ https://www.ncpers.org/blog_home.asp

³⁰² <https://www.forbes.com/sites/edwardsiedle/2022/12/28/fairfax-county-virginia-police-and-employees-pensions-gamble-13-10-in-crypto-uniformed-pension-not-so-much/>

³⁰³ <https://finance.yahoo.com/news/california-500-billion-pension-fund-060025772.html>

"cryptocurrency should not have a seat on our board and never should," while referencing Bei's Bitcoin education nonprofit, Proof of Workforce. Bei rebuked, noting that CalPERS "owns shares in the largest bitcoin holding company in the world, MicroStrategy,"³⁰⁴ and questioned why the fund maintained substantial indirect exposure while candidates opposed direct investment. Another candidate compared crypto to past financial disasters such as the Orange County bankruptcy and Enron, calling it "opaque" and saying "it has no place in a pension system."

Crypto-funded influence around public pension investment decision-making, i.e., direct or indirect political contributions to any officials related to plans can be especially problematic. For public pensions—where fiduciary duty and public trust are paramount—adopting explicit crypto-aware pay-to-play controls is prudent, even if the plan never invests in crypto at all.

In California, regulations of the Fair Political Practices Commission allow crypto contributions only if processed by a U.S.-based provider with Know Your Customer protocols, immediate conversion to dollars on receipt, and collection of the donor's name, address, occupation, and employer for disclosure. Nevertheless, crypto's technical features can raise the cost of detection and dramatically increase evasion risk.

- **Independent IG Can Provide Credible Crypto Guidance**

An independent IG can provide credible guidance on cryptocurrency at CalPERS by doing what staff, consultants, and boards are structurally disincentivized to do, i.e., separate hype from fiduciary evidence; force disclosure of hidden risks and costs; and publish clear guardrails before money is committed.

The IG's role would not be to recommend crypto investments—but to define when, if ever, crypto exposure could meet prudent-fiduciary standards at CalPERS.

The key question the IG would publicly address is, "What problem does crypto solve that cheaper, liquid assets do not?"

Investing in crypto remains highly controversial. An IG protects CalPERS by publishing neutral, evidence-based findings making it clear decisions are driven by risk, cost,

³⁰⁴ At that time, CalPERS reportedly held 410,596 shares valued at \$165.9 million. More recently, on November 27, 2025, it was reported that "the fund acquired 448,157 shares for over \$144 million in the third quarter. The position is now valued at \$80 million... the stock is down 45% so far this quarter." <https://www.tradingview.com/news/cryptobriefing:717773b0f094b:0-largest-us-pension-faces-losses-as-strategy-buy-falls-from-144m-to-80m/>

liquidity and fiduciary duty. This insulates CalPERS from legislative backlash, litigation and reputational harm.

Since public funds' crypto exposure—if any—is often indirect (in private investment funds, public equities like exchanges/miners, or index holdings), the IG can publish an annual CalPERS Crypto Exposure Map to ensure all direct and indirect crypto investments are properly disclosed to the public.

An IG can also require that before staff proposes crypto exposure, they must publish (at least in summary form) a completed minimum fiduciary checklist addressing the portfolio problem crypto solves; an appropriate benchmark; risk limits; costs; governance matters and an exit plan. Because crypto products can hide real costs, an IG can require that all applicable fees, spreads and costs are fully disclosed. Given the substantial, unique custodial and operational risks related to crypto, the IG can establish and publish custody and insurance coverage requirements. The IG may impose requirements to ensure valuation integrity and prevent inflated values or “marking to hope.”

Since crypto lobbying and political spending can distort pension decisions, the IG can recommend crypto-aware controls whether or not CalPERS invests. First, the IG can require enhanced disclosure of industry ties, gifts, travel, and speaking fees involving crypto firms, lobbyists, or promoters for board/staff/consultants and align with California's crypto-contribution safeguards as a model of traceability.

In order to foster public education, the IG can publish a short, plain-language annual brief detailing what crypto is and isn't; what crypto CalPERS does and doesn't hold (per the Exposure Map); risks (volatility, fraud, custody, regulatory, liquidity); and how decisions would be made and audited if policy changes.

XXIX. Conclusion

There is no fiscal problem in California more fixable—and less defensible—than CalPERS.

Decades of mismanagement has cost beneficiaries and taxpayers hundreds of billions of dollars. Had CalPERS been prudently managed—with transparent reporting, disciplined costs, and investment strategies grounded in fiduciary reality—its assets could plausibly exceed \$1 trillion today.

The remedies are obvious. Restore full transparency, thereby revealing hidden and excessive fees. Eliminate conflicts of interest. Once exposed to independent scrutiny, the

practices driving chronic underperformance—including benchmark manipulations—can be swiftly curtailed.

The sole explanation for the persistence of imprudence at CalPERS is that the current system works—just not for the people it is supposed to serve.

Everyone inside the structure benefits from keeping it intact. Politicians gain campaign contributions from Wall Street and influence. Board members avoid accountability behind a veil of complexity. Investment staff are awarded bonuses based on benchmarks they help design. Consultants and Wall Street money managers collect fees that would not survive meaningful scrutiny. The incentives are aligned—against the beneficiaries.

This is not a technical failure. It is a governance failure—plain and simple.

And without independent oversight by an Inspector General, there is no reason to believe it will change. The same incentives that produced the problem remain firmly in place. Expecting meaningful reform from within the system is like asking it to audit itself.

CalPERS is not broken because it lacks resources. It is broken because it lacks accountability.

Until that changes the massive losses will continue—quietly compounding, year after year—paid for by the very people the system was created to protect.

END REPORT

The Experts



- **Edward Siedle**

Edward Siedle is widely regarded as a leading U.S. pension forensics and pension governance expert, particularly on public pension transparency, fee disclosure, private equity costs, fiduciary failures, and whistleblower investigations.

Siedle began his career as an attorney-adviser in the SEC's Division of Investment Management where he had direct exposure to investment advisor regulation, fiduciary standards, fee structures, disclosures, and compliance rules. At the SEC, he also gained experience with investigations involving asset managers and investment products. This regulatory background forms the foundation of his pension-forensic work. Following his government service, Siedle transitioned to the private sector, taking on roles in compliance and as legal counsel at major mutual fund firms.

In 1988, early in his private sector career, Siedle acted as a mutual fund whistleblower by reporting front-running abuses at Putnam Investments. This action contributed to a \$110 million settlement a decade later, marking a significant enforcement outcome in the industry.

Siedle founded Benchmark Financial Services in 1999, a firm which specializes in forensic investigations of the asset management and public pension industries. Fee and cost audits, including private-equity fee analysis; conflicts of interest and governance failures; fiduciary breaches and whistleblower support are matters the firm routinely investigates. He was the first and is one of the only people who has conducted participant-funded forensic

investigations of U.S. public pension systems. Some of the highest-profile investigations he has led involve the state pensions of Rhode Island, North Carolina, Kentucky, Ohio, Minnesota and pensions of the cities of Nashville, Chattanooga, and Jacksonville. His investigations have revealed multi-billion-dollar fee issues, valuation opacity, and conflicts of interest. His work has earned him accolades, including being named as one of the 40 most influential figures in the U.S. Pension industry by Institutional Investor magazine.

Siedle is one of the most successful whistleblowers in SEC history. He has received record-breaking whistleblower awards, helped uncover misconduct involving major financial institutions and built a reputation for analyzing complex investment structures that hide fees or risks. His SEC awards reinforce his credibility as a watchdog of public-pension investment practices.

For nearly two decades, Siedle has written hundreds of articles for Forbes (and now substack.com) on public-pension governance, private equity transparency, hidden and bogus fees, Wall Street's influence over pensions and fiduciary duty failures. His columns are widely read by pension trustees, retiree associations, regulators and law enforcement, financial journalists, policymakers and academics studying pension governance. His writings in Forbes and substack.com have shaped national debate over pension transparency and private-equity oversight.

Siedle has appeared in Rolling Stone, The Wall Street Journal, Bloomberg, The New York Times, PBS Frontline, NPR, Financial Times, Pensions & Investments, CNBC, NBC, New York Post and countless other media. He is frequently cited in stories on public pensions and SEC matters. Journalists and policymakers routinely refer to him as a pension expert, forensic pension investigator, the nation's leading pension watchdog, "the Equalizer" and "the Sam Spade of money management."

He is the author of two bestselling books on pensions and Wall Street misconduct, Who Stole My Pension? (co-authored with Ted Siedle & Robert Kiyosaki) and How to Steal A Lot of Money—Legally, as well as a deeply personal account of his father's murder in Uganda, Buried Beneath A Tree In Africa. He has also written numerous published reports commissioned by retiree organizations and pension boards. These publications are widely used by pension activists and retirees who want to understand systemic governance failures.

Siedle has:

- *Advised pension participants organizing transparency campaigns*
- *Demonstrated how FOIA/public-records laws can uncover hidden pension risks*
- *Helped retirees challenge pension mismanagement and excessive fees*
- *Brought national attention to private-equity fee secrecy in U.S. public pensions*

In multiple states, Siedle's investigations have triggered legislative hearings, SEC/DOJ inquiries, governance reforms and changes in pension-plan reporting practices. This impact shows expertise that goes beyond theory into measurable policy change.

Edward Siedle's unique combination of SEC experience, forensic practice, whistleblower work, media authority, and large-scale pension investigations makes him one of the most cited independent experts in the U.S. pension space.



- **Christopher B. Tobe, CFA, CAIA**

Christopher B. Tobe, CFA, CAIA, is a nationally recognized expert in public pension investments, fiduciary governance, and institutional asset management, with more than 25 years of experience advising, analyzing, and overseeing public retirement systems across the United States.

Tobe currently serves as an Independent Consultant. He also serves as Chief Investment Officer and Senior Consultant at Hackett Robertson Tobe, where he advises institutional investors and public pension plans on investment strategy, risk, and fiduciary oversight, with a particular focus on transparency, fees, and fiduciary compliance. His consulting work has included engagements with major public plans and entities such as the Chicago Police, City of Nashville, Oklahoma Investment Commission, Utah Retirement Systems, Maryland State Retirement System, Amtrak, and numerous municipal and statewide pension funds.

A former public pension trustee and investment committee member of the Kentucky Retirement Systems (KRS), Tobe has direct governance experience overseeing a multibillion-dollar pension system. He was also commissioned by the Kentucky State Auditor to conduct investment reviews of both KRS and the Kentucky Teachers' Retirement System, providing early forensic analysis of pension investment practices and risks.

*Tobe is widely known for his investigative and forensic work on public pension transparency, alternative investments, and conflicts of interest. He has authored multiple books on pension investing, including *Kentucky Fried Pensions*, a widely cited examination of systemic*

governance failures and investment practices in public retirement systems. His research and commentary have focused extensively on private equity, hedge funds, insurance products, and other complex strategies used by public pensions, particularly in relation to fees, valuation practices, and fiduciary duty.

In addition to his consulting work, Tobe serves as a litigation expert and advisor in ERISA and public pension cases, having worked on dozens of fee and fiduciary matters involving defined contribution and defined benefit plans. His expertise spans both public and corporate retirement systems, with a specialty in stable value, annuity structures, and alternative asset benchmarking.

Tobe is a frequent speaker and commentator on public pension issues, having presented at forums including the National Association of State Treasurers, National Press Club, and academic institutions. He has been quoted in major media outlets including The Wall Street Journal, Bloomberg, Reuters, and Pensions & Investments, and has published articles in the Financial Analysts Journal and the Journal of Investment Consulting.

He holds an MBA in Finance and Accounting from Indiana University Bloomington and a BA in Economics from Tulane University. Tobe has also completed advanced fiduciary training public pension trustee programs at Harvard Law School and Stanford University and is a former President of the CFA Society of Louisville.

Across his career, Tobe has developed a reputation as a leading advocate for transparency and accountability in public pension systems, with a particular emphasis on identifying hidden costs, structural conflicts of interest, and governance failures that impact plan participants and taxpayers.

About This Report

This independent forensic investigation examines transparency, governance, investment practices, and cost structures within the California Public Employees' Retirement System (CalPERS).

The findings raise serious concerns about oversight, accountability, and the growing use of opaque investment strategies that limit public visibility into how pension funds are managed.

What This Means

CalPERS provides retirement and health benefits to more than 2.4 million public employees, retirees, and beneficiaries.

When transparency is limited and risks are obscured, the long-term security of those benefits—and public trust in the system—may be compromised.

Take Action

Greater transparency and independent oversight are essential to protecting the integrity of public pension systems.

Learn more, share this report, and support efforts to strengthen accountability.

Scan the QR code and get involved.

Retired Public Employees' Association of California (RPEA)
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