The Investors' Club: How the University of California Regents Spin Public Money into Private Profit

"As universities become glorified vocational schools for corporations they adopt values and operating techniques of the corporations they serve." – Chris Hedges (Empire of Illusion, 2009)

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- **Part One: The Investor's Club** - Published below.

Introduction and overview of the 8-part investigation. The eight parts of this investigation and two appendixes are linked within the introduction. They may be read sequentially or as stand alone stories.

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Conflicts of interest are nothing new at UC, but they are getting worse.

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Part One: The Investors' Club: How the University of California Regents Spin Public Money into Private Profit:

Experts identify multiple conflicts of interest among an elite group that oversees investments for the University of California.

Last fall, amid an unprecedented state budget crisis, the University of California Board of Regents took extraordinary measures to cut costs and generate revenue. Lecturers were laid off, classes eliminated. The board reduced admissions for in-state students, while increasing the admission of out-of-state students, who pay higher fees than state residents. And to the consternation of tens of thousands of students, undergraduate tuition was raised by 32 percent, with more hikes to come.

It now costs about $30,000 per year to attend the University of California (UC) as an undergraduate, including tuition and expenses. Even with student aid, it's a sum beyond the means of many students and their families.

While education took a beating, the regents authorized $3 million in bonuses to a handful of top administrators, and reduced the salaries of janitorial staff. The regents approved new construction projects, including a sports stadium. They assured Wall Street bond underwriters that periodic tuition increases

would help pay off hundreds of millions of dollars in new construction loans.

Objecting to the tuition increases, UC students, employees, and professors staged demonstrations at regents' meetings and on campuses across the state. Some protestors accused the regents of "privatizing" the university to benefit industrial corporations and Wall Street investors. While it is true that the university's ties to corporate and banking interests are many and legion, there is a special kind of privatization taking place behind closed doors.

Our eight-month investigation reveals that some members of the regents' investment committee, who are also Wall Street heavy-hitters, have modified long-standing investment policies in a way that benefited their own financial holdings. The fallout: multiple conflicts of interest.

See Part Two: The Smell Test

The changes can be traced to 2003, when regents Gerald Parsky, Richard C. Blum, and Paul Wachter—all financiers by trade—took control of UC's investment strategy. Sitting on the board's investment committee, the three men steered away from investing in more traditional instruments, such as blue-chip stocks and bonds, toward largely unregulated "alternative" investments, such as private equity and private real estate deals. According to UC internal reports, the dramatic investment change has led to an "overweighting" of investments in private equity. One concerned regent has likened the change to "gambling in Las Vegas."

The changes did not stop there.

By-passing the university treasurer's in-house investment specialists, the regents investment committee hired private managers to handle many of these new kinds of less-regulated transactions. This action theoretically placed some distance between the personal financial holdings of regent's and the investments made on behalf of the UC endowment and retirement funds. But it also served to increase management costs, and to limit the transparency around UC's investments, since these "external" managers are not subject to the same public disclosure laws that apply to university operations.

Unfortunately, many of these deals, while potentially lucrative, have lost significant amounts of money for UC's retirement and endowment funds, which were worth $63 billion at the end of 2009. (These losses ultimately reduce the amount spent on education, since the endowment supports teaching activities.) And the non-transparency of these private deals enabled multiple conflicts of interest to arise without challenge.

Specifically, our investigation shows that, under the new regime on the investment committee, UC placed $2 billion into a series of private deals and publicly held enterprises with significant ties to the business activities of four regents: Wachter, Blum, Sherry Lansing, and Gov. Arnold Schwarzenegger.

State Senator Leland Yee (D-San Francisco) was asked to review the findings of this investigation prior to publication. "These are amazing conflicts of interest," he concluded. "They happened after the UC Regents' investment committee drastically changed policy away from investing in fixed income securities and into risky private equity buyout funds—thus enriching several regents with ties to those funds."

Yee added, "And contracting out the management of corporate investments to firms who make their money by generating management fees was just a terrible idea."

See Part Three: The Regents' Club

Summary of findings on Mr. Blum

After Mr. Blum was appointed to the Board of UC Regents in 2002, UC invested $748 million in seven private equity deals in which he or his firm, Blum Capital Partners, was a major investor. (Mr. Wachter was

involved in one of these deals as an investor). Many of these deals were operated in partnership with TPG Capital, where Mr. Blum is an investor and an executive, according to the economic disclosure statements of his spouse, Sen. Dianne Feinstein (D-California), and other public records.

The Blum-related private equity deals in which UC has invested are: Washington Mutual and First American Corporation (2008); Harrah's Entertainment (2008); Univision (2007); Freescale Semiconductor (2007); Sungard Data Systems (2005); Kinetic Concepts (2003); Commonfund (2002).

See Part Four: Seven Private Equity Deals

UC has also invested $84 million in real estate and private equity deals, as well as the stock of a public corporation, in which Mr. Blum held significant interests:

• A UC investment of $42 million, beginning in 2006, enabled the buyout of a real estate company, Glenborough Realty Trust, in which Mr. Blum was a member of the board of directors and a stockholder. UC's investment in the fund that purchased Glenbourough has declined in value by $38.5 million.

• In 2007, UC invested $16.6 million in Colony Capital, a private equity firm to which Mr. Blum has numerous business ties.

• As of late 2007, Mr. Blum's San Francisco-based firm, Blum Capital Partners, had benefited from a $26 million investment in Janus Capital Group made by UC, as well as from related investments in Janus made by UC's external managers.

See Part Five: Four Case Studies in Conflicts of Interest by UC Regents

• Starting in 2004, Blum Capital Partners bought substantial ownership stakes in two for-profit vocational schools in which UC concurrently invested $53 million. These same educational corporations are seeing increases to their enrollment and profit due to class cut-backs at state-funded universities and colleges such as UC. And in 2007, Sen. Feinstein initiated federal legislation that benefited these two companies and other for-profit educational corporations.

See Part Six: Billion Dollar Babies & The Senator's Educational Conflict

• Since 2004 the California Public Employees Retirement System (CalPERS) has invested billions of dollars in deals that served the financial interests of Mr. Blum, Mr. Wachter, and Gov. Schwarzenegger, often in tandem with UC's investments in the same deals. During this period, Blum Capital Partners, was an investment advisor to CalPERS.

See Part Seven: Tapping the State Pension Fund

• At the end of 2009, UC held investments totaling $304 million in all 18 of the public companies in which Blum Capital Partners held a substantial or controlling stake.

See Part Eight: Blum Capital Partners Gets Lucky

Summary of other findings

• Since 2003, the regents have invested $411 million in Dimensional Fund Advisors, a company partly owned by Gov. Schwarzenegger and Mr. Wachter. UC also put $75 million into Apollo Management private equity funds in which Mr. Wachter and Gov. Schwarzenegger are invested. (See Part 4 & Part 7)

• Since September 2006, Regent Lansing (who is not on the investment committee) has been a member of the board of directors of Qualcomm Inc., for which she receives an annual director's fee of $135,000, plus stock options. According to her economic disclosure statement, Ms. Lansing owns "more than $1 million" in Qualcomm stock options (no upper limit is specified). In 2009, Qualcomm paid her $485,252. Documents released by the UC Treasurer show that, after Ms. Lansing joined the Qualcomm board, UC quadrupled its investment in Qualcomm to $397 million. Ms. Lansing told us that she did not instruct the treasurer or members of the investment committee to buy Qualcomm stock.

Ken Boehm, the chairman of the conservative watchdog group National Legal and Policy Center in Fairfax, Virginia, reviewed the findings of this investigation. "It is hard to imagine more clear-cut examples of conflicts of interest than UC investing in companies and private equity funds in which regents have financial stakes," Boehm said. "Plus, many of these investments are risky, and the regents have a fiduciary duty to invest more safely. This flat-out looks like wholesale conflicts of interest, of people taking care of their buddies."

Ethics experts on the other side of the political spectrum agreed. Robert Weissman, president of Public Citizen, the liberal good-government advocacy group based in Washington D.C., was also appraised of the findings of this investigation prior to publication. "A third grader can see that what the regents on the investment committee are doing is unethical," he said. "It goes far beyond the 'appearance' of a conflict of interest. These are core conflicts of interest."

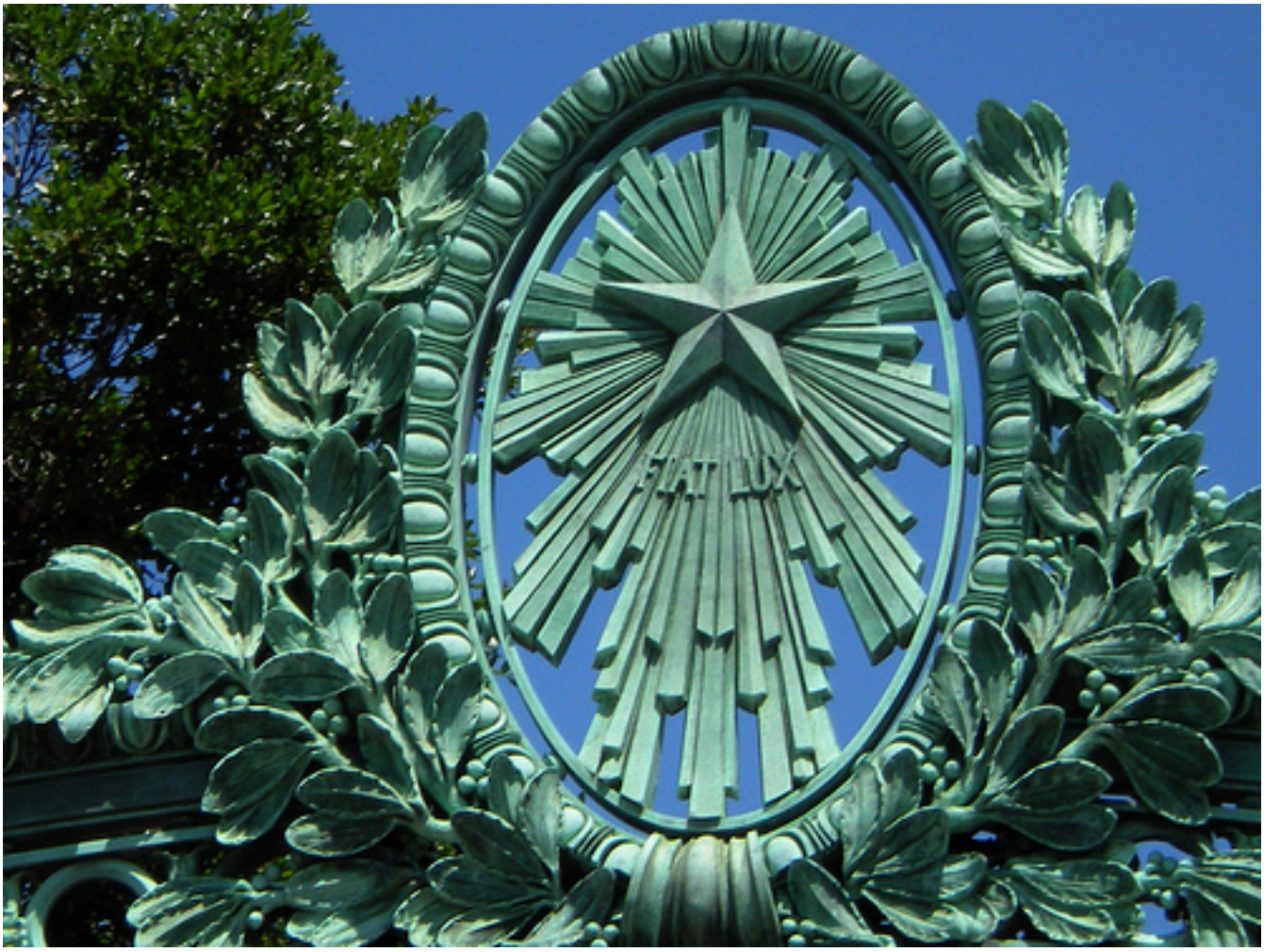
Neither Mr. Blum nor Gov. Schwarzenegger responded to repeated written requests for comment. UC Treasurer Marie Berggren and UC President Yudof also declined to comment. In an emailed statement, Berggren's spokesperson, Lynn Tierney, said, "It's misguided to assume that there's a conflict of interest simply because there's an overlap between personal investments by University of California Regents and investments made by the UC Treasurer's Office. The real issue is whether Regents communicate with the Treasurer's Office about specific investments."

Tierney added that the treasurer does not track the regent's personal investments.

Part Two: The Smell Test: How to tell the difference between a conflict of interest and a coincidence

posted by Peter Byrne at Wednesday, September 22, 2010

(Photo credit: Curtis Cronn)



For nearly three decades, the University of California primarily invested its endowment and retirement funds in blue-chip corporate stocks and "fixed income" bonds. From 1990 to 2000, under the guidance of UC Treasurer Patricia Small, these investments regularly exceeded the rate of return of comparable portfolios, with profits averaging 15 percent per year.

Under Small, the retirement fund was so healthy that employees did not have to pay into it to receive a pension. But in late August, UC announced that the retirement fund lost $16 billion in net worth from 2008 to 2009. Only a portion of this loss can be attributed to alternative investments, but downturns in the value of UC's private equity and real estate portfolios contributed disproportionately to the loss, according to a UC report. Since these losses are not likely to rebound any time soon—or ever—UC is now asking employees to pay substantial portions of their salaries into the retirement fund to cover the widening gap between the value of its investments and its pension liabilities.

UC's stable investment policy was gutted beginning in 1999, when Gerald Parsky became chairman of the UC investment committee. Mr. Parsky was a partner in a Los Angeles-based private equity firm called Aurora Capital Partners. According to Small, she was forced to retire after she argued that Mr. Parsky's policy changes were unwise. In a recent interview, she recalled, "I was cruelly pushed out so that UC could take on an uncharted and possibly conflicted investment policy with more exposure to alternative investments [such as private equity and real estate]."

Institutional investors are often attracted to the private market because these deals sometimes result in profits above stock market norms. But the details of these private transactions are not subject to disclosure to the U.S. Securities and Exchange Commission (SEC). They are illiquid and can be rather risky.

With no high-level opposition to his private market program following the ouster of Ms. Small, Mr. Parsky introduced a new way of doing business that ultimately made it difficult to detect potential and actual conflicts of interest, while also increasing opportunities for such conflicts to emerge. Under Mr. Parsky's direction, the regents began investing substantially in private real estate and private equity deals, including super-risky deals involving leveraged buyouts.

Prudent fund managers typically limit their amount of exposure to private deals, experts say. Under Small, that exposure was about two percent: It soon more than tripled. (Each percentage point was worth about $700 million.)

In 2003, Mr. Blum and Mr. Wachter (who was appointed as a regent by Gov. Schwarzenegger in 2003) joined Mr. Parsky on the investment committee and both supported his new investment policy. Under their leadership, the direct management of large portions of UC's multi-billion dollar portfolios were—for the first time—contracted out to dozens of external management firms that are not accountable to the public.

These firms bill UC for fees aggregating in the tens of millions of dollars a year to shepherd investments that had previously been handled by the treasurer's office at a fraction of the cost. From the outset, the details of the transactions undertaken by the external managers were treated like state secrets by the regents.

But in 2004, Charles Schwartz, a retired UC Berkeley physics professor, won a lawsuit that required UC to identify its external managers and their rates of return on UC investments, which included public corporations, private equity, and real estate. Transparency increased, eventually making it possible to identify investments linked to the business interests of Regents Schwarzenegger, Wachter, Blum, and Lansing.

In 2006, the regents hired a new treasurer, Marie Berggren, who had been the head of venture capital investments for Bank One. She advanced the investment committee's desire to increase investments in private equity and private real estate ventures. The regents supervise Berggren and she supervises the external managers, whose primary fiduciary duty, it should be noted, is to their own stockholders.

In investment committee meetings, Mr. Parsky, Mr. Blum, and Mr. Wachter consistently argued that the dramatic changes to UC investment policy had the potential to generate high returns. But as it turns out, increasing the risk profile of the UC portfolios was not a wise move. By 2007, UC's overall investments were underperforming by billions of dollars compared to similar portfolios, reported the East Bay Express. And the problem has only worsened since then, according to the UC task force that recently reported on the current meltdown of the retirement portfolio.

"The regents had a fiduciary duty to invest this public money conservatively, not in risky deals," Public Citizen's Weissman told us. "Private equity deal-making takes UC out of the realm of the impersonal stock market. It enters a zone where money is used to make deals that might not otherwise happen, happen. And providing external investment managers with fees tied to the amount of money invested is a recipe for disaster."

In short, the Wall Street financier-led investment committee created the perfect storm for multiple conflicts

of interest to emerge.

The nose knows

To help public officials charter an ethical course, the California Attorney General offers a blunt guideline: "Public officals are disqualified from participating in government decisions in which they have a financial interest.""

Violations can result in administrative fines up to $5,000 per incident, civil penalties, and even misdemeanor criminal penalties.

Under state law, and UC's own conflict of interest guidelines, even the "appearance" of a conflict of interest is prohibited.

UC spells out to its employees: "You have a conflict of interest with regard to a particular governmental decision if it is reasonably foreseeable that the decision will have a material financial effect on one or more of your economic interests."

Based on state law, an economic interest is defined as being worth more than $2,000. University officials are required to recuse themselves from debating, voting on, or in any way influencing the making of a decision that impacts their economic interest.

If a conflict of interest exists, the official is supposed to publicly announce its existence and then leave the room while the matter is under discussion or subject to a vote.

This investigation showed no evidence that Regents Schwarzenegger, Wachter, or Blum recused themselves from participating in the decision making processes that materially benefited their economic interests as detailed here. On the contrary, during public sessions of the board, Mr Wachter and Mr. Blum actively participated in discussions, and voted on policies that affected their business interests.

According to a January 2007 article in the San Francisco Chronicle, UC employees and regents are required to take an online course on avoiding conflicts of interest that warns employees that, "'Some activities may be legal, but they may not pass the 'smell' test.'" The Chronicle also notes that the seminar advises UC employees that while avoiding the appearance of a conflict of interest can be tricky, the "easiest way to stay out of a trouble spot is to ask yourself, 'Would I want to read about this in the newspaper or online?'"

In 2005, after the media reported that Mr. Parsky had a business relationship relationship with one of UC's main external advisors, Wilshire Associates, the regents passed a policy prohibiting regents from offering investment-related advice to the UC Treasurer's office. But the boundaries of this policy remained porous, at least as far as the selection of outside investment advisors, as can be seen in the following exchange between Regent Blum and Treasurer Berggren from a transcript of the August 2005 investment committee meeting provided by Prof. Schwartz.

> Berggren: Has any regent ever had a material impact on any decision made with the Treasurer's staff? We can literally say: absolutely no.
>
> Regent Blum: Marie ... I presume when you say that, it is viewed as inappropriate for any regent to ever suggest that you look at a given money manager or even a given--
>
> Berggren: No. No. Oh, no, no, no. Obviously, I mean, good ideas. I mean this is a wonderful group! I mean, if you know groups and you think that we should be looking at them, absolutely. I think that that's important to bring to our attention. ... So, I mean, fine. We welcome that. We want to know people.
>
> Blum: OK. Because some people don't even want that to happen, in other institutions.

Berggren responded that as long as a regent avoided exerting an "undue influence on any decision," her office was open to suggestions.

The official minutes of the meeting summarized the exchange in this way:

> "Ms. Berggren stressed that no Regent has ever influenced a decision made by the Treasurer's Office. … In response to a comment by Regent Blum, she added that policy would not prevent a Regent from offering advice."

In response to queries about how the treasurer's office goes about preventing conflicts of interest, a UC spokesperson said that "the Treasurer's Office doesn't track regents' holdings in making decisions about security selections, though regents' holdings are disclosed as a matter of policy."

But the treasurer would do well to track those holdings because as our investigation reveals, there are numerous and documented instances of overlapping, conflicting interests between the treasurer's investments and holdings of certain regents.

These investments do not pass the UC's own "smell test," ethics experts say. "Are we supposed to believe that these conflicts are just coincidences in the Small World Department?" asks National Legal and Policy Center's Mr. Boehm. "In reality, these emperors have no clothes."

Part Three: The Regents Club: Conflicts of interest are nothing new at UC, but they may be getting worse

posted by Peter Byrne at Wednesday, September 22, 2010

"It is just amazing that these regents are enriching themselves at the expense of the institution they are supposed to be leading. We are not talking about one or two isolated instances, or a piddling amount of money but $2 billion. Financially, California is going down like the Titanic, and these people are pocketing the silverware."
--Ken Boehm, National Legal and Policy Center

Historical photo - UC Regents, April 18, 1959

For decades, the UC Board of Regents has consisted of wealthy and politically connected individuals who have often been beset by charges of conflict of interest. The past is prologue.

On June 23, 1974, the Los Angeles Times published an investigation titled, "UC Regents: An Elite Club That Runs a Vast University." The story revealed that many of the regents were millionaires with little or no background in education policy. Most had plenty of experience leveraging political connections for pecuniary gain. This wealthy group of socialites, lawyers, oil men, and industrialists was out of touch with students and the common people, the Times observed: "They drive fine cars and own boats and airplanes. They belong to the best clubs and play tennis on their own private courts." And in their dealings with each other, "the camaraderie and gentility of a private club are maintained … Most regents consider it bad form to discuss their finances."

Today, some 35 years later, this clubby mentality still rules.

A history of conflict

The UC Board of Regents was created in 1868 to govern the state's public research universities. Over the years, usually in the wake of financial scandals or charges of conflicts of interest, its structure has been reconfigured.

Currently, the governor appoints 18 of the 26 members to 12-year terms; the regents themselves select a student representative for a one-year term. The balance of voting regents are considered *ex-officio*, and they are drawn from a constitutionally-mandated list of state officials that includes the governor. In other words, the regents are—and always have been—a fabulously politicized body.

In the past half-century, the financial pedigrees of many regents have created particular challenges for avoiding conflicts of interest. In 1965, Free Speech Movement activist Marvin Garson responded to a call by the California Federation of Teachers to "investigate the composition and operation of the Board of Regents." He produced a well-documented study noting that, "taken as a group, the Regents are representatives of only one thing—corporate wealth." The study observed that the prospect of conflicted interests was very real for the regents, whose "business is carried on in executive session in informal meetings of which no written record may exist. … It is entirely possible for a Regent to telephone his broker with a buy or sell order right after the Committee on Investments decides to buy or sell a big block of shares."

Five years later, the California State Auditor found that Regent Edwin W. Pauley, owner of Pauley Petroleum, had personally profited when university officials steered $10.7 million dollars into one of his company's business deals. Additionally, the auditor discovered that several regents had conflicts of interest due to business ties with a private real estate firm, the Irvine Company, which was developing the land surrounding a new campus, the University of California at Irvine. Following these revelations, the regents passed a conflict-of-interest policy prohibiting university officials from "making personal gain out of university transactions."

The regents were also increasingly bound by state laws enacted in the '70s to monitor the ethical behavior of public officials. In 1972, voters passed a statewide proposition requiring open meetings of public bodies, which includes the regents. Although some secret sessions are allowed under this law, a large portion of UC's financial records are considered part of the public record.

Two years later came the California Political Reform Act of 1974, which prohibits public officials from even the appearance of using their position to influence governmental decisions that might be personally beneficial. To increase transparency and accountability, each regent must now file an annual economic disclosure report listing his or her assets in California.

Notwithstanding these safeguards, conflicts of interest continued to arise:

- In 1978, the state auditor found that UC was improperly investing in a corporation that included a regent on its board of directors.

- In the early 1990s, the state auditor reported that some regents were improperly availing themselves of lavish travel and entertainment allowances. This audit unleashed a storm of public outrage, since the regents had simultaneously raised tuition.

- In the mid-2000s, a series of media exposés were published concerning a variety of problems at UC, including excessive salaries and benefits for UC administrators; the regents' mismanagement of the nation's nuclear laboratories; and the hiring of an investment firm (Wilshire Associates) with business connections to then-Regent Gerald Parsky.

- During that time period, an employees' union revealed that then-Regent John Hotchkis had a financial interest in a firm selected to manage $430 million worth of university investments. Additionally, the head of another firm chosen to manage $311 million in UC funds turned out to be Mr. Hotchkis' daughter.

Today, UC's current operating budget is $20 billion. The various endowment and retirement funds totaled $63 billion at the end of 2009. With such an enormous amount of public funds in play, the regents are bound to meticulously adhere to state laws and university policies that prohibit self-dealing. It is incumbent upon those individuals who are charged with overseeing the UC pension and endowment funds to avoid influencing or voting on investment decisions that potentially, actually, or even appear to affect their personal business affairs.

The current crop of regents has failed to consistently hold itself to these ethical standards—especially when it comes to private equity investments.

The private equity fiasco

Private equity investing is attractive to sophisticated investors and large institutions because it has the potential for large returns. But unlike deals that take place on public stock exchanges—where sales and purchases are public information and regulated by the U.S. Securities and Exchange Commission—the realm of private equity is opaque, largely unregulated, and extremely difficult to exit should a deal go bad.

After Patricia Small left the UC Treasurer's office in 2000, the number of private equity partnerships in UC's portfolio doubled. By 2003 the amount of money placed in private equity had more than tripled, and by March 2009, the university's books carried a balance of $6.7 billion in 212 private equity partnerships, which consist primarily of leveraged buyout funds--more than ten percent of the investment fund total of $63 billion!

These have not proven to be prudent investments, overall. As of spring 2009, UC's return on the private equity portfolio was running at a negative 20 percent since inception, asserted Treasurer Marie Berggren's annual report. And according to operating reports made by Berggren to the investment committee, much of the loss to that portfolio was tied to the souring of leveraged buyouts during the recession.

In a leveraged buyout, private equity firms act as a "general partner" by arranging private investment opportunities to purchase companies or real estate. The general partner finds "limited partners"—typically institutions, pension funds, or wealthy individuals—to invest in that fund. (The limited partners have little or no say in how the fund operates since it is being managed by the general partner.) The capital provided by the limited partners is used as a down payment for the purchase, and a large bank loan covers the remainder of the sale price.

Although leveraged buyouts can be a lucrative for both the limited and general partners, the buyout can also take on a predatory quality. In this scenario, the limited partners have the most to lose.

Here's how the darker version of these deals go down: Once a company has been acquired, the investors can off-load the responsibility for paying back the large bank loan onto the company itself. At the same time, the new owners can strip the acquired company of cash and other valuable assets to pay dividends to the general partners. Looted companies often collapse from a lack of operating capital brought about by trying to pay off the combination of the unsustainable debt burden and the dividend payouts.

Collapse can cause the limited partners to lose their entire investment. The private equity firm's general partners may survive because they can charge their investors management fees regardless of a deal's outcome. While less predatory leveraged buyout acquisitions can certainly benefit both the acquired company and all of its investors, the companies involved in the UC deals discussed in this story, for the most part, do not fall into the beneficial category.

In 2009, Ms. Berggren reported that the average annual "internal rate of return" for the retirement plan's private equity portfolio since 1979 was a mere 1.8 percent. But fixed-income investments had generated an average annual rate of return of 6 percent over a similar period. The only sector of the portfolio that fared worse than private equity was private real estate.

After Ms. Small left her post as UC treasurer, the university's allocation to private real estate deals increased from nearly zero to $4.5 billion in less than a decade. By mid-2009, the private real estate portfolio had lost an astonishing 40 percent of its value.

Nonetheless, this notable shift in strategy toward alternative investments—leveraged buyouts, in particular—has had clear benefits for individual regents, as detailed in this investigation. And good government experts question the ethics of these investments. "The investment committee's act of increasing UC's allocation to private equity was an extraordinary conflict of interest," said Robert Weissman, president of Public Citizen. "Some of these regents obviously had vested interests."

Throwing good money after bad

The private equity losses should not have surprised the regents. In 2008, Ms. Berggren stated in her annual report to the investment committee that private equity and private real estate investments were "overweighted" relative to other financial vehicles during the boom years. She also noted that the regents' preference for private investment was disproportionately impacting UC during the economic recession.

Amazingly, in the face of the disastrous performance of private equity and private real estate, Mr. Wachter and Mr. Blum have continued to advise Ms. Berggren to increase UC's investments in these two ailing sectors. (Mr. Parsky left the board in 2008.)

At the February 2009 meeting of the regents' investment committee, Mr. Wachter, then the committee chair, observed that although private equity and real estate investments were already "overweighted" in the portfolio, they should be "even more overweighted."

At an investment committee meeting three months later, Mr. Blum, who was then the chairman of the board of regents, urged his colleagues to continue on the same questionable course. According to the meeting minutes, "Chairman Blum expressed concern that the University might become too risk adverse."

At the same meeting, Mr. Wachter suggested that UC buy bundles of distressed real estate and mortgage debt to profit off of the collapse of the housing market. (Though a matter of continued debate, experts say such investments are a risky undertaking since another wave of home foreclosures is expected). Recently, Mr. Wachter has championed increasing the volume of UC's investments in risky timber and oil ventures.

But the entire investment committee is not in lockstep with Mr. Wachter's and Mr. Blum's predilection for alternative investments. Regent George Marcus, a real estate executive who sits on the committee, has

consistently opposed them. In a March 2010 meeting, he described this strategy of over-emphasizing private equity as the equivalent to "gambling in Las Vegas."

Part Four: Seven Private Equity Deals: How Regent Richard C. Blum benefited from $748 million worth of private equity and bond investments by UC

posted by Peter Byrne at Wednesday, September 22, 2010

Blum Capital Partners, based in San Francisco, handles a $2 billion portfolio. Mr. Blum is the chairman of the investment firm's board. He is also a principal executive and an owner of Fort Worth's $45 billion private equity firm, TPG Capital, which has a history of partnering with a New York-based private equity firm called Apollo Management.

Mr. Wachter has disclosed multi-million dollar holdings in a range of Apollo Management funds.

During Mr. Blum and Mr. Wachter's seven-year tenures on the regents' investment committee, UC has invested $748 million in private equity deals involving Apollo Management, Blum Capital Partners, and TPG Capital. Several of these deals received contributions from the California Public Employees Retirement System (CalPERS), the country's largest public pension fund, for which Blum Capital Partners is a paid investment advisor.

Below are summaries of seven private equity deals in which UC invested when Mr. Blum had concurrent business interests; one of these deals (Harrah's Entertainment) involved Mr. Wachter.

Theses facts were ascertained from reviewing thousands of pages of SEC filings, commercial databases,

UC public records, and press accounts.

Harrah's Entertainment
Las Vegas, Nevada
The Company: Harrah's Entertainment Inc. operates 52 casinos in seven countries.
The Deal: In 2008, investment firms TPG Capital, Apollo Management and Blackstone Capital Group partnered in a leveraged buyout of Harrah's for $30.7 billion.
The Blum Connection: In 2008, Mr. Blum disclosed investments worth "over $1 million" in various TPG funds (including funds named TPG IV and TPG V). He was also a TPG Capital owner and executive.
The Wachter Connection: Since becoming a regent, Mr. Wachter has disclosed investments worth "up to $1 million" in two Apollo investment funds (Apollo VI and VII) that provided capital to the Harrah's deal.
UC's Investment: At the time of the Harrah's transaction, UC had $75 million invested in the same two Apollo Management funds in which Mr. Wachter was invested and which were themselves invested in the Harrah's deal. During that period, UC also held $4.1 million in two TPG Capital funds, including one that helped finance the Harrah's deal (TPG V). The investments in the TPG funds were made by several UC campus endowment foundations overseen by the regents while Mr. Blum—a TPG Capital executive who was himself invested in the Harrah's deal (via TPG V)—served on the the regents' investment committee. UC also had $120 million invested with a private equity fund run by Blackstone Capital Partners (Blackstone Capital Partners V), which participated heavily in the Harrah's buyout.
In total, UC's general endowment and retirement funds committed $200 million to four private equity funds that financed the Harrah's buyout, a deal in which Mr. Blum and Mr. Wachter each had significant financial interests.
The Fallout: Since the buyout, Harrah's has hemorrhaged capital due to the overall decline of the gambling industry amid the global recession. Its ability to generate enough cash to pay back limited partner investors such as UC has been hampered by the $12.4 billion acquisition debt that Apollo Management, TPG Capital, and Blackstone Capital Partners placed on the books of the casino empire after acquiring it. UC's investment in the private equity funds that participated in the Harrah's deal had lost up to 40 percent of their value, as of March 2009.

Washington Mutual
Seattle, Washington
First American Corporation (now CoreLogic, Inc.)
Santa Ana, California
The Companies: Before its acquisition by New York's JPMorgan Chase, Washington Mutual (WaMu) was one of the country's largest banks. In the fall of 2007, it stunned investors by declaring a loss of several billion dollars in the sub-prime housing market. Simultaneously, the New York Attorney General sued a title company, First American Corporation, for conspiring with WaMu to inflate real estate appraisals. The price of WaMu and First American stock fell through the floor.
The Deal: In June 2008, in a major miscalculation of risk factors, TPG Capital bought a $7 billion stake in WaMu, becoming its largest shareholder.
The Blum Connection: Mr. Blum participated in the WaMu investment through an interlocking series of TPG Capital funds (including TPG V and a related fund named Olympic Investment Partners). Blum Capital Partners also invested heavily in First American shares when the price plummeted following the allegations of appraisal collusion.
UC's Investment: In 2008, the UC Berkeley campus endowment fund invested $4.1 million in two TPG Capital funds that financed the WaMu deal (TPG V and TPG VI). UC retirement fund managers made a bad bet by increasing their stake in WaMu bonds seven-fold, from $31 million in 2006 to $215 million by the end of 2007. Through its external managers, UC also purchased First American stock when its share price fell, putting $7 million into the failing company by the end of 2009.
The Fallout: The FDIC seized WaMu in September 2008, selling its assets on the cheap to JPMorgan Chase. Stockholders were wiped out. TPG Capital is reported to have suffered a loss of $1.3 billion, which would likely negatively affect the fund that UC had invested in (TPG V), although this information is not public. By the end of 2008, the value of UC's investment in WaMu bonds had declined by $48 million. First American continues to struggle financially and in the courts.

Univision
New York, New York
The Company: Univision is the dominant Spanish-language media company in the United States, operating 62 television stations and 69 radio stations.
The Deal: In March 2007, a consortium of five private equity investment companies led by a former UC Regent named Haim Saban acquired Univision Communications in a $13.7 billion leveraged buyout. The private equity investors were Saban Capital Group, TPG Capital, Madison Dearborn Capital Partners, Providence Equity Partners, and Thomas H. Lee Partners.
The Blum Connection: Mr. Blum participated in the Univision deal through his investments in two TPG Capital funds (TPG IV and TPG V). His spouse, Sen. Dianne Feinstein, disclosed Univision as an asset in 2007. Mr. Blum also maintained a financial interest in the deal by virtue of being a principal executive and owner of TPG Capital.
UC's Investment: A member of the UC investment committee, Saban resigned as a regent in 2004. Mr. Saban then put together the Univision deal. During the acquisition, UC campus endowment funds had invested $4.1 million in two relevant TPG Capital funds (TPG IV and TPG V). Additionally, UC had invested $150 million in the two Madison Dearborn funds that financed the Univision buyout (Madison Dearborn IV and Madison Dearborn V).
The CalPERS Connection: CalPERS invested a total of $1.8 billion in private equity funds that financed the purchase of Univision: $450 million in two Madison Dearborn funds (Madison Dearborn IV and Madison Dearborn V); $125 million in a Providence Equity Partners fund; $300 million in a Thomas Lee Equity Partners fund; and $950 million in the two TPG Capital funds (TPG IV and TPG V).
The Fallout: Following the buyout, Univision's new owners—including TPG Capital and Apollo Management—placed the $10 billion debt from the buyout on the company's balance sheet, creating a financial burden. The value of UC's investment in one Madison fund decreased by 17 percent as the spring of 2009, while the other showed a gain of 18 percent. Apollo Management and TPG Capital collectively charged its investors, including UC, a $200 million transaction fee for managing the deal.

Freescale Semiconductor
Austin, Texas
The Company: Freescale is one of the largest semiconductor manufactures in the world.
The Deal: In December 2007, Freescale announced that it had been acquired by a consortium of private equity firms consisting of the Blackstone Group, the Carlyle Group, TPG Capital, and Permira Advisors.
The Blum Connection: To purchase Freescale, a multi-billion dollar down payment was raised from investors, including two TPG Capital funds (TPG IV and TPG V), in which Mr. Blum was invested. Mr. Blum was also a TPG Capital principal.
UC's Investment: UC was invested in both TPG Capital funds involved with the Freescale transaction (TPG IV and TPG V). It had also committed $120 million to another fund involved in the Freescale buyout (Blackstone Capital Partners V, L.P.).
The CalPERS Connection: CalPERS invested billions of dollars in funds that supported the Freescale transaction, with $1.4 billion committed to the relevant Carlyle Group funds, $347 million in a Permira fund, and $950 million in the two TPG Capital funds (TPG IV and TPG V).
The Fallout: Within months of the buyout, Freescale's sale of cell phone semi-conductors went into a tailspin. The company began to sink, over-burdened with the $9.5 billion in debt that the private equity firms had loaded onto Freescale's balance sheet to pay for its own acquisition. In April 2008, Business Week called the Freescale deal "one of the ugliest buyouts in history."

Sungard Data Systems, Inc.
Wayne, Pennsylvania
The Company: Sungard Data Systems is a software company that provides information technology services to financial companies, nonprofit organizations, and school districts.
The Deal: In 2005, a consortium of private equity firms acquired Sungard in an $11.3 billion leveraged buyout. The participating firms included TPG Capital, Silver Lake Partners, Bain Capital, and Blackstone Capital Partners.
The Blum Connection: A principal in TPG Capital at the time, Mr. Blum was also invested in two TPG Capital funds involved in the buyout (TPG III and TPG IV).
UC's Investment: At the time of the acquisition, UC had invested $80 million in two private equity funds

that helped finance the Sungard buyout (Bain Capital Fund VIII and Blackstone Capital Partners IV).
The CalPERS Connection: CalPERS committed a total of $325 million to two private equity funds involved in the Sungard buyout (Silver Lake Partners II and Blackstone Capital Partners IV). CalPERS also had $350 million invested in the TPG Capital funds that bought Sungard (TPG III and TPG IV).
The Fallout: In 2005, the Sungard deal was the second-largest buyout in history, and the largest privatization of an information technology company. UC appears to have made a profit on the investment.

Kinetic Concepts, Inc.
Santa Rosa, California
The Company: Kinetic Concepts manufactures medical equipment to treat wounds, burns and injuries sustained in accidents and combat.
The Deal: In 1997, Richard C. Blum & Associates (the predecessor to Blum Capital Partners) entered into a leveraged buyout deal to purchase Kinetic Concepts with Fremont Partners III, a private equity fund run by the Fremont Group (an investment arm of San Francisco's Bechtel Corporation). The Fremont Group and Blum jointly acquired a majority stake in Kinetic Concepts, and proceeded to take the company private.
UC's Investment: In 2003, after Mr. Blum became a regent, UC invested $8.2 million in Fremont Partners III, which was still partnered with Mr. Blum's firm on the Kinetic Concepts deal. In 2004, as the number of wounded soldiers increased from two simultaneous wars in Iraq and Afghanistan, the Fremont Group and Mr. Blum's firm took Kinetic Concepts public for a reported gain of $800 million. As of the end of 2009, UC has purchased $46.8 million in newly-issued Kinetic Concepts stock.
The Fallout: UC kept its investment with the Fremont Partners III fund until the end of 2006, and the deal appears to have been profitable for both Mr. Blum and UC. (It 's worth noting that in 2000, Kinetic Concepts held only $116,000 in contracts with the U.S. Department of Veterans Affairs. By 2006, as wounded soldiers rotated through veterans hospitals, the value of these contracts shot up to $12 million. During this time, Sen. Feinstein was the chairperson of the Senate Appropriations subcommittee on veteran's affairs that vetted and approved these projects.)

Commonfund
Westport, Connecticut
The Company: Commonfund is a $26 billion nonprofit asset management company that handles investments for more than 1,400 public and private university pension and endowment funds.
The Blum Connection: From 1995 to 2004, Blum Capital Partners served as an investment advisor to Commonfund. Advisors are typically paid a percentage of the amount of capital they are able to attract to the fund.
UC's Investment: In 2002, the same year that Mr. Blum became a regent, several UC campus endowment foundations collectively invested $3.1 million in a series of private equity and venture capital partnerships sponsored by Commonfund. This amount tripled the following year. By the middle of 2004, Commonfund no longer reported Blum Capital Partners as an advisor, but its relationship with UC expanded. By 2008, UC's overall investment in Commonfund had grown to $41.3 million.
The Fallout: When the sub-prime mortgage meltdown hit Wall Street, Commonfund suffered. The value of UC's Commonfund investment sank by $5 million. In 2009, UC Treasurer Marie Berggren reported to the regents that Commonfund was temporarily "shutdown," and that UC would no longer receive its cash back upon demand.

Part Five: Four Case Studies in Conflicts of Interest by UC Regents

posted by Peter Byrne at Wednesday, September 22, 2010

Photo credit: Thomas Hawk

Study No. 1: Dimensional Fund Advisors and Apollo Management:
The details behind UC's $486 million investments in deals in which Gov. Arnold Schwarzenegger and Paul Wachter—both UC Regents—had significant interests.
Study No. 2: Glenborough Realty Trust: UC buys a company from Mr. Blum.
Study No. 3: Colony Capital: UC invests in private equity alongside Mr. Blum.
Study No. 4: Janus Capital Group: A remarkable confluence of investments.

Study No. 1: Dimensional Fund Advisors and Apollo Management
When Gov. Arnold Schwarzenegger assumed office in 2003, he appointed Paul Wachter, his business partner of more than 20 years, to the UC Board of Regents. Mr. Wachter was hired in 2003 to handle Gov. Schwarzenegger's investments in a blind trust, which (in theory) is set up to sequester investments from all but the trustee's view in order to limit possible conflicts of interest. For reasons that should be obvious, it was not ethically kosher for the governor to put a business partner, close friend, political advisor, and public servant such as Mr. Wachter in charge of this blind trust.

Still, Gov. Schwarzenegger, who is an ex-officio regent, chose not to place a large portion of his real estate and business partnership holdings in the trust overseen by Mr. Wachter. These assets—valued at about

$100 million—became a matter of public record through the governor's financial disclosure statements.

An analysis of the economic disclosure statements filed by Gov. Schwarzenegger and Mr. Wachter reveal that since 2003, specific UC investments have benefited the financial holdings of both men. UC has placed $411 million with Dimensional Fund Advisors, an investment firm in which Gov. Schwarzenegger and Mr. Wachter each have an ownership stake. An additional $75 million of UC's monies was invested in private equity funds run by Apollo Management, a firm in which both men hold substantial financial investments.

Government watchdogs say that this presents a clear conflict of interest. "The regents putting public money into Dimensional Fund Advisors and Apollo is a conflict of interest just like if Schwarzenegger was a plumber and the regents gave plumbing contracts to his company," says Robert Weissman, president of Public Citizen.

The deals are summarized below.

Dimensional Fund Advisors
Santa Monica, California
The Company: Dimensional Fund Advisors is a privately owned company that operates a type of mutual fund known as an index fund. Stock in Dimensional Fund Advisors is not publicly traded; ownership of the firm is available only by invitation, and investment opportunities are limited to its directors, employees and select individuals, such as Gov. Schwarzenegger and his blind trustee, Mr. Wachter.
Gov. Schwarzenegger's Interest: According to financial disclosure statements, Gov. Schwarzenegger owns "more that $1 million" worth of Dimensional Fund Advisors stock. (Note: this is not the same as investing with the firm, it is direct ownership of the firm.) Media reports put his ownership stake in the firm at a minimum of 5 percent, and he receives annual cash dividends of "more than $100,000."
Mr. Wachter's Interest: According to public disclosure statements, Mr. Wachter owns "more than $1 million" worth of stock in Dimensional Fund Advisors.
UC's Investment: Since 2004, UC's retirement fund has invested $329 million with Dimensional Fund Advisors. The UCLA Foundation, an endowment fund overseen by the regents, placed $82.3 million—or nearly 8 percent of its total endowment—in three investment funds offered by Dimensional Fund Advisors. The grand total of UC's investment in Dimensional Fund Advisors is $411 million.
Fallout: When the economy tanked in 2008, UC's investments with Dimensional Fund Advisors took a hit. By the end of 2008, the value of UC's investment with Dimensional Fund Advisors via the retirement fund had fallen to $151 million. UC Treasurer Berggren declined to state whether this was a loss or a divestment.

Apollo Management
New York, New York
The Company: Apollo Management is a private equity firm that specializes in leveraged buyouts. It is run by financier Leon Black, who got his start selling "junk bonds" to small banks prior to their collapse during the savings and loan debacle of the 1980s. Mr. Black now raises large amounts of Apollo's investment capital from university and union pension funds.
Gov. Schwarzenegger's Interest: Gov. Schwarzenegger has "more than $1 million" invested in two Apollo Management funds (Apollo IV and Apollo V). Since 2004, he has reported income of more than $200,000 a year in dividends from these two investments.
Mr. Wachter's Interest: Main Street Advisors, Mr. Wachter's private investment firm, has invested up to $100,000 in Apollo IV (alongside Gov. Schwarzenegger). He holds up to $1 million in each of two other Apollo Management funds (Apollo VI and Apollo VII).
UC's Investment: Since 2004, the regents have invested $75 million in two Apollo Management funds in which Mr. Wachter is invested (Apollo VI and Apollo VII). Both Apollo funds helped finance the less-than-lucrative Harrah's Entertainment leveraged buyout in consortium with the investment firm TPG Capital, where Mr. Blum is an owner and executive. UC is not directly invested in Apollo IV or Apollo V, but all the Apollo funds share the same general partner, Apollo Management. See Harrah's Entertainment from Part Four.

Toeing the ethical Line

As the official who appoints most of the regents, Gov. Schwarzenegger has the ability to influence his colleagues on the board. But state laws and UC policy provide theoretical guidance on how to avoid a conflict of interest. If Gov. Schwarzenegger chooses to influence a regent, he is obligated to do so in a manner that does not conflict with his own financial interests. He could also ensure that his personal holdings do not overlap with UC's holdings—not a difficult task since both the holdings of the governor and UC are part of the public record.

However, this did not happen with Gov. Schwarzenegger's investments in Apollo Management and Dimensional Fund Advisors. The two firms received a total of $486 million in UC investments after he and Mr. Wachter joined the board of regents in 2003.

Mr. Wachter defended these investments by saying that the regents do not direct UC staff to either select specific investment vehicles or to contract with specific outside investment fund managers, such as Dimensional Fund Advisors. (However, during a UC investment committee meeting, UC Treasurer Marie Berggren told the regents that she is open to their suggestions when hiring outside investment management firms.)

Study No. 2: Glenborough Realty Trust
In addition to his executive position with the global real estate giant, CB Richard Ellis, Mr. Blum's business interests include the purchase and sale of real estate companies for his personal portfolio. At least one such transaction, the 2006 leveraged buyout of Glenborough Realty Trust, was made possible by a UC investment.
The Deal: A real estate company based in San Mateo, California, Glenborough was sold to Morgan Stanley Real Estate in a $1.8 billion leveraged buyout that took the company private in November 2006.
UC's Investment: UC invested $42 million in the Morgan Stanley private equity investment fund that bought Glenborough.
The Blum Connection: At the time of the Glenborough sale, Mr. Blum owned Glenborough stock worth about $2.5 million, and he sat on the company's board of directors. U.S. Securities and Exchange Commission disclosure statements filed by the real estate company prior to the sale asserted that as a member of its board of directors, Mr. Blum would see direct financial benefit from the buyout.
Details of the Deal: Glenborough owned scores of high-end office buildings in a half-dozen major cities, including San Francisco. Private equity suitors regularly came calling on the Glenborough board of directors, hoping to buy the profitable company. Morgan Stanley won Glenborough's hand with a $1.9 billion offer via one of its private equity investment funds called MSREF V.
Public records show that before the sale, UC held $8 million in this Morgan Stanley fund (MSREF V). After the sale of Glenborough was announced, UC increased this amount by $34 million, for a total investment of $42 million.
The Morgan Stanley fund (MSREF V) put up a cash payment of $325 million to realize the Glenborough deal (UC's contribution, via the Morgan Stanley investment fund, was equivalent to 13 percent of the cash that was made as a down payment). The majority of the remaining $1.8 billion purchase price was leveraged by a loan from Deutsche Bank Securities. The original members of the Glenborough board of directors, including Mr. Blum, sold their stock at a premium price.
Fallout: Glenborough was saddled with a tremendous debt load from the acquisition and it struggled mightily to meet the loan obligation. The deal turned out to be a bad investment for UC. By the end of 2009, due to the collapse of the real estate market and the company's debt burden, the value of UC's investment in the Morgan Stanley fund (MSREF V) had plummeted to $3.5 million, recording an apparent loss of $38.5 million from its height.

Study No. 3: Colony Capital
Since 2007, UC has invested millions of dollars with Colony Capital, a Los Angeles private investment firm. One of Colony Capital's principal partners is Richard Nanula, a longtime trustee of the University of California, Santa Barbara. One of Colony's business partners is Mr. Blum. The intersection of financial interests between UC, Colony Capital, and Mr. Blum is revealed through the workings of the leveraged buyout deals of Fairmont Raffles Holdings International in Toronto and Station Casinos in Las Vegas.

Summaries of both deals are presented below.

Fairmont Raffles Holdings International
Toronto, Canada
The Players:
• Colony Capital is a $45 billion private equity firm specializing in the privatization of hotels and casinos. It owns one of the world's largest casino-hotel conglomerates, Resorts International.
• Prince Alwaleed bin Talal bin Abdulaziz Alsaud is a member of the royal family of Saudi Arabia and one of the world's wealthiest individuals.
• Kingdom Holding Company (KHC) is Saudi Arabia's largest corporation. Prince Alwaleed owns 95 percent of KHC, which in turn owns large stakes of American corporations, including Citigroup, Apple, and News Corp.
• Kingdom Hotels International is a KHC subsidiary.
• Fairmont Raffles Holdings International is an international luxury hotel chain. Mr. Blum has been a member of its board of directors since 2006.
The Deal: In 2006, Kingdom Hotels and Colony Capital partnered to realize a $5.5 billion merger and acquisition of two hotel chains: Fairmont Hotel and Resorts and Raffles International. The companies were combined into a privately held entity named Fairmont Raffles Holdings International.
The Blum Connection: To finance the buyout deal, Colony Capital set up a series of private equity investment funds. Sen. Dianne Feinstein has disclosed that Blum Capital Partners invested in the hotel chain merger through a Colony Capital investment fund named Colony HR Co – Investment Partners III. Mr. Blum was appointed to the new corporation's board of directors by Colony Capital and Prince Alwaleed.
UC Investment: As the hotel deal was in process, Colony Capital created a related fund (Colony Capital VIII) to develop hotel and casino properties in the Middle East and elsewhere. Between 2007 and 2009, UC's endowment and retirement funds invested $16.6 million in this Colony Capital fund. This fund did not directly finance the Fairmont Raffles merger, but its hotel and casino funds interlock, each sharing an interest in the success of the others.
Fallout: California conflict of interest law deems a limited partner in a private equity fund to be invested in the general partner of that fund. Consequently, say the state's conflict of interest guidelines: "When the limited partner has such an investment, he or she must disqualify [from the decision making process] with respect to decisions affecting the general partner personally or through business entities controlled by the general partner."
In sum, Mr Blum's investment in Colony HR Co – Investment Partners III gave him an economic interest in all of Colony Capital's funds, including the fund UC invested in, Colony Capital VIII. But, apparently, Mr. Blum did not recuse himself from making any policy or other decision making consideration that could have affected UC's investment in Station Casinos via Colony Capital VIII.

Station Casinos
Las Vegas, Nevada
The Players:
• The Fertitta family operates and partially owns Station Casinos, one of the largest casino chains in Nevada. Until three years ago, it was a publicly traded company.
• Real estate firm CB Richard Ellis bills itself as "the leading global casino real estate advisor."
The Blum Connection: Mr. Blum is the chairman of the board and a controlling shareholder of CB Richard Ellis. He is a member of the board of directors of the hotel chain Fairmont Raffles Holdings International, owned by Colony Capital. He is also an investor in a Colony Capital acquisition fund.
The Deal: In 2007, Colony Capital partnered with the Fertitta family in a $5.7 billion leveraged buyout (taking the public company private). Colony partly financed the deal with Colony Capital VIII. U.S. Securities and Exchange Commission records show that as the deal was being negotiated, Station Casinos hired CB Richard Ellis to evaluate the Fertitta-Colony offering to Station Casino's public shareholders. CB Richard Ellis was charged with determining if the offering was fairly priced. Mr. Blum's firm told Station Casino shareholders that the deal was a solid investment.
UC's Investment: While Mr. Blum served on the regents' investment committee, UC invested $16.6 million in the Colony Capital fund (Colony Capital VIII) which bought Station Casinos in a deal that was partly overseen by CB Richard Ellis, a company Regent Blum controls. The deal benefited Colony Capital, a firm to which Mr. Blum is deeply connected through investments and a board directorship.

Fallout: Not long after it was privatized, Station Casinos declared bankruptcy due to the combined effects of the recession and the $1.6 billion operating debt that its new owners had imposed on the company via the buyout. Former shareholders of Station Casinos claimed that the deal was not in their best interest, as CB Richard Ellis had claimed. The Colony Capital fund that financed the Station Casinos buyout (Colony Capital VIII) has lost more than half its value due to the soured deal, enraging institutional investors. As of December 2009, the value of UC's investment in Colony Capital VIII had decreased by $6.3 million.

Study No. 4: Janus Capital Group
The Players:
• Axa Rosenberg, a division of the global investment firm, Axa, was one of several dozen external investment managers retained by the regents to handle millions of dollars from the UC's retirement and endowment portfolios after Treasurer Small was ousted.
• Janus Capital Group is a financial company that manages mutual funds.
• Blum Capital Partners invests in both private and public equity on behalf of its private clients (whose identities are not public).
UC's Investment: UC Treasurer Marie Berggren has disclosed that her external investment managers—she declined to specify which ones—bought and sold $26 million in Janus Capital stock on UC's behalf between 2005 and 2008. During the same time period, Axa Rosenberg's parent company, and three other UC external managers, invested heavily in Janus Capital stock using non-UC funds. These investments were made concurrently with large investments in Janus by Mr. Blum's investment firm, Blum Capital Partners.
The Deal: These substantial investments by four UC external managers—using UC funds and also on behalf of other clients—had the effect of ratcheting up the price of the Janus stock because these purchases increased demand.
Fallout: Even if the substantial investments in Janus by Blum Capital Partners and UC's external managers were purely coincidental, there is an appearance of a conflict of interest because Blum Capital Partners, a market mover, invested heavily in Janus stock in tandem with UC, another market mover, and several investment firms contracted to manage UC investments, all market movers. And UC's investments were overseen by Mr. Blum, as a regent.

The story ends differently for the various parties. Blum Capital Partners sold its Janus stake at its apogee in 2007 for a substantial profit. Meanwhile, it appears that the investment resulted in a financial loss for UC.

TIMELINE OF BLUM CAPITAL PARTNERS' and UC'S INVESTMENT IN JANUS CAPITAL GROUP (Sourced from SEC filings, UC investment data, commercial databases, press reports.)

2004 to 2005
• In April 2004, UC hires Axa Rosenberg as an investment advisor, ultimately making it responsible for managing $156 million of the UC retirement and endowment funds.
• In the first quarter of 2005, Blum Capital Partners makes an initial investment in Janus of $102 million, paying about $13 a share.
• Throughout the course of the year, UC (though external managers) purchases $5.6 million in Janus shares.

2006
• Early 2006: Axa Rosenberg's parent company, Axa, invests $7.8 million in Janus.
• Mid-2006: Axa increases its holding in Janus to $56 million. Dimensional Fund Advisors (a UC external manager that is partially owned by Regents Wachter and Schwarzenegger), holds $39 million in Janus stock. Adage Capital, also a UC external manager, holds $2.9 million.
• Third quarter 2006: Blum Capital Partners purchases more Janus stock, and now owns $388 million worth of shares in the company for an ownership stake that exceeds 10 percent. The Janus stock price continues to rise.
• Fourth quarter 2006: Blum Capital sells a portion of its Janus stock, and Axa increases its investment ten-fold to $575 million. The share price reaches $21. Dimensional Fund Advisors nearly doubles its holdings in Janus.
• Throughout the course of the year, UC engages in a series of rapid trades of Janus stock, buying and selling $3.4 million worth of shares. Rather than maintaining a solid position, UC external managers often

trade the stock several times a day, hoping for small profits in the margins as the stock price continues to rise.

2007

• Early to mid-2007, Blum Capital Partners buys, sells, and re-buys Janus stock, turning a profit by taking advantage of fluctuations in the market (this tactic is called "arbitraging"). On their own accounts, four UC external managers—Axa Rosenberg, Dimensional Fund Advisors, Adage Capital, and Goldman Sachs Group—also buy large amounts of Janus stock, for a combined total of $781 million worth of shares, or about 15 percent of the company.
• September: After buying and selling Janus stock throughout the year, the value of Blum Capital Partner's Janus holdings increases to $502 million, making it the third-largest Janus shareholder. Axa remains the largest shareholder, holding $622 million in Janus stock.
• Throughout the course of the year, through its external managers, UC trades $4.2 million in Janus stock. In at least one instance, UC buys and sells $3.1 million worth of shares in a single day.
• Late November: Due to high demand—created in part by the large Janus investments made by UC's external managers—the price of Janus stock peaks at $36 per share. During the last quarter, Blum Capital Partners sells its entire stake—about 17 million shares—for more than a half-billion dollars, clearly reaping a huge gain.

2008

• As the recession hits, Janus' stock price freefalls, bottoming out at $3.95 a share.
• UC continues to trade Janus stock, buying and selling a total of $12.7 million in rapidly failing Janus stock—sometimes more than $2 million a day—in an effort to squeeze pennies out of minor fluctuations in the meltdown process. By the end of the year, UC has traded $26 million in Janus stock since the beginning of 2005.
• The amount of money Axa Rosenberg manages for UC plummets from $156 million in 2007 to $69 million by the end of 2008. UC Treasurer Berggren declined to say if this was a result of Janus investments.

2009

• December: Axa holds $1.7 million worth of Janus stock and UC still has nearly $2.5 million in Janus shares on its books. Since gainfully divesting itself of Janus stock in 2007, Blum Capital Partners has not reinvested in it. UC Treasurer Berggren declined to say how much UC has gained or lost as a result of the Janus investments.

Part Six: Billion Dollar Babies: University of California invests $53 million in two diploma mills owned by a regent

posted by Peter Byrne at Wednesday, June 23, 2010

"Berkeley is a microcosm of the intrusion of corporations into education. … While public schools crumble, while public universities are slashed and diminished, while for-profit universities rise as our newest vocational schools, elite institutions become unaffordable even for the middle class." -- Chris Hedges (Empire of Illusion, 2009)

In 2009, Richard C. Blum, then the chairman of the UC regents, spoke at the Milken Institute's Global Conference, held at the Beverly Hilton in Los Angeles. The corporate confab was hosted by Michael Milken, the "junk bond king" who went to prison in the aftermath of the savings and loan fiasco of the 1980s.

Barred from securities trading for life by federal regulators, Milken has since recreated himself as a proponent of investing in for-profit educational corporations, an industry which regularly comes under government and media scrutiny following allegations of fraud made by dissatisfied students.

At the conference, Mr. Blum, who is a financier by trade, sat on a panel called "The New University and Its Role in the Economy," alongside the presidents of the Massachusetts Institute of Technology and Arizona State University. The panel focused on how universities can best serve the corporate demand for tech-savvy employees by recruiting smart freshmen with scientific talent. One panel member urged treating universities as "laboratories of business ideas and products."

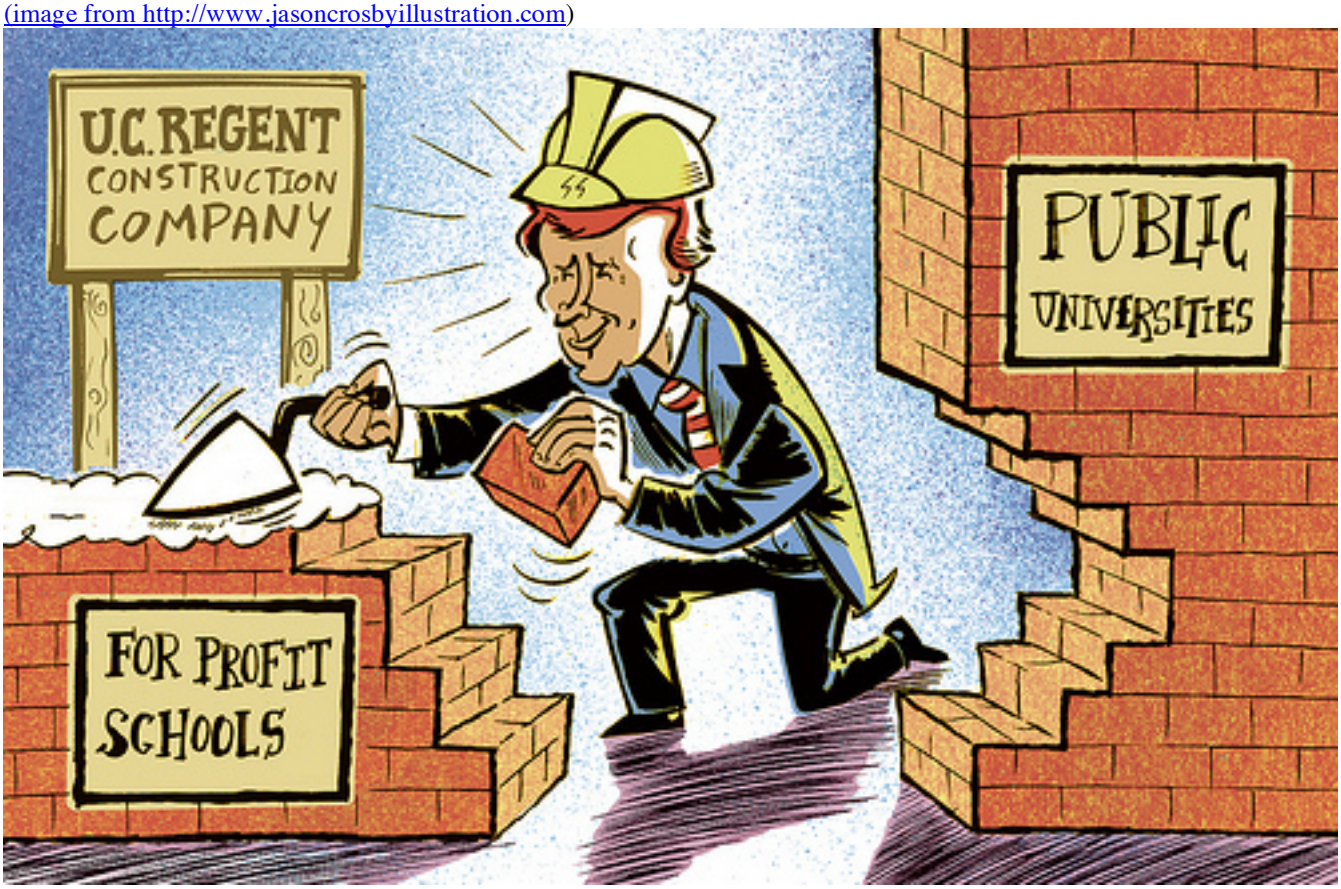
As someone who oversees investment policy decisions for UC's $63 billion portfolio, and as the largest shareholder in two for-profit corporate-run universities (in which UC invests), Mr. Blum had a unique perspective to share. He advised public universities to attract business-oriented students with clever advertisements, just as vocational schools do. "It's like anything else," he told the crowd. "It's how you market it."

Marketing strategy aside, Mr. Blum has taken on two seemingly disparate roles— one as an advocate for a nonprofit university, and the other as an owner of two for-profit educational corporations. As a regent, Mr. Blum has approved cost-cutting policies for UC that appear to have enhanced the profitability of his vocational schools. And in 2007, Mr. Blum's spouse, Sen. Dianne Feinstein (D-CA), wrote federal legislation that benefited the for-profit college industry.

For several years, Mr. Blum's firm, Blum Capital Partners, has been the dominant shareholder in two of the nation's largest for-profit universities, Career Education Corporation and ITT Educational Services. As of May, firm's combined holdings in the two chain schools was $923 million—nearly $1 billion. As Blum Capital Partners' ownership stake has enlarged over time, so have those made by UC investment managers, who have invested a total of $53 million in public funds into the two educational corporations.

Government ethics advocates are displeased by the relationship betwen UC and Regent Blum's educational interests. "It is hugely inappropriate for the University of California to invest in for-profit colleges when it should be promoting public education," said John M. Simpson of Consumer Watchdog, a Southern California nonprofit education and advocacy organization. "And something stinks when university investments end up in companies largely controlled by a regent. To the average fellow on the street, this would seem to be a conflict of interest. It is up to Mr. Blum and the UC treasurer to explain how it could not be a conflict of interest."

(image from http://www.jasoncrosbyillustration.com)



Recession capitalism

Due to cost-cutting polices sanctioned by the UC Regents, including serial tuition hikes, class cuts, and reduced enrollment for in-state students, the gateway to higher learning in California has seriously narrowed. As a regent, Mr. Blum voted in favor of all of these measures—actions which have indirectly benefited the corporate colleges he owns. But Career Education Corporation and ITT Educational Services are not the only chain schools profiting from the financial disaster that besets so many public universities.

On March 13, The New York Times summed up the situation when it reported that many for-profit schools "have exploited the recession as a lucrative recruiting device while tapping a larger pool of federal aid … selling young people on dreams of middle-class wages while setting them up for default on untenable debts, low-wage work and a struggle to avoid poverty." The Times noted that for-profit schools are directly benefiting from cuts in education, especially in California where state-funded universities and community colleges have been "forced to cut classes just when demand is greatest."

In marked contrast to UC and other public universities that have turned students away due to budget cuts, ITT's revenues have rocketed skyward in tandem with new enrollments. ITT recently reported to its shareholders that due to "higher unemployment rates among unskilled workers" company revenue increased to $1.3 billion, a doubling of its profit since 2005. Responding to a recession-induced increase in demand for vocational training, ITT has raised tuition by 5 percent; 70 percent of ITT's revenue comes from federal tuition aid programs.

Chain schools get the third degree

Nationwide, vocational school students are paying billions of dollars in tuition to stockholder-owned education corporations, primarily using federal grants and loans guaranteed by taxpayers. In the United States, the dominant vocational education corporations are the University of Phoenix, Corinthian Colleges, Strayer University, Kaplan (owned by The Washington Post Company), Career Education Corporation and ITT Educational Services. Collectively, these companies operate hundreds of schools and teach hundreds of thousands of low-income students, most of them eligible for public and private financial aid. The chains offer training for such technical professions as radiological technician, beautician, automotive mechanic, medical billing clerk, Web designer and massage therapist. But they also offer degrees in engineering, computer science and business.

Increasingly, they are promoting online education, which limits the education corporations' operational costs, even though virtual courses are often not suitable for teaching nursing, cooking, massage, or car repair. As a result of delivering substandard education, some for-profit schools suffer from accreditation problems, according to recent news reports.

On a fairly regular basis, government regulators, including the U.S. Department of Justice, have accused chain schools of preying upon low-income individuals and active military service members. Typically, state and federal agency investigators report, chain school recruiters have loaded students down with loan packages averaging $30,000 that are attached to high interest rates. But fewer than 70 percent of enrollees graduate. Such a high dropout rate requires the corporations to continuously wage television, radio, Internet and print media marketing campaigns aimed at enticing students who want to better themselves—and who are, not incidentally, eligible for government-guaranteed loans.

Unfortunately, those who do graduate with two-year associates degrees from the chain schools often discover that the curriculum did not prepare them for the technical requirements of the jobs they seek. When graduates do find work, their wages often do not match the inflated salaries promised by school recruiters, according to government reports. And when dropouts and underpaid graduates inevitably default on their student loans, it's the taxpayers who remain on the hook.

Every few years, mainstream media re-discovers these so-called "diploma mills," publishing investigative stories to show that despite the marketing materials that tout their educational and career benefits, the chain schools are primarily focused on cashing in on taxpayer-backed grants and loans. Since last fall, The New York Times, Washington Monthly, ProPublica, Bloomberg, Frontline and The Associated Press have published exposés of the $26 billion vocational college industry.

In particular, the two schools in which Mr. Blum's firm has controlling stakes have been targets of these investigations, although press reports do not mention him by name, nor do they reveal that UC invests in his for-profit schools while cutting back on public education.

Students as cash machines

Blum Capital Partners, Mr. Blum's investment firm, entered the for-profit education business in 1987, when he purchased a large block of shares in National Education Corporation, an Irvine-based vocational school that specialized in awarding mail-order diplomas. He joined the company's board of directors, and took a seat alongside former U.S. Senator Barry Goldwater and David C. Jones, a former chairman of the Joint Chiefs of Staff.

Two years later, Mr. Blum got in hot water when angry shareholders filed a lawsuit claiming "the company issued rosy financial statements while Mr. Blum and other directors were selling their shares," according to the Los Angeles Times. The shareholders argued in court documents that Mr. Blum sold $2.7 million worth of shares at about $24 per share after he learned—a day before the public announcement—that the company president planned to resign. When National Education Coropration's share price bottomed out at $3.50 a share following the leadership change, Mr. Blum then re-invested in the troubled company. According to a 1997 The New York Times report, National Education Corporation was then "battered by accusations that its vocational schools were riddled with fraud." Fraudulent or not, investing in the corporation's stock remained a profitable pursuit.

By 1995, Mr. Blum had gained control of 11.5 percent of National Education Corporation stock. He did so by combining his firm's capital with that of a nonprofit investment fund, Commonfund, for which Mr. Blum worked as an investment advisor. (Commonfund manages investments for more than 1,400 universities, including UC.) In 1997, Harcourt, the textbook publisher, bought National Education Corporation for about $750 million, or $21 a share. Mr. Blum and his private partners appear to have profited handsomely—there was money to be made in education!

After his appointment to the UC Board of Regents in 2002, Mr. Blum continued to grow his investment in for-profit education. In June 2005, Blum Capital Partners invested $24 million to buy 5 percent of the stock of Lincoln Education Services Corp., a $300 million operation with 32 campuses. But most notably, Mr. Blum also acquired large blocks of shares in ITT Educational Services and Career Education Corporation following dips in stock prices after government regulators began investigating corrupt practices at the schools.

In the case of ITT Educational Services, federal and state regulators investigated the company in 2004 after shareholders and students alleged that it was falsifying student attendance, grades, and job placement records in order to keep federal financial aid flowing. When the news broke, the price of ITT shares halved.

Blum Capital Partners pounced, purchasing reams of devalued ITT stock. It soon owned the largest block of stock in the company—a 10 percent ownership stake in 2006. Not long afterward, the investigations were closed with no findings of wrongdoing. By May 2010, ITT's revenue exceeded $1.3 billion, and Blum Capital Partners' stake was valued at $415 million.

Similarly, Blum Capital Partners bought shares of Career Education Corporation following a corruption controversy in 2004. A $1.8 billion operation that serves 90,000 students, Career Education Corporation was being investigated by multiple federal agencies after whistleblower lawsuits alleged that the school had allowed failing students to remain enrolled to maintain its pipeline to federal grants and loans.

In 2005, after "60 Minutes" televised an unfavorable story about the chain school, the value of the school's stock dropped by more than half. Blum Capital Partners bought in for $33 million. As of May 2010, Blum Capital Partners' stake had grown to $508 million, making Mr. Blum's firm by far the largest and most powerful shareholder of the chain school. A partner with Blum Capital Partners, Greg L. Jackson, sits on the board of Career Education Corporation. And even as Mr. Blum sat on the regents' investment committee, UC invested in both ITT Educational Services and Career Education Corporation.

The UC connection

Even as Mr. Blum was buying stock in Career Education Corporation and ITT Educational Services, UC financial records show that the university's investment managers were actively buying and selling these same stocks—to the tune of $53 million. But UC was not just holding onto these stocks to accrue value over time (as a prudent manager would do). In fact, UC's external investment managers were day trading them in large amounts, as much as $2 million a trade, thereby affecting the daily price of these stocks.

To recap: UC was investing in two for-profit schools that were largely owned by a company run by Mr. Blum, a regent who oversees the management of the university's stock portfolio as a member of the university's investment committee. Does this situation pose at least the appearance of a conflict of interest?

Not to UC officials. In response to queries about the propriety of UC's investments in the for-profit colleges that are heavily associated with Mr. Blum, a spokesperson for UC Treasurer Marie Berggren responded by saying that, "The Treasurer's Office doesn't track regents' holdings in making decisions about security selections, though regents' holdings are disclosed as a matter of policy."

In other words, the treasurer does not review the regents' financial disclosure statements, which are public records, for potential conflicts. On the other hand, UC's investments are also a matter of public record, and a regent could easily avoid conflicts— should he or she choose to—by not taking substantial positions in companies in which UC invests.

Mr. Blum did not respond to repeated requests for comment about his investments in for-profit education. But UC spokeswoman Lynn Tierney called on his behalf, saying that the university recruits its students from the intellectual elite, and only those with high grade-point averages and SAT scores are accepted. Therefore, she says, "UC is not losing students to Blum's vocational schools, and there is no conflict of interest." Ms. Tierney declined to discuss how UC's cost-cutting measures could result in channeling UC-eligible students toward for-profit colleges largely controlled by Mr. Blum.

Noah Stern, president of Associated Students at the University of California, says he's troubled by Mr. Blum's dueling loyalties to UC and for-profit education: "Student trust in the regents was already shaky. In light of these revelations of investment abuse, we need a structural overhaul of the university governance system."

Note: CalPERS, the state public pension fund, had invested $6 million in Career Education Corporation, and $10 million invested in ITT Educational Services through its public equities investment program as of the end of 2009. And CalPERS held more than $100 million in shares of both companies as part of a $500 million investment with Blum Capital Partners, which is an investment adviser to CalPERS.

Sidebar to Part Six: Senator Dianne Feinstein's Educational Conflict

In early 2007, Sen. Dianne Feinstein (D-California) introduced legislation that has benefited her husband's investments in ITT Educational Services and Career Education Corporation. This measure--co-sponsored with Sen. Barbara Boxer (D-California)--was inserted into the College Cost Reduction and Access Act and became law in September 2007. It increased federal tuition aid (Pell Grants) by $20 billion over five years and affected hundreds of thousands of low-income students attending community and for-profit colleges

After the announcement of the Pell Grant increase, ITT Educational Services' stock price began increasing. It gradually rose from $79 per share pre-announcement to $127 per share shortly after the legislation passed. The stock of Career Education Corporation increased from $29 per share to $34.

In the same quarter that the bill passed, Blum Capital Partners increased its holdings in Career Education Corporation by 25 percent. (The privately-owned investment firm's holdings in Career Education Corporation reached $508 million as of early 2010.) In its annual report for 2007, Career Education acknowledged the positive effect that the College Cost Reduction and Access Act had upon its revenue.

Blum Capital Partners also traded heavily in ITT Educational Services stock after the announcement of the Feinstein-Boxer measure. In its annual report for 2007, ITT noted that the College Cost Reduction and Access Act "significantly" increased the amount that individual students could receive in Pell Grants, which "positively impact[ed] our student's ability to fund their educational expenses." (As of early 2010, Blum Capital Partners held $415 million in ITT, which, like Career Education Corporation, draws the majority of its revenue from guaranteed federal financial aid to its students.)

In addition to ushering in legislation that has directly benefited her husband's investments, Sen. Feinstein's official Senate website advertises a link to an online application for Pell Grants that provide tuition for attending for-profit colleges. The link travels to a list of eligible institutions which includes schools owned by Career Education Corporation and ITT Educational Services.

This is not the first time that Sen. Feinstein has used her official position in ways that have helped enrich her husband. In her role of the Senate Appropriations Committee, she oversaw $1.5 billion in projects that were contracted to Mr. Blum's military construction companies. Through her press office, Sen. Feinstein declined to comment for this story.

But ethics experts find her actions troubling. John M. Simpson of Consumer Watchdog in Santa Monica, California told us: "While increasing the number of Pell Grants may be good policy in the abstract, it certainly seems to be a blatant conflict of interest for Sen. Feinstein to introduce legislation that so clearly benefits her husband's business. She should have stayed away from this issue and let others introduce the

Part Seven: Tapping the State Pension Fund: Against all odds—literally—a regent secures billions of dollars in CalPERS investments

posted by Peter Byrne at Wednesday, September 22, 2010

The California Public Employees Retirement System (CalPERS), the nation's largest public pension fund, is charged with managing $205 billion worth of investments on behalf of 1.6 million state workers. Its portfolio is larger than the gross domestic products of a dozen nations. Given its deep pockets, CalPERS is viewed as an investor to watch—its influence is so great that it can single-handedly make or break a corporation or private equity fund with its decisions.

Billions for Blum

Since 2004, Mr. Blum has had a direct influence on where CalPERS puts its money. His firm, Blum Capital

Partners, is paid $3 million a year to handle $500 million worth of CalPERS investments as an external investment advisor.

According to reports issued for CalPERS by the investment advisory firm, Wilshire Consulting, Blum Capital Partners invests CalPERS money in public companies where Blum Capital Partners itself holds dominant ownership stakes, including the for-profit colleges Career Education Corporation and ITT Educational Services. It also places CalPERS money into its own private equity investment vehicles. But as of March 2010, CalPERS has reported an aggregate loss of 18 percent in these Blum funds.

In addition to hiring Blum Capital Partners to control a half billion dollars in investments, the pension fund has placed billions of dollars with three other companies where Mr. Blum has significant ownership stakes. CalPERS also pays large management fees to two of these entities.

1. **CB Richard Ellis**. Mr. Blum serves as chairman of the board of the giant real estate firm, and CalPERS has invested $229 million in CB Richard Ellis' European funds. As of June 2009, however, these funds had decreased in value by 56 percent because CB Richard Ellis had taken excessive risks with private equity investments, according to CalPERS reports. Nonetheless, in 2009, CalPERS paid CB Richard Ellis a fee of $3 million for its investment advice.
2. **TPG Capital**. Mr. Blum is an executive of TPG Capital, a private equity firm where he is also personally invested. Since 2000, CalPERS has placed $1.5 billion (out of a commitment to place a total of $3 billion) in various TPG Capital funds. But as of June 2009, the value of this investment had decreased by 68 percent for a loss of nearly $1 billion.
3. **TPG Newbridge Capital**. Mr. Blum co-founded this private equity firm with TPG Capital in 1994 to specialize in Asian investments, and he serves as its co-director. As of June 2009, CalPERS had invested $213 million in TPG Newbridge private equity funds, which were showing a 57 percent gain. CalPERS also pays millions of dollars in annual fees to retain Newbridge Capital as an investment advisor.

In total, CalPERS' investments in Mr. Blum's private equity empire—via Blum Capital Partners, CB Richard Ellis, TPG Newbridge, and TPG Capital—added up to nearly $2.5 billion in 2009.

The Governor's Connection

Mr. Blum is not the only regent with a financial connection to CalPERS. Since 2004, CalPERS has paid $4 million a year to Dimensional Fund Advisors—a firm in which Gov. Schwarzenegger and Mr. Wachter have ownership stakes—to manage a $1.5 billion portion of its portfolio.

CalPERS investment in Dimensional Fund Advisors began in the 1990s and has averaged an annual return of 2.6 percent, according to a CalPERS press officer. (That rate of return was substantially lower than the average 6 percent return from fixed income instruments during the same period.)

CalPERS has also committed $2 billion to four private equity funds operated by Apollo Management. As previously detailed, Gov. Schwarzenegger and Mr. Wachter each have significant ownership stakes in Apollo Management.

Probability As an Investigative Tool

In addition to its direct investments with Blum Capital Partners, CalPERS separately held $76 million worth of stock in all 18 of the companies in Blum Capital Partner's portfolio of public corporations, as of June 2009.

This was not an unusual occurrence for CalPERS, which in previous years had also invested in all of the companies that appeared in the portfolio of Blum Capital Partners, as did UC. But according to two probability theory experts consulted for this story—university professors who wish to remain anonymous—this could not have happened through pure chance.[1] Some basic math makes this clear:

Between 10,000 and 12,000 stocks are publicly traded at any given time, and CalPERS' portfolio includes

investments in about 4,000 public corporations. Thus, the chance of CalPERS picking one of Mr. Blum's stocks is 0.4 or 40 percent. But the chance of CalPERS simultaneously picking all 18 of his stocks is one in 15 million.[2]

CalPERS and UC's matching investments in all 18 of Blum Capital's public company portfolio is not likely a coincidence, nor is it likely based on considerations such as industry concentration or historical rates of return, because the relevant stocks crossed into multiple industries, and had varying return rates (including substantial losses).

In fact, based on mathematical probability, it's likely that investment managers at CalPERS and UC purposefully mirrored Blum Capital Partner's portfolio. And it is widely known that a CalPERS investment tends to benefit its co-investors.

In response to this probability exercise, CalPER's spokesperson, Clark McKinley, said that not all stocks are "institution-grade investments," so "the probability of overlap existing [between CalPERS and Blum Capital Partners] would be high."

He added, "CalPERS staff has never had any contact with the governor or his office regarding [Dimensional Fund Advisors] or Apollo, or any other investment matters involving him. We deal with external managers and general partners and their funds. We don't gather information about other limited partners or investors in such funds."

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[1] While sheer luck can generate windfall profits for securities traders, the stock market is a great leveler over the long run. It is impossible to consistently outsmart or "time" the market without insider knowledge. A long-term investor is more likely to receive an average return by picking stocks randomly, then she is by trying to outwit the system, or by paying for expensive investment advice from advisors with their own agendas. If you do not believe this somewhat counter-intuitive fact: read the classic analysis of stock market investment techniques: A Random Walk Down Wall Street (1973), by Burton Malkiel or the 2008 bestseller by Leonard Mlodinow, The Drunkard's Walk, How Randomness Rules Our Lives.

[2] Here is the probability calculation we received after asking a probability theory expert, "What are the chances of an investor, that is holding 4,000 stocks picked out of a universe of 10,000 stocks, to randomly pick a particular group of 18 stocks?"

The answer: "Label those 18 stocks 1 through 18. Chance of No. 1 being in your selection of 4,000 is 4,000/10,000, or 0.4. Assuming that you have No. 1, chance that No. 2 is in the remaining 3,999 (chosen from the remaining 9,999) is 3,999/9,9999. Etcetera. So what you want is (4,000/10,000)*(3,999/9,999)*(3,998/9,998)* . . . *(3983/9983). Every one of those numbers is close to 0.4, so the answer is close to 0.4 to the power of 18. Doing the calculation exactly gives a chance of 6.872 * 10^(-8), or about 1 in 15 million.

Part Eight: Blum Capital Partners Gets Lucky: UC owns stocks in all of the public companies in Regent Richard C. Blum's portfolio

posted by Peter Byrne at Wednesday, September 22, 2010

As of December 2009, the external management firms hired to handle UC investments have invested a total of $304 million in all 18 of the public companies held by Blum Capital Partners. These management firms act under the supervision of UC Treasurer Marie Berggren and the regents' investment committee, which receives periodic reports on specific investment transactions.

The 100 percent overlap in the public securities portfolios of UC and Blum Capital Partners poses at least the appearance of a conflict of interest. It is a truism that UC's sizeable investments enhance the value of Blum Capital Partners' portfolio by increasing demand for those particular stocks. This is not a case of two investors coincidentally investing in a blue-chip stock such as Coca-Cola. The companies in Blum Capital's public securities portfolio are relatively unknown, and his firm has significant or controlling interests in many of them. From an ethical standpoint, it would have been to the UC's benefit to instruct its external managers to refrain from investing UC monies in these companies, but it did not.

Through a spokesperson, UC Treasurer Berggren said that her office does not track the regent's personal investments in conjunction with UC investments. However, at our request, UC produced an electronic spreadsheet that made it possible to do exactly that. Each regent's personal investments are a matter of public record (provided that they disclose them), so it should not be difficult for the treasurer to monitor them; conversely, each regent could refrain from investing in the same entities as UC.

For example, UC could have refrained from investing (but did not) in the following companies that appear in the SEC filings of Blum Capital Partners:

American Reprographics Company, LLC
Avid Technology, Inc.
Career Education Corp.
CB Richard Ellis, Inc.
Collective Brands
Echostar Holding Corp.
Electronics for Imaging, Inc. (EFI)
Eresearch, Inc.
First American Corporation
ITT Educational Services
Kinetic Concepts, Inc.
Moneygram International, Inc.
PRGX, Inc.
Rovi Corporation
SBA Communications, Inc.
SEI Investments Company
Symmetry Medical, Inc.
Williams-Sonoma, Inc.

Note: The term "controlling shareholder" is used to denote a firm or individual owning more than 10 percent of the stock in a company, either singly or in combination with others. The controlling shareholder is in a position to exert some control over the company's activities; a "majority stockholder" owns more than 50 percent of the stock.

American Reprographics Company, LLC
Glendale, California
The Company: Provides printing and document management services.
Blum and UC Investments: Blum Capital Partners owns nearly 10 percent of the shares in this privately owned company, making it the second-largest shareholder. At the end of 2007, Blum Capital Partners reported its initial purchase of American Reprographics stock. From that date until the end of 2009, UC has invested $1.57 million in the company's stock.

Avid Technology, Inc.
Tewksbury, Massachusetts
The Company: A digital media hardware and software developer and retailer.
Blum and UC Investments: Blum Capital Partners owns the largest block of stock in the company, and one of the investment firm's executives serves on Avid Technology's board of directors. Blum Capital Partners reported buying stock in the company around May 2006. From that date until the end of 2009, UC has invested $3.4 million in the company's stock.

Career Education Corp.
Hoffman Estates, Illinois
The Company: For-profit vocational training schools.
Blum and UC Investments: Blum Capital Partners is a controlling shareholder and one of its executives sits on the board of directors of Career Education Corp. Blum Capital Partners reported buying stock in the company at the end of 2005. From that date until the end of 2009, UC has invested $15.7 million in the company's stock.

CB Richard Ellis, Inc.
Los Angeles, California
The Company: An international real estate firm that operates private investment partnerships.
Blum and UC Investments: As of the end of 2009, Blum Capital Partners was a controlling shareholder, with a $512 million stake in the company. Mr. Blum is the chairman of the board of directors, and Jane Sue, a Blum Capital Partners executive, also sits on the board. CB Richard Ellis holds a range of state and federal government contracts for real estate management and sales. (Last year, Sen. Dianne Feinstein faced allegations of a conflict of interest from a Washington D.C. newspaper after she wrote a letter to the FDIC supporting a program to contract out the disposal of foreclosed properties that was later awarded to CB Richard Ellis.) Blum Capital Partners helped purchase all of the public stock to take CB Richard Ellis private in 2001. It then took the company public again in 2004, which is when UC began trading CB Richard Ellis stock. Since that date, UC has invested $43 million in the company's stock.

Collective Brands
Topeka, Kansas
The Company: A discount shoe retailer; subsidiaries include Payless ShoeSource.
Blum and UC Investments: Blum Capital Partners owns nearly 5 percent of the company. Since Blum Capital Partners began investing in Collective Brands in February 2008, UC has purchased $2.1 million of the company's stock.

Echostar Holding Corp.
Englewood, Colorado
The Company: Operates satellite communications equipment, including digital recording devices.
Blum and UC Investments: Blum Capital Partners is the fourth-largest shareholder of Echostar, and began investing in the company in the third quarter of 2008, a year in which the UC endowment and retirement funds directly purchased $15.6 million in Echostar stock. After Blum Capital Partner's initial investment, UC bought $10.5 million worth of Echostar stock through its external managers, for a total of $26.1 million.

Electronics for Imaging, Inc. (EFI)
Foster City, California
The Company: Digital printer wholesalers.

Blum and UC Investments: Blum Capital Partners is the second-largest shareholder of EFI, with a 10 percent stake. The investment firm initially purchased EFI stock in early 2005. From that date until the end of 2009, UC has purchased $7.9 million worth of the company's stock.

Eresearch, Inc.
Philadelphia, Pennsylvania
The Company: Designs database technology for testing pharmaceutical and medical devices, and for use in clinical procedures.
Blum and UC Investments: Blum Capital Partners bought shares in the company in the first quarter of 2005, and as of March 2009 it owned 13 percent of Eresearch. During this time period, UC has purchased $8 million worth of the company's stock.

First American Corporation
Santa Ana, California
The Company: Home equity lender and appraiser.
Blum and UC Investments: In early 2008, after First American was sued for falsifying appraisals to boost sub-prime mortgage loans (the lawsuit is ongoing) [see Washington Mutual in Part Four], Blum Capital Partners purchased a significant number of First American shares. In so doing, the firm entered the group of controlling shareholders, which included TPG Capital (where Mr. Blum is an executive and investor). From 2008 to the end of 2009, UC invested $7 million in First American stock.

ITT Educational Services
Carmel, Indiana
The Company: For-profit vocational training schools.
Blum and UC Investments: Blum Capital Partners is a controlling shareholder, and initially reported buying shares during the second quarter of 2004. From that date until the end of 2009, UC had invested $38 million in ITT.

Kinetic Concepts, Inc.
Santa Rosa, California
The Company: Medical equipment manufacturer.
Blum and UC Investments: In 1997, Richard C. Blum & Associates, the predecessor to Blum Capital Partners, acquired a majority stake in Kinetic Concepts. After Mr. Blum became a regent, UC invested $8.2 million in a private equity partnership connected to the acquisition. When Blum Capital Partners took Kinetic Concepts public in 2004, UC purchased stocks through the initial public offering. Through the end of 2009, while Blum Capital Partners remained a controlling shareholder, UC traded Kinetic Concepts stock extensively, purchasing $46.8 million worth of shares for an investment that totals $55 million.

Moneygram International, Inc.
Minneapolis, Minnesota
The Company: Corporation that specializes in money wire transfers, money orders, and bill payment services.
Blum and UC Investments: Blum Capital Partners owns 21 percent of Moneygram's shares, and reported its first purchase of the company's shares in February 2008. From that time through the end of 2009, UC has invested $1.5 million in Moneygram stock.

PRGX, Inc. (formerly PRG-Schultz International, Inc.)
Atlanta, Georgia
The Company: Provides "recovery audit services" for large businesses and government agencies.
Blum and UC Investments: Blum Capital Partners is the company's largest shareholder, and owns 17 percent of its stock. The investment firm's managing director also sits on the PRGX board of directors. Since Mr. Blum became a regent in 2002, UC has invested $1.5 million in the company's stock.

Rovi Corporation (formerly Macrovision)
Santa Clara, California
The Company: Entertainment technology company.

Blum and UC Investments: Blum Capital Partners began purchasing Rovi stock in late 2005 and owned about 5 percent of the company as of March 2008. Since 2005, UC has invested $6.8 million in the company's stock. UC has also invested $67.1 million in two private equity partnerships operated by Oz Master Fund, an investment firm based in New York City, which had a $107 million investment in Rovi, making Oz a controlling shareholder in 2008.

SBA Communications, Inc.
Boca Raton, Florida
The Company: Owner and operator of wireless communications towers.
Blum and UC Investments: Blum Capital Partners and Goldman Sachs Group, in which UC is heavily invested, are major shareholders. Blum Capital Partners began purchasing shares in May 2009. At the end of 2009, UC owned $4.1 million of the company's stock.

SEI Investments Company
Oaks, Pennsylvania
The Company: Provides software and consultation to financial institutions for asset allocation.
Blum and UC Investments: Blum Capital Partners and Goldman Sachs Asset Management, in which UC is heavily invested, are major shareholders. Blum Capital Partners began investing in the company in the fall of 2008. Since then, UC has purchased $5.2 million worth of the company's stock.

Symmetry Medical, Inc.
Warsaw, Indiana
The Company: A medical implant and orthopedic device supplier.
Blum and UC Investments: Blum Capital Partners began buying Symmetry stock in the second quarter of 2007, and owns nearly 9 percent of its stock. The firm is the second-largest shareholder after a partnership between Wells Fargo & Co. and Wachovia Bank, which owns 10 percent. Since Blum Capital began investing in Symmetry, UC has purchased $1.5 million worth of the company's stock.

Williams-Sonoma, Inc.
San Francisco, California
The Company: Home furnishings retailer; Pottery Barn is a subsidiary.
Blum and UC Investments: Blum Capital Partners began purchasing shares in Williams-Sonoma in early 2007. It owns 2.5 percent of the company, putting it in the controlling group of shareholders. Since 2007, UC has purchased $9.2 million worth of the company's stock.

Appendix One: Research Methodology

posted by Peter Byrne at Wednesday, September 22, 2010

This investigation primarily focuses on the intersection between the official duties and the business interests of Richard C. Blum, Paul Wachter, and Gov. Arnold Schwarzenegger. All three men have been members of the regents' investment committee since 2003 (although Schwarzenegger does not attend meetings).

Due to the size of UC's investment portfolio, as well as the complexity and often subterranean nature of the regents' personal business interests, it was necessary to design a computer-based method for tracking down possible conflicts of interest.

To find correlations between the regents' personal business pursuits and UC investments, we reviewed documents available on the web sites of the U.S. Securities & Exchange Commission (SEC), the University of California, and other government agencies. We also used commercial databases that aggregate SEC information, and we custom-designed databases from public records to enable keyword searching. For instance, we digitized the regents' financial disclosure statements and compared that data with digital lists of UC investments made by both the UC Treasurer's in-house staff and UC's external managers.

Using the same methods, we also created dossiers on the investments and financial ties of several regents who, due to their business interests, appear to have the greatest potential for conflicts: Sherry L. Lansing, George M. Marcus, Bonnie Reiss, Russell Gould, Bruce D. Varner, Monica Loranzo, Hadi Makarechian, Mark Yudof, and Leslie Tang Schilling.

Methodology for investigating Blum Capital Partners

Founded in San Francisco in 1974, the activities of Blum Capital Partners span the globe, with several of its private investor partnerships residing in income-tax havens, such as the Cayman Islands. The $2 billion plus firm's public and private equity holdings include higher education, information technology, medical technology, air transport, casinos, real estate, banking, and, until December 2005, military construction and weapons manufacturing.

Since private equity deals are mostly unregulated by government bodies, the identities of Blum Capital Partners' investors are cloaked. But public institutions are required to disclose the amount and the rate of return of their investment in private equity firms. For example, CalPERS has reported large investments in Blum Capital Partners, as has the Carpenters Pension Trust of Southern California, the Alaska Teachers Retirement System, the New York State Common Retirement Fund, and the Regents of the University of Michigan.

As a regent, Mr. Blum is also required to file annual economic disclosure statements related to his business interests based in California (but not those outside the state). For a more comprehensive accounting of his business interests and income, we turned to the economic disclosure statements filed annually by Mr. Blum's spouse, Sen. Dianne Feinstein (D-California), whose wealth is estimated to be as high as $100 million, and whose 200-plus page disclosure statements are almost exclusively dedicated to tracking the labyrinthine activities of Blum Capital Partners. These documents are packed with eye-boggling acronyms for investment funds (e.g., TPG OFF VI SPV, L.P.), which are buried inside complexly nested financial relationships. But in conjunction with SEC filings and other data, these disclosure statements expose the lineaments of Mr. Blum's vast and intricately balanced holdings, many of which are financed with public funds.

We also examined reports in the financial trade press, investor newsletters, and corporate press releases that pertained to Blum Capital Partners and its business associates. Ultimately, we gathered and sorted and perused more than 12,000 pages of documents. Approximately 1,000 pages were scanned or engineered into a searchable format. These records, however, are only the tip of the proverbial iceberg: Mr. Blum's business dealings have planetary reach and go back in time nearly a half-century.

Appendix Two: Financial Dossiers of Regents to Watch

posted by Peter Byrne at Wednesday, September 22, 2010

These dossiers were reported and written by Bernice Yeung and Randall Jensen.

Sherry Lansing

Dates of term:
First Term: March 11, 1999 to March 1, 2010
Second Term: March 1, 2010 to March 1, 2022

UC Regents Health Services Committee Chair

Education:
Northwestern University

Profession:
Founder, Sherry Lansing Foundation
Former film executive

Potential Conflict alert
Since Sept. 2006, Regent Sherry Lansing has been a member of Qualcomm's board of directors. She

received $135,000 in director's fees from Qualcomm in 2008, stock option awards valued at $256,443, and additional compensation of $50,000 for a total of $441,443. According to her UC Regents economic disclosure statement, Ms. Lansing owns "more than $1 million" in Qualcomm stock options (no upper limit is specified), but she has a less than 1 percent interest in the company.

Documents released by the treasurer show that, through its external investment managers, UC has quadrupled its investment in Qualcomm by putting $397 million into stock of the information technology firm since Ms. Lansing joined its board (while she also served as a regent).

Lansing has also served on the board of directors of Dole Food Company since the company went public in the fall of 2009.

Professional bio:
Lansing was the first woman to lead a major film studio in 1980 when she became president of production of 20th Century Fox. From 1984 to 1990, she ran independent production companies, working on films such as Fatal Attraction and Indecent Proposal. In 1992, she was hired as chairperson of Paramount Pictures; under her watch, the studio produced six of its 10 highest-grossing films, including Forest Gump and the Titanic. In 1996, she became the first female studio exec to receive a star on the Hollywood Walk of Fame. She remained at Paramount until 2005. Paramount also named the Sherry Lansing Theatre in her honor, which was at one point, the studio's largest screening room.

After leaving Paramount, Lansing started the Sherry Lansing Foundation, a nonprofit that focuses on cancer research, education, art, and culture.

Prior to producing films, Lansing had a brief stint as an actress, during which time she also taught high school English and math in Los Angeles public schools.

Major investments:
According to public documents, Lansing has more than a 10 percent financial interest in Sherry Lansing Productions, which is valued between $100,000 and $1 million.

Corporate boards:
Qualcomm: According to SEC filings, Lansing received $133,500 in director's fees from Qualcomm in 2009, as well as $301,752 worth of stock options and $50,000 in additional compensation for a total of $485,252.

Dole: According to SEC filings, Lansing received $14,413 in director's fees in 2009, as well as $62,500 in stock awards, for a total of $76,913.

Estimated earnings (2008):
In 2008, Lansing earned a salary of more than $100,000 from Sherry Lansing Productions, and held between $100,001 and $1 million in Viacom stocks (Viacom is the parent company of Paramount Pictures).

She also received $135,000 in director's fees from Qualcomm in 2008, as well as $256,443.00 in stock options, and an additional $50,000 for a total of $441,443.

Lansing does not draw a salary from the Sherry Lansing Foundation, and donated about $460,000 to the organization in 2008, according to tax filings.

Political ties/campaign contributions:
Lansing is a member of Governor Schwarzenegger's Committee on Education Excellence, as well as the California State Superintendent of Education's P-16 Advisory Council. In 2007, she helped create the EnCorps program, which encourages retired professionals to return to the classroom as teachers. Lansing was able to marshal the support of corporations ranging from IBM to Qualcomm.

In 2004, Lansing was one of 29 members appointed to the Independent Citizen's Oversight Committee, an

oversight panel governing stem-cell research in California following the passage of Proposition 71.

Philanthropy and community service:
Lansing sits on several boards for organizations related to cancer research and education, including the Carter Center, Teach for America, the American Association for Cancer Research, Friends of Cancer Research, and the Lasker Foundation, which supports biomedical research.

She has also served on the board of trustees of Scripps College and the University of Chicago, as well as the board of Independent Colleges of Southern California, the board of the UCLA Foundation, and the executive committee of the Dean's advisory board of the UCLA School of Theatre, Film and Television.

Misc:
Lansing blogs for the Huffington Post on topics ranging from cancer prevention to the legacy of Sen. Ted Kennedy.

Russell Gould

Chairman of the board The University of California Regents..

Dates of term:
First Term: September 13, 2005 to March 1, 2017
Previously served as a Regent in 1998.

Education:
University of California at Berkeley

Profession:
President of Gould Financial Consulting

Potential Conflict alert:
Gould served as senior vice president at Wachovia Bank from 2004 until he retired in 2009. Gould led business development and strategic partnerships in California as senior managing director of Wachovia Portfolio Services, formerly Metropolitan West Securities, which he joined in 1996. At Metropolitan West, Mr. Gould also served as executive vice president of the J. Paul Getty Trust where he was responsible for the investments of the Trust's $5.5 billion in assets.

In 2005, the year Gould became a regent, UC's endowment and retirement portfolio held about $28 million in Wachovia bonds. That amount gradually reduced, falling to about $2.4 million in 2009.

As part of his financial consulting practice, Gould in 2008 listed IBM as a client that generates income of more than $10,000. In 2009, UC listed $19.7 million in IBM investments.

Professional bio:
As president of Gould Financial Consulting, Gould provides fiscal policy advice to corporations, government and not-for-profit entities on issues related to the state budget, investment and tax policy.

Gould also worked as a financial management advisor to CRHMFA Homebuyers Fund (CHF), which is a government-sponsored Joint Powers Authority that issues tax-exempt and taxable bonds to create affordable single-family mortgage loan programs.

Before entering the private sector, Gould served under Gov. Pete Wilson as secretary of health and human services and as the director of finance. As director, he was responsible for preparing and managing the state budget as well as serving on the Governor's Council of Economic Advisors. Gould previously worked as assistant state treasurer with oversight over California's then-$20 billion investment portfolio.

Major investments:
According to public documents, Gould has holdings of more than $100,001 (the largest amount one may select) in The Gould Family Trust. He also owns The Gould Group, which counts IBM Corporation and National Homebuyers Fund as clients. In addition, he holds a stake in the Post Advisory Group Total Return Fund (between $100,001 and $ 1 million) and the same range of investment in the MetWest Small Cap Fund LLP Partnership.

Corporate boards:
Gould currently serves on The Irvine Company Board. He is also a member and past chair of the Board of Directors of the California Chamber of Commerce.

Estimated earnings (2008):
Gould earned more than $100,000 (the highest amount one may select) from his investments in the The Gould Family Trust and he claimed he also earned above $100,000 from his financial consulting business The Gould Group.

Political ties/campaign contributions:
Gould is a Republican appointed by Gov. Schwarzenegger to The Regents in 2005. Since leaving government, Gould was appointed by Gov. Schwarzenegger to serve on the California Constitution Revision and Performance Review Commission.

Philanthropy and community service:
Gould serves on the the College Access Foundation of California Board and the Sierra Health Foundation Board. He previously served on the Children's Hospital of Los Angeles Board.

Hadi Makarechian

Dates of term:
October 24, 2008 to March 1, 2020

Education:
University at Buffalo, State University of New York

Profession:
Real estate developer

Potential conflict alert
Makarechian is the founder and chairman of Capital Pacific Holdings, which develops residential real estate in California and other Western states.

Since the early 1990s, Capital Pacific entered into numerous joint ventures with IHP Capital Partners, an investment firm that specializes in equity financing for residential development. IHP was founded in 1992 when CalPERS entered the real estate financing realm and it provided IHP with $75 million to develop homes in Northern California. IHP reports providing a 40 percent net return to CalPERS on its first deal, and the state retirement fund has continued to invest with IHP.

Another CalPERS real estate equity partner is an investment firm called Hearthstone. In 2008, CalPERS invested $185 million in Hearthstone and paid the company $1.8 million in fees. Capital Pacific has partnered with Hearthstone on various joint venture development deals for more than six years. Capital Pacific is currently working with Hearthstone on a residential project in Arizona.

Professional bio:
Hadi Makarechian is based in Newport Beach, and one of the local papers, the OC Weekly, has called the Makarechians the "closest thing Orange County has to the Rockefellers."

For more 30 years, Makarechian has planned, built, developed and invested in luxury residential real estate through the company he founded, Capital Pacific, which is ranked the 65th largest home builder in the country in 2009 with $188 million in new residential revenue and $753,000 in other revenue, according to Professional Builder magazine's "Annual Report of Housing's Giants."

Makarechian is credited with innovating the way that beachfront condos and hotels are developed by maximizing the number of units with ocean views. Additionally, the term "McMansions" was first used in a New Yorker article to describe Makarechian's deluxe Palos Verdes, California, development. One of Capital Pacific's largest ongoing projects is the development of Banning Lewis Ranch, a 21,000-acre development that could consist of 75,000 homes.

A subsidiary of Capital Pacific is Makar Properties, which primarily handles commercial real estate developments. Run by Makarechian's sons, Paul (CEO) and Cyrus (executive vice president), the firm is primarily associated with developing luxury hotels. Its assets are located throughout Southern California, Texas, Florida, and Colorado, and it's been reported that it has more than $10 billion in development projects.

Major investments:
Makarechian is the founder of Capital Pacific Holdings, and has served as its CEO and chairman. He is also the chairman of Makar Properties, a subsidiary of Capital Pacific.

According to public records, through the Hadi Makarechain Trust, Makarechian and his wife own a number of properties in Southern California valued at more than $5 million (no upper limit is specified).

Corporate boards:
Makarechian does not participate on publicly traded corporate boards.

Estimated earnings (2008):
In a 2008 story about its wealthiest residents, the Orange County Business Journal estimated that Makarechain has an estimated worth of $600 million—down from $1 billion the previous year because of the economic downturn. The newspaper also estimated that Capital Pacific and Makar Properties own several billions dollars' worth of real estate, and the Makarechians's stake in these holdings are worth hundreds of millions.

Philanthropy and community service:
Makarechian serves on the board of trustees of Chapman University and the State University of New York, University at Buffalo, where he is the 2005 recipient of the Distinguished Alumni Award.

Makarechian has also donated on an ongoing basis to organizations such as Habitat for Humanity, Boys and Girls Clubs, and the Boy Scouts of America.

Political ties/campaign contributions:
Makarechian was among the top 50 contributors to Gov. Arnold Schwarzenegger's reelection campaign, and he also served as a national campaign finance co-chair for Mitt Romney's 2008 presidential campaign.

Leslie Tang Schilling

University of California Regent
Chair of the buildings and grounds committee

Dates of term:
First Term: Sept. 13, 2005 to March 1, 2013

Education:
University of California at Berkeley
American Graduate School of International Management

Profession:
Founder and Director of Union Square Investments Company

Potential conflict alert
In May 2006, mortgage-lender Golden West Financial was sold to Wachovia Bank for $25.5 billion while Schilling served on the board of the company and fellow Regent Russel Gould was involved in business development and partnerships for Wachovia in California. Both were Regents at the time.

Professional bio:
Schilling is founder of Union Square Investments, a commercial real estate investment and management firm, and is also founder and president of investment firms L.T.D.D. and Golden Bay Investments. Prior, she was assistant manager of the real estate department at the Chartered Bank of London worked at Wells Fargo's private client division after college.

Major investments:
In 2008, Schilling's had holdings in Golden Bay Investment Fund, with a limited partnership worth between $100,001 to $1 million and in Tangent Fund Management II, also with a limited partnership worth between $100,001 and $1 million, according to state disclosure forms. She also had an investment in the company Centerbeam, through her company Tangent Ventures, of between $100,001 and $1 million.

She stated in documents that she held a partnership in Tanama Ltd., which owned real property worth between $100,001 to $1 million. In addition, Schilling was listed as a vice president of Windy Hill Inc., which held an investment in GDW Holdings LP that was worth between $100,001 and $1 million.

Schilling also had a limited partnership in Lemana Ltd, a real estate investment company, worth between $2,001 and $10,000.

Corporate boards:
Schilling served as director of Tristate Holdings Ltd. and KOA Holdings Ltd.

She formerly served on the board of The Pacific Bank and Golden West Financial Corp., a mortgage lender acquired by Wachovia in 2006.

She has also served as a director on the boards of the San Francisco Chamber of Commerce, and the Small Business and Agriculture Advisory Board to the Federal Reserve 12th District. She is currently on the Board of the Bay Area Council.

She served as Vice Chairman of San Francisco Economic Development Corp.

Estimated earnings (2008):
As founder of Union Square Investment Co., which was valued between $100,001 and $1 million, Schilling said in 2008 she received a salary of more than $100,000. And she received between $10,001 and $100,000 in income from L.T.D.D., according to 2008 disclosure forms.

Schilling also listed several companies from which she received a salary of more than $10,000: Pacific Irrev. Trust, Golden Bay Investment Fund LLC, Bligh Ltd., Atlantic Irrev. Trust, Tangent Fund

Management II LLC, Tanama, Ten Mason Associates, Lemana and the Tang and Smith Fund.

Schilling also said she received a director's fee from KOA Holdings of between $1,001 and $10,000, as well as the same amount for being a board member for Hong Kong-based Tristate Holdings Ltd.

Political ties/campaign contributions:
Appointed to The Regents in 2005 by Gov. Schwarzenegger.

Philanthropy and community service:
Ms. Schilling has served as a member of the San Francisco Foundation and Women's Forum West, and as a commissioner of the Asian Art Museum.

She has also been a board member for MIT, KQED, the San Francisco Zoological Society, the UCSF Foundation and Give2Asia.

She is also co-founder of Toys for the Tenderloin and is a director for the Committee of 100.

In addition, she founded the Tang Foundation, which supports youth programs such as summer school academic enrichment for low-income students around the Bay Area.

Norman Pattiz

Regent, University of California
Chair of the laboratories committee

Dates of term:
Mr. Pattiz was appointed by Governor Davis to fill the remainder of a 12-year term, which expired March 1, 2004. In September 2003, he was appointed by Governor Davis to fill the remainder of a 12-year term which expires March 1, 2014.

Education:
Honorary doctorate from Southern Illinois University

Profession:
Founder and chairman of radio-giant Westwood One

Potential Conflict Alert
As head of the regents' committee with oversight over the Department of Energy laboratories run by the UC, Pattiz has large investments in energy and scientific-related public companies including between $10,001 to $100,000 in Southwest Energy, the same amount in Exxon Mobil and same relative investment in a large energy fund.

The laboratories deal with much more than just energy and Pattiz has his hand in other large investments, such as biotechnology, pharmaceutical and medical related stocks.

Professional bio:
Pattiz started his radio syndication company in 1976 in a one-room office on the westside of Los Angeles. He is now the founder and chairman of Westwood One, America's largest radio network company and the nation's largest producer of news, sports, talk and entertainment programming. His company owns, manages or distributes NBC Radio Network, CBS Radio Network, the Metro Networks, CNN Radio.

President Clinton appointed Pattiz in 2000 to serve on the Broadcasting Board of Governors of the United

States of America. He was reappointed to that post by President Bush in 2002, serving through 2006. The BBG oversees all U.S. non-military international broadcasting including Voice of America, Radio Free Europe/Radio Liberty, Radio Free Asia, Worldnet Television, Radio and TV Marti and the Middle East Broadcasting Network. As chairman of the Middle East committee, Mr. Pattiz was responsible for conceiving and launching Radio Sawa and Alhurra Television.

Norman Pattiz was inducted into the Radio Hall of Fame in 2009.

Major investments:
In 2008, Pattiz had several major investment holdings of between $100,001 and $1 million: Ishares TR S&P, municipal bond fund, managed asset funds GPS Income Fund, GPS New Equity Fund LP, GPS High Yield Equity Fund; and corporate bonds in ESC Conseco.

He also held an unlisted amount in world stock fund Nuveen Tradewinds Global and mutual fund IVA Worldwide Fund.

Pattiz also held position of between $10,001 and $100,000 in numerous public companies.

Estimated earnings (2008):
Pattiz received more than $100,000 in salary (the highest choice available) from his company. And as a trustee of the Norman Pattiz 1996 Charitable Trust he received a salary of between $10,001 and $100,000.

Political ties/campaign contributions:
Pattiz has been a member of the Council on Foreign Relations and Pacific Council on International Policy, director of the Office of Foreign Relations of the Los Angeles Sheriff's Department, and served on the Region 1, Homeland Security Advisory Council.

Philanthropy and community service:
Pattiz serves as a member of the Board of Councilors of the Annenberg School for Communication at USC, as well as the Communications Board of UCLA and the Dean's Advisory Board of the California State University, Fullerton.

He is also past president and executive board member of Broadcast Education Association and a trustee of the Museum of Television & Radio and the Hollywood Radio & Television Society. He is the primary benefactor of the Hamilton High Academy of Music and the Norman J. Pattiz Concert Hall.

Mark Yudof

President of the University of California

Dates of term:
Appointed president on March 27, 2008, and took office June 16, 2008.

Education:
University of Pennsylvania
University of Pennsylvania Law School

Profession:
President of University of California

Potential conflict alert
Yudof served as president on the board of the public medical device company HealthTronics in 2008 until

he resigned in 2009, making between $10,001 and $100,000. As UC president, Yudof oversees five medical centers and three affiliated laboratories.

After his appointment as president, Yudof accepted a more than $11,000 two-week trip in July 2008 to Israel from the American Jewish Committee, a Jewish advocacy group.

The university president also in 2008 received between $10,001 and $100,000 in consulting fees, including travel, from Saudi Arabia's King Abdullha University of Science and Technology.

Professional bio:
Before becoming president of UC, Yudof served as chancellor of the University of Texas system from 2002 to 2008. He also was president of the University of Minnesota from 1997 to 2002. Prior, he was a faculty member and administrator at the University of Texas at Austin for 26 years, during which he served as dean of the law school from 1984 to 1994 and as the university's executive vice president and provost from 1994 to 1997. He began his career in 1971 in Austin as an assistant law professor. While a member of the law faculty, he spent time as a visiting professor at University of Michigan and UC Berkeley law schools, and did research as a visiting fellow at the University of Warwick in England.

Yudof is a member of the American Academy of Arts and Sciences and a the American Law Institute.

He has also been widely published with a majority of the books related to education or law.

Major investments:
Before becoming president, Yudof disposed of his position of between $10,001 to $100,000 in stock in health and productivity management company I-Trax, according to disclosure forms.

As of 2008, he continues held between $10,001 and $100,000 in stock of Cattlemen's Restaurant Group, which runs chains of restaurants in Texas. A founding partner of the restaurant group is Mark Adams who is the president and CEO of Advocate, MD Financial Group Inc., a medical liability insurance company.

Corporate boards:
Yudof served on the board of directors of the public medical device company HealthTronics from 2005 to 2009. He also was a board member for test-maker Educational Testing Service from 2000 to 2002.

Estimated earnings (2008):
In 2008, Yudof made between $10,001 and $100,000 as a director on the board of the public company HealthTronics.

Yudof told the New York Times his 2008 salary was $540,000, after he cut his own pay by $60,000. He said he had a $10,000 housing allowance.

It was reported by the Daily Californian in 2008 that he would receive $591,084 in salary, plus $228,000 for his first presidential year in pension contributions beyond the UC Retirement Plan and $743 per month in car allowance. He had received $742,209 serving as the University of Texas' chancellor from 2006 to 2007.

Political ties/campaign contributions:
President George W. Bush appointed Yudof to the President's Council on Service and Civic Participation from 2006 to 2009. Bush also put him on the advisory board of the National Institute for Literacy from 2002 to 2005.

Philanthropy and community service:
Yudof serves on the board of directors for the Lumina Foundation for Education, the American Council on Education and is a member of the Business-Higher Education Forum. He also served as chair of the Texas Council of Public University Presidents and Chancellors from 2007 to 2008.

The UC president has been presented with numerous awards during his career, including the Higher Education Advocate of the Year in 2010, by Counselors to Higher Education.

Monica Lozano

University of California Regent
Chair of finance committee
Chair of the governance committee

Dates of term:
First Term: Sept. 21, 2001 to March 1, 2013

Education:
University of Oregon (did not graduate)
City College of San Francisco

Profession:
Publisher and chief executive officer of La Opinion, the largest Spanish-language newspaper in the United States. Senior vice president of its parent company, ImpreMedia LLC.

otential Conflict alert:
In 2008, while Lozano served on the board of Bank of America and Walt Disney, the UC General Endowment Pool owned about $5 million in Bank of America bonds and $530,000 in Walt Disney bonds; while the UC Retirement Plan held $99 million in Bank of America bond investments and $8.5 million in Walt Disney bonds.

Also In 2008, Lozano served on the board of the California Healthcare Foundation, a philanthropic organization, which gave hundreds of thousands of dollars solely to The Regents. The foundation also granted tens of millions of dollars to other university programs. It also supports private universities, private research and community programs.

Professional bio:
Lozano has worked since 1985 at the La Opinion, which was started by her family in 1926. From 1999 to 2001, she was a member of the California State Board of Education, serving as its president for its from 2000 to 2001. She was also a member of the California Postsecondary Education Commission. Lozano has served on a number of corporate and non-profit boards, and is a trustee at University of Southern California.

Major investments:
Lozano has more than $1 million of partnership shares in Impremedia LLC, parent company of La Opinion, according to disclosure forms. She also states she has more than $1 million of stock in the Kayne Anderson Capital Income Fund and between $100,001 to $1 million of shares in the Kayne Anderson REIT Fund.

She also has two trusts: the Monica Lozano Centanino Trust and the Monica C. Lozano Living Trust.

Corporate boards:
Lozano serves as a director on the boards of Walt Disney Co. and Bank of America Co. She is also on the board at UnionBanCal Corporation, a bank holding company and a member of the Misubishi UFJ Financial Group.

From 2002 to 2005, she was also a director for the Tenet Healthcare Corp.

Estimated earnings (2008):
In 2008, Lozano made more than $100,000 as publisher of La Opinion, according to disclosure documents. She also stated she earned between $10,001 to $100,000 in income from Walt Disney, and an unlisted amount of deferred compensation. She earned between $10,001 and $100,000 as a board member at Bank of America.

However, according to Forbes, Lozano made a total of $127,376, which includes $47,376 in stock awards, as a director for Bank of America in 2008. And she apparently earned a total of $234,842, including $71,909 in stock awards, $52,090 in options and $17,093 in other compensation, as a member of Walt Disney's board during the same year.

In addition, Lozano said she earned between $1,001 and $100,000 as a director on the board of the Weingart Foundation and between $10,001 to $100,000 as a director for the California Healthcare Foundation.

Political ties/campaign contributions:
Lozano was appointed to The Regents in 2001 by Gov. Davis to a 12-year term.
She is a member of President Obama's Economic Recovery Advisory Board.

Philanthropy and community service:
Lozano serves as a board member for The Weingart Foundation, a non-profit philanthropic institution in Southern California., and the National Council of La Raza. She is also a trustee for the University of Southern California. Also, she served on the California Healthcare Foundation board.

Bonnie Reiss

Dates of term:
March 10, 2008 to March 1, 2020

Education:
University of Miami
Antioch School of Law

Profession:
Operating Adviser, Pegasus Capital

Potential Conflict alert
Reiss serves on the environmental advisory board of NetJets, the Berkshire Hathaway subsidiary that sells fractional jet ownership, and which is popular among celebrities and politicians like Gov. Arnold Schwarzenegger. In 2008, NetJets donated $20,000 to UC Davis' Institute for Transportation Studies as a corporate affiliate, and it served as a corporate sponsor of the 12th Biennial Asilomar Conference on Transportation and Climate Policy conference.

Additionally, as a UC Regent, Reiss is a member of the Committee on Oversight of the Department of Energy Laboratories, which serves as the interface between the U.S. Department of Energy (DOE) and its UC-run laboratories: Los Alamos, Lawrence Livermore and Lawrence Berkeley. According to the UC bylaws, as a member of the committee, Reiss is also charged with recommending leadership appointments to the labs, and reviewing reports related to various aspects of lab management, including the "scientific and technical quality of all work undertaken at the Laboratories."

In recent years, the DOE has expanded its research in solid-state lighting—such as LED lighting—which is

a more efficient and less expensive form of illumination.

LED lighting is an area in which Reiss has a particular vested interest, and where her role as a UC Regent overseeing UC-run DOE labs could benefit her or her employer financially.

Until March 24, 2010, Reiss served on the board of directors of Lighting Science Group, a company that, according to its SEC filings, is engaged in the "research, design, develop, manufacture and market a range of lighting devices and systems that use light emitting diodes (LEDs) as the light source."

According to documents filed with the SEC in March 2010, Pegasus Capital, Reiss' employer, is an affiliate of two shareholders that collectively own 83 percent of Lighting Science Group. Approximately 15 percent of Lighting Science is owned by Philips Electronics, which is engaged in several research partnerships with the University of California. In the next five years, for example, Sandia National Laboratories in Livermore, California (not a UC-run DOE lab), will receive $18 million in federal funds to research solid-state lighting. Philips Lumileds Lighting, a subsidiary of Philips Electronics, is cited as a research partner. Another partner in this research is Los Alamos National Laboratory, which is overseen by the UC Regents.

Philips Lighting is also engaged in a joint research program that will explore energy-efficiency for buildings using LED lighting with Lawrence Berkeley National Laboratory, which is overseen by the UC Regents.

In addition, UC Santa Barbara's Institute for Energy Efficiency was selected as one of 46 federally funded Energy Frontier Research Centers in 2009, and it will receive $19 million over five years for research. A portion of these funds will go toward LED research, and UCSB plans to partner with Los Alamos National Laboratory and UC Santa Cruz on these studies.

Professional bio:
After graduating from the University of Miami in 1976 with a degree in accounting and finance, Reiss worked at an accounting firm where she audited and did systems analysis for major corporations. After law school and a stint as a staffer for Sen. Edward Kennedy, Reiss moved to Los Angeles to work as an entertainment lawyer.

In 1980, she co-founded the Hollywood Women's Political Committee, and as she became increasingly involved in environmental activism, she founded the Earth Communications Office (ECO), which worked with celebrities to raise awareness of environmental problems. One of the first people to join the organization was Arnold Schwarzenegger, who made trailers and commercials with ECO.

From 2003 to 2007, Reiss served as a senior advisor to California Governor Arnold Schwarzenegger, and one Sacramento Bee columnist called her, along with Paul Wachter and Maria Shriver, "Schwarzenegger's anchors, the people who were with him before politics and will be with him after." During her tenure, Reiss became the Governor's point person on issues such as education, environment, women's issues, and children's health. Reiss also acted as the liaison to the Governor's Council on Physical Fitness and Sports.

Currently, as an Operating Advisor to Pegasus Capital Advisors, Reiss focuses on investments to cleantech innovation. She also serves as a senior advisor to Natural Strategies, a research and investment company based in Washington, D.C., that focuses on energy and environment, public safety and homeland security, technology, health, finance, transportation and education.

Gov.Schwarzenegger appointed Reiss as the California Secretary of Education in February 2010.

Major investments:

None known.

Corporate boards:

Reiss serves on the U.S. Environmental Advisory Board of NetJets, for which she was paid between $1,000 and $10,000 in 2008, not including $20,000 in travel reimbursements.

Until March 24, 2010, she was also a member of the board of directors of Lighting Science Group. In 2009, she was awarded $80,000 in stock awards as part of her compensation for serving on the board of directors. According to SEC filings, as of November 2009, Reiss owned about $400,000 worth of the company's stock. Reiss's public disclosure statements note that she received travel reimbursements from Lighting Science Group in 2008, but she did not reveal the amount.

Estimated earnings (2008):
In 2008, Reiss reported an income of between $10,001 and $100,000 from Natural Strategies, between $1,000 and $10,000 from NetJets, and more than $100,000 from Pegasus Capital.

Reiss also invests in a variety of stocks, according to 2008 public disclosure filings. Her investments range from the real estate firm CB Richard Ellis Group (controlled by Regent Richard C. Blum), Ralph Polo Lauren and the publishing company Meredith Corp. In total, the fair market value of the stocks she owned was between $320,022 and $3.2 million.

Including board of director's fees and the stocks, Reiss's estimated net worth, as determined from public documents in 2008 was between $413,023 and $3.4 million.

Philanthropy and community service:
Reiss has served as the president of Schwarzenegger's afterschool education program, Afterschool All Stars. She currently sits on its board or directors, along with Gov. Schwarzenegger, Maria Shriver and UC Regent Paul Wachter.

Reiss also serves on the board of the Women's Conference, purportedly the "the largest one-day conference for women in the nation," and which is hosted by Maria Shriver.

George Marcus

Dates of term:
December 22, 2000 to March 1, 2012

Education:
San Francisco State University

Profession:
Real estate developer

Marcus is the founder and Chairman of Essex Property Corporation, a Palo Alto-based Real Estate Investment Trust (REIT) that primarily deals in apartment communities on the West Coast. According to public records, Marcus owns $1 million in stocks and options in Essex, which owns 133 apartment communities, as well as five office buildings and four development projects. It planned to make $300 million in property acquisitions in 2010.

Public pension funds CalPERS and CalSTRS, as well as the University of California, have invested millions—and in the case of CalPERS, billions—of dollars in Essex Property Corp.

Professional bio:
In 1971, Marcus founded both Essex Property Trust, Inc. (now Essex Property Corp.) and The Marcus & Millichap Company (TMMC), which specializes in real estate investment sales and financing. TMMC has

eight subsidiaries that deal in real estate development, investment and service, including SummerHill Homes and Pacific Property Company. In 2009, the company's 1,300 brokers closed 3,441 investment transactions for investors.

Marcus was also one of the original founders of Greater Bay Bancorp, and served on its board of directors until the company was bought by Wells Fargo in 2007.

Major investments:
In 2008, the entities for which Marcus has more than 10 percent ownership were real estate entities owned by TMMC or one of its subsidiaries. Public records show that Marcus made at least $8 million in gross income from these properties in 2008.

Corporate boards:
Marcus is the chairman of the board of both Essex Property Corp. and TMMC. Essex provided Marcus with $34,000 in director's fees and $45,195 in stock awards in 2008, for a total of $79,195.

Essex Property Corp. and TMMC sometimes enter into business transactions together. For example, Essex has purchased land from TMMC. In 2008, Essex paid $200,000 in brokerage commissions to a subsidiary of TMMC for purchases and sales of real estate; in 2007, Essex paid $1.3 million in commissions to TMMC.

Federal filings note that Marcus has agreed not to divulge any information that he receives as the Essex chairman to TMMC, and that he'd abstain from voting on any business before the board of directors where it appears that there may be a conflict of interest.

Estimated earnings (2008):
In 2008, Marcus owned stocks or participated in partnerships in a variety of companies such as Wells Fargo and Dolby, in which his ownership interest was less than 10 percent. The fair market value of these myriad stocks and partnerships was about $11 million.

In addition to the $8 million gross income from various real estate investments, Marcus earned $34,000 in director's fees from Essex in 2008. Additionally, Marcus earned between $21,000 and $210,000 via partnership distributions through three real estate partnerships named Western Blossom Hill, Western Riviera, and Western Seven Trees.

Political ties/campaign contributions:
Marcus is a major democratic donor and receives personal thank-you calls and is referenced in speeches by the likes of former Vice President Al Gore and Speaker Nancy Pelosi.

Philanthropy and community service:
Marcus has donated more than $40,000 to San Francisco State University (SFSU) for its Center for Modern Greek Studies, Cinema department, and for student scholarships. Marcus also served on the board and as chairman of the Modern Greek Studies Foundation, which was formed to support the Nikos Kazantzakis Chair for Modern Greek Studies. In 2005, Marcus and his wife, Judy, donated $3 million to start the International Center for the Arts at SFSU.

Marcus serves on the boards of, or has been involved with, a number of professional and business groups, including the Urban Land Institute, a nonprofit dedicated to real estate development and land use research; the Bay Area Council, a pro-business policy organization; and the Policy Advisory Board for UC Berkeley's Fisher Center for Real Estate and Urban Economics. He also served as a member of the board of trustees of the California State University System from 1981 to 1989, and as a trustee for the Fine Arts Museums of San Francisco.