

COPY

CONFORMED COPY  
OF ORIGINAL FILED  
Los Angeles Superior Court

MAY 05 2010

John A. Clarke, Executive Officer/Clerk  
By A. WILLIAMS  
DEPUTY

1 EDMUND G. BROWN JR.  
Attorney General of the State of California  
2 MARK J. BRECKLER (State Bar No. 81577)  
Senior Assistant Attorney General  
3 JON M. ICHINAGA (State Bar No. 137290)  
Supervising Deputy Attorney General  
4 W. RICHARD SINTEK (State Bar No. 134894)  
Deputy Attorney General  
5 XIANCHUN J. VENDLER (State Bar No. 180507)  
Deputy Attorney General  
6 300 South Spring Street, Suite 1702  
Los Angeles, CA 90013  
7 Telephone: (213) 576-7769  
Facsimile: (213) 897-2801  
8 E-mail: xianchun.vendler@doj.ca.gov

CASE MANAGEMENT CONFERENCE

AUG 23 2010

Date

John H. Reid

DEPT F

SB

9 Attorneys for Plaintiff  
The People of the State of California

10 SUPERIOR COURT OF THE STATE OF CALIFORNIA

11 COUNTY OF LOS ANGELES

12 WEST DISTRICT

13  
14 **THE PEOPLE OF THE STATE OF**  
15 **CALIFORNIA,**

16 Plaintiff,

17 v.

18 **ALFRED ROBLES VILLALOBOS,**  
19 **ARVCO CAPITAL RESEARCH, LLC,**  
20 **FEDERICO R. BUENROSTRO JR., and**  
21 **DOES 1 - 100, inclusive,**

22 Defendants.

CASE NO:

SC107850

COMPLAINT FOR CIVIL PENALTIES,  
ANCILLARY RELIEF, AND  
INJUNCTIVE RELIEF

(Cal. Corp. Code §§ 25210, 25216(a), and  
25403; Bus. & Prof. Code § 17200)

Verified Answer Required Pursuant To  
California Code Of Civil Procedure § 446

Exempt From Filing Fees Pursuant To  
Government Code § 6103

23 Plaintiff, the People of the State of California ("the People"), by and through Edmund G.  
24 Brown Jr., Attorney General of the State of California, allege as follows:

25 **INTRODUCTION**

26 1. This civil enforcement action against defendants ARVCO Capital Research, LLC  
27 ("ARVCO"), Alfred Robles Villalobos ("Villalobos"), and Federico R. Buenrostro Jr.  
28 ("Buenrostro") involves (1) fraudulent and unlicensed securities broker-dealer activities in

1 violation of California's Corporate Securities Law of 1968 (the "CSL"), specifically,  
2 Corporations Code sections 25210, 25216(a), and 25403, and (2) unlawful and/or fraudulent  
3 business practices in violation of Business and Professions Code section 17200 (the "UCL").

4       2.     ARVCO (a company acting without a securities broker-dealer license), from 2005  
5 to 2009, obtained more than \$47 million in undisclosed and unlawful commissions for selling  
6 approximately \$4.8 billion worth of securities to the California Public Employees' Retirement  
7 System ("CalPERS"). CalPERS committed approximately \$4.4 billion to a group of funds  
8 known as the Apollo Funds and another \$400 million went to a fund managed by or affiliated  
9 with the Aurora Capital Group, a Los Angeles-based private equity investment firm ("Aurora").

10       3.     CalPERS' investment decisions are approved by CalPERS' investment staff or its  
11 Board of Administration (the "CalPERS' Board") if the investment exceeds a certain amount.  
12 The CalPERS' Board is a statutory body vested with the exclusive power to manage and control  
13 the administration and investment of CalPERS' assets. Members of the CalPERS' Board are  
14 obligated to discharge their duties as fiduciaries and solely in the interest of CalPERS' members  
15 and their beneficiaries.

16       4.     ARVCO was formed, operated, and controlled by Villalobos, a former member of  
17 the CalPERS' Board, for the purpose of selling or offering to sell securities through his  
18 connections to public pension funds. ARVCO entered into placement agent agreements with  
19 various investment firms, including firms managing the Apollo and Aurora Funds. When  
20 defendants successfully convinced CalPERS to purchase billions of dollars of securities from  
21 these firms, they received millions of dollars in commissions. The defendants did not disclose  
22 these placement agent agreements and corresponding commissions to the CalPERS' Board.

23       5.     Defendants Villalobos and ARVCO were not licensed as securities broker-dealers  
24 and defendants used unlawful and fraudulent means to effect securities transactions. Defendant  
25 ARVCO was paid approximately \$47 million in a short period of time purportedly for identifying  
26 and introducing CalPERS as a potential investor to the Apollo Funds and a fund set up, affiliated  
27 with, or managed by Aurora even though CalPERS knew about and already had invested millions

28

1 of dollars in funds managed by Apollo and Aurora before Villalobos and ARVCO started their  
2 unlicensed broker-dealer activities.

3 6. Over the past twenty years, Villalobos cultivated improper relationships with  
4 Buenrostro (CalPERS' former Chief Executive Officer), Leon Shahinian (CalPERS' Senior  
5 Investment Officer), and some members of the CalPERS' Board, including Charles Valdes  
6 ("Valdes"), who served on the CalPERS' Board for more than twenty years and headed  
7 CalPERS' Investment Committee for thirteen years.

8 7. During the relevant time period, Villalobos manipulated and exerted undue  
9 influence over Buenrostro, CalPERS' board members, and CalPERS' investment officers.  
10 Defendants failed to disclose to the CalPERS' Board: (1) the placement agent agreements  
11 ARVCO entered into with various funds and the commissions it received thereunder, (2) gifts and  
12 gratuities that were bestowed upon Buenrostro and CalPERS' decision-makers, and (3) a standing  
13 job offer to Buenrostro which he accepted prior to leaving CalPERS.

14 8. Defendant Villalobos compromised Buenrostro and some of CalPERS' decision-  
15 makers so much that the latter also failed to report Villalobos' gifts on their California Form 700  
16 (Statement of Economic Interests) as required by Government Code sections 87200, 87203, and  
17 87207.

18 9. As set forth in detail herein, defendants' conduct compromised the integrity of  
19 CalPERS' investment process and violated (1) California Corporations Code section 25216(a)  
20 (prohibiting any broker-dealer from effecting transactions in, or inducing or attempting to induce  
21 the purchase or sale of, securities in California by means of a manipulative, deceptive, or  
22 fraudulent scheme), (2) California Corporations Code section 25210 (prohibiting any broker-  
23 dealer from engaging in the business of effecting transactions in securities in California without  
24 obtaining the required broker-dealer certificate from the Commissioner of California's  
25 Department of Corporations (the "Commissioner"), (3) California Corporations Code section  
26 25403 (prohibiting any person who controls another person from knowingly inducing that person  
27 to violate any provision of the CSL and prohibiting any person from knowingly providing  
28

1 substantial assistance to another person in violation of any provision of the CSL), and (4) the  
2 UCL (prohibiting unlawful or fraudulent business practices).

3 **PLAINTIFF AND JURISDICTION**

4 10. Edmund G. Brown Jr. is the duly elected Attorney General of the State of  
5 California and is the chief law enforcement officer of the State. The Attorney General is  
6 authorized by Government Code sections 12658 and 12660, and Business and Professions Code  
7 section 17204 to bring actions in the name of the People of the State of California to enforce the  
8 CSL and the UCL.

9 **DEFENDANTS**

10 11. Defendant ARVCO is, and at all times mentioned herein was, a limited liability  
11 company organized and existing under the laws of the State of Nevada, and maintains its  
12 principal place of business in Stateline, Nevada. ARVCO was incorporated on or about  
13 December 9, 2005. Prior to the incorporation of ARVCO, Villalobos did business through an  
14 unincorporated business under the identical name of "ARVCO Capital Research" and worked  
15 from his home.

16 12. Defendant Villalobos is, and at all times mentioned herein was, the founder,  
17 managing director, control person, and key representative of ARVCO. He owns 99% of ARVCO  
18 while his daughter Carrissa M. Villalobos owns the remaining 1%.

19 13. Defendant Buenrostro is an individual currently residing in Nevada. He became  
20 CalPERS' Chief Executive Officer ("CEO") in late 2002 and left CalPERS on June 30, 2008.  
21 Prior to 2002, he was a representative of California's Treasurer or Controller for many years.  
22 One day after his retirement from CalPERS, Buenrostro started working for ARVCO as a  
23 consultant and received a \$300,000 consulting fee payable at \$25,000 per month.

24 14. Each unlawful or fraudulent act alleged herein was engaged in, authorized, or  
25 ratified by the officers, directors, managers, agents, employees, or representatives of defendant  
26 ARVCO while engaged in the management, direction, or control of the affairs of defendant  
27 ARVCO and while acting within the scope and course of their duties.

28



1 banking firm, the amounts of capital that we raise compare favorably to our competitors.  
2 ARVCO has raised approximately Twelve Billion (U.S. \$) of capital for our clients from 1994-  
3 2004, and approximately Four Billion (U.S. \$) in 2005 and 2006. In order to put those numbers  
4 in perspective, we are one of the five major private capital placement agents in the world  
5 specializing in private funds and special situations.”

6 21. In a sworn statement submitted to the Securities Exchange Commission (the  
7 “SEC”), ARVCO admits engaging in the following activities:

- 8 • reviewing, commenting on, and distributing to potential investors private equity funds’  
9 marketing and offering materials, such as private placement memoranda;
- 10 • scheduling and attending presentations to, or assisting in presentations to, representatives  
11 of targeted public pension funds and their investment advisors regarding the private equity  
12 funds defendants were hired to sell or promote;
- 13 • identifying targeted public pension funds that would be suitable candidates for  
14 investments in such private equity funds;
- 15 • providing strategic advice on how to present and explain the investment products to the  
16 targeted public pension funds and their investment advisors; and
- 17 • performing due diligence on potential clients to ensure that it was only promoting high-  
18 quality investment products.

19 22. During the relevant period as alleged herein, Villalobos was ARVCO’s primary  
20 representative who solicited investments from public pension funds, such as CalPERS, on behalf  
21 of its clients. Villalobos was personally involved in all of ARVCO’s engagements and played a  
22 key role in providing these services to its clients.

23 23. A few employees of ARVCO also acted on behalf of ARVCO in connection with  
24 the solicitation of investments from public pension funds. These employees interacted with  
25 ARVCO’s clients, representatives of public pension funds, and investment advisors acting on  
26 behalf of public pension funds. They were supervised, directed, and controlled by Villalobos, an  
27 unlicensed broker-dealer.

28

1           24.    Buenrostro, an acquaintance of Villalobos and a graduate of University of the  
2 Pacific McGeorge School of Law, played a key role in assisting Villalobos and ARVCO in their  
3 fraudulent activities. After Villalobos left the CalPERS' Board in 1995 and started ARVCO,  
4 Buenrostro assisted and facilitated Villalobos' and ARVCO's unlicensed and fraudulent broker-  
5 dealer activity.

6           **B.    Specific Unlicensed Securities Transactions Villalobos And ARVCO Engaged In And**  
7           **Commissions Received And To Be Received For Securities Sold To CalPERS.**

8           25.    ARVCO entered into at least nine placement agent agreements with Apollo and  
9 Aurora Funds from 2005 to 2008 for the purpose of assisting these funds in the sale of securities  
10 to CalPERS. Pursuant to these placement agent agreements, ARVCO received more than \$47  
11 million in commissions, of which approximately \$41 million has already been paid and more than  
12 \$6 million in receivables remains to be collected. These nine placement agent agreements are  
13 summarized as follows:

14                           **1.    Apollo VI**

15           26.    Villalobos, doing business as ARVCO Capital Research, contracted with Apollo  
16 Management VI, L.P. and Apollo Investment Fund VI, L.P. (collectively, "Apollo VI") on or  
17 about May 25, 2005, agreeing to act as Apollo VI's "placement agent" and to "use its reasonable  
18 best endeavors to identify, and to assist [Apollo VI] in selling [securities] to prospective ARVCO  
19 Investors."

20           27.    CalPERS invested \$650 million in Apollo VI on or about August 12, 2005. Under  
21 the terms of a February 1, 2006 addendum to the May 25, 2005 placement agent agreement,  
22 Villalobos received \$3,864,734 in commissions, the last installment payment of which was made  
23 on February 25, 2008.

24           28.    The placement agent agreement obligated Villalobos, doing business as ARVCO  
25 Capital Research, to "disclose (as the same may be required in accordance with applicable laws)  
26 to [CalPERS] on or prior to acceptance of their subscriptions for Interests that, among other  
27 things, Apollo [VI] has agreed to pay to ARVCO, certain fees (respecting [CalPERS']  
28

1 subscription) and expenses for ARVCO's activities on behalf of Apollo [VI] under this  
2 agreement."

3 29. However, ARVCO admitted in a sworn statement submitted to the SEC that it was  
4 "not aware of any formal disclosure to any Public Pension Funds of its agreement with Apollo VI,  
5 the payments it received thereunder, or the services that it provided to Apollo VI".

## 6 2. Apollo Alternative Assets

7 30. ARVCO entered into an oral placement agent agreement with Apollo Alternative  
8 Assets, L.P. sometime in 2006, agreeing to assist the latter in connection with sales of its shares to  
9 CalPERS. ARVCO successfully induced CalPERS to invest \$200 million in Apollo Alternative  
10 Assets, L.P. on or about July 27, 2006.

11 31. Although the placement agent agreement was entered into with ARVCO, which  
12 performed the required services, ARVCO and Villalobos arranged with Apollo Alternative Assets,  
13 L.P. to have Capital Formation Partners ("CF Partners"), a company solely owned and controlled  
14 by Villalobos, receive the \$4.4 million fee on or about July 30, 2006. However, ARVCO  
15 admitted in a sworn statement submitted to the SEC that it was "not aware of any formal  
16 disclosure to any Public Pension Funds of its agreement with AP Alternative Assets, the  
17 payments it received thereunder, or the services that it provided to AP Alternative Assets".

## 18 3. Apollo VII

19 32. ARVCO contracted with Apollo Management VII, L.P., Apollo Investment Fund  
20 VII, L.P., and Apollo Overseas Partners VII, L.P. (collectively, "Apollo VII") on or about July 1,  
21 2007, agreeing to act as Apollo VII's "placement agent" and to "use its reasonable best efforts to  
22 identify, and to assist [Apollo VII] in selling [securities] to, prospective ARVCO Investors."

23 33. CalPERS was listed as one of ARVCO's prospective investors in this placement  
24 agent agreement. Pursuant to its placement agent agreement with Apollo VII, ARVCO was  
25 entitled to earn a fee equal to 1% of capital commitments received and accepted by Apollo VII  
26 subject to certain limitations. With regard to CalPERS, Apollo VII agreed to pay 1% of capital  
27 commitments from CalPERS to the extent that they exceeded \$650 million.

28









1           55. Relying on a written disclosure document purportedly signed by Buenrostro on  
2 May 20, 2008, ARVCO claims that its fees were disclosed to CalPERS. However, the date  
3 Buenrostro purportedly signed this document – May 20, 2008 – came more than one month after  
4 CalPERS had made the \$1 billion capital commitment, one month before the placement agent  
5 agreement was signed, and after Buenrostro had been stripped by the CalPERS' Board of his  
6 powers as CalPERS' CEO.

7           56. In three of the foregoing transactions (Apollo VI, Apollo VII, and Aurora  
8 Resurgence), Apollo and/or Aurora reserved the right to terminate the contract “[a]t any time if  
9 Mr. Villalobos becomes unable to devote or fails to devote sufficient time and attention to  
10 fulfilling the services contemplated hereunder, it being recognized that ARVCO's engagement  
11 hereunder is based, in part, on the understanding that the personal and preferential services of Mr.  
12 Alfred Villalobos are essential to the services to be provided by ARVCO.”

13           57. In seven of the foregoing transactions (Apollo VI, Apollo VII, Apollo Europe  
14 Management, Apollo EPF Fund, Apollo SOMA, Aurora Resurgence, and Apollo Credit  
15 Opportunity), Villalobos and ARVCO falsely represented in Paragraph 5 of the placement agent  
16 agreement that (1) they were in compliance with applicable local and U.S. laws; (2) they were,  
17 and would continue to be, duly authorized and empowered under all applicable laws and  
18 regulations to provide the services and engage in the activities contemplated by the placement  
19 agent agreements; (3) their performance of the services under the placement agent agreements  
20 would not violate any applicable laws including, but not limited to, securities law; (4) they had  
21 the required licenses to serve as placement agents for the offer and sale of securities to CalPERS;  
22 (5) they would not engage in any act or practice that would, directly or indirectly, contravene  
23 laws prohibiting bribery or payments to public officials; and (6) they would register or qualify in  
24 all relevant jurisdictions required by any activities undertaken by ARVCO and Villalobos  
25 pursuant to the placement agent agreements (if not already so registered or qualified).  
26  
27  
28

1 **C. Placement Agent Agreements ARVCO Entered Into For Unlicensed Securities**  
2 **Broker-Dealer Activity For Which No Commissions Were Paid.**

3 58. ARVCO also entered into placement agent agreements during the relevant period  
4 with two additional funds, agreeing to use its best efforts to sell or assist the funds to sell  
5 securities to California investors. ARVCO received no compensation pursuant to these placement  
6 agent agreements because its solicitation failed. These two placement agent agreements were  
7 with (1) Sector Performance, L.P., Sector Performance GP., L.P., and Sector Performance, LLC  
8 (dated August 1, 2007); and (2) Kline Hawkes & Co. (dated October 1, 2007). The targeted  
9 investors for solicitation pursuant to these placement agent agreements were (1) CalPERS; (2)  
10 CalPERS through its investment advisors: (a) Grove Street Advisors, LLC, (b) Hamilton Lane,  
11 and (c) Centinela Capital Partners, LLC; (3) CalSTRS; (4) CalSTRS through its investment  
12 advisor Cambridge Associates; and (5) Los Angeles Fire and Police Pension Plan through its  
13 investment advisor StepStone Group LLC.

14 **D. Defendants Offered And Sold Securities By Means Of A Manipulative, Deceptive, Or**  
15 **Fraudulent Scheme.**

16 **1. Villalobos Manipulated Buenrostro, CalPERS' Board Members, And**  
17 **Investment Officers By Means Of Unlawful Or Fraudulent Business Practices.**

18 59. Villalobos served as Deputy Mayor of Los Angeles in 1993 and was a board  
19 member at the State Personnel Board from 1992 to 1995. He also served on the CalPERS' Board  
20 from 1992 to 1995. He is known among private equity firms as a person who attempts to exert  
21 pressure on CalPERS' representatives in order to convince CalPERS to make the solicited  
22 investments.

23 60. For example, while searching for someone to assist in the sales of securities, one  
24 person expressed his reluctance to hire Villalobos saying: "Frankly, [Villalobos] makes me  
25 nervous." Another person recommended staying away from Villalobos, stating that: "He can  
26 exert enormous pressure and I'm not sure how although [I am] pretty sure it involves money.  
27 They are either on the razor's edge of what's legal, in the gray area or, perhaps, even on the  
28 wrong side." Yet another person expressed his frustration with his inability to get a response

1 from CalPERS, joking that “maybe I should change my last name to Villalobos to insure that I get  
2 a call back.”

3 61. Villalobos cultivated, through gifts and gratuities and promises of future  
4 employment, close and long-term relationships with Buenrostro, former board member Valdes  
5 and current Senior Investment Officer Shahinian with intent to influence them to make  
6 investment decisions in favor of the private equity funds ARVCO represented.

7 **(a) Villalobos’ Close Relationship With Buenrostro.**

8 62. Villalobos and Buenrostro have known each other for almost twenty years. When  
9 Buenrostro married in 2004, Villalobos hosted the wedding at his home in Lake Tahoe. Although  
10 Buenrostro claimed that he reimbursed Villalobos for the wedding, on information and belief,  
11 Villalobos substantially subsidized the cost of Buenrostro’s wedding.

12 63. During the period from 2005 to 2008, Villalobos and other ARVCO employees  
13 also purportedly took and paid for ski lessons from Buenrostro, who worked as a ski instructor at  
14 Squaw Valley while he was CalPERS’ CEO. On information and belief, Villalobos did not  
15 actually take lessons from Buenrostro and had no interest in skiing.

16 64. Villalobos, Valdes, and Buenrostro made a ten-day trip together in November of  
17 2006, ostensibly to attend the two-day Meed Capital Markets Conference in Dubai (the “Dubai  
18 Trip”). They flew together from San Francisco to London on November 17, 2006 and then from  
19 London to Dubai the next day. They arrived in Dubai on November 19 and stayed at Emirates  
20 Towers Hotel.

21 65. On information and belief, Valdes, as the Chairman of CalPERS’ Investment  
22 Committee, sent out an invitation for a reception on behalf of Buenrostro as CalPERS’ CEO.  
23 This reception was scheduled for the evening of November 20, 2006 at the Presidential Suite –  
24 Emirates Towers Hotel. Villalobos co-hosted this reception in his suite in the Emirates Towers  
25 Hotel in honor of Buenrostro.

26 66. After attending the Meed Capital Markets Conference for two days from  
27 November 20 to 21, Villalobos, Valdes, and Buenrostro left Dubai for Hong Kong on November  
28

1 22. When they arrived in Hong Kong, they were picked up by a limousine. They then took a 30-  
2 minute helicopter ride from Hong Kong to Macau, a famous gambling location known as the Las  
3 Vegas of China, and stayed at Wynn Resorts Macau for three days. About a week prior to this  
4 trip, Villalobos wired \$100,000 to Wynn Resorts Macau which wired \$88,000 back to Villalobos  
5 after the trip on November 28, 2006.

6 67. On November 25, Villalobos, Valdes, and Buenrostro flew back to Hong Kong  
7 from Macau, were transported by a limousine, and returned to San Francisco from Hong Kong.  
8 Although Buenrostro submitted \$5,071 as expenses for this trip to CalPERS, on information and  
9 belief, Buenrostro's ten-day around the world trip was substantially subsidized by defendant  
10 ARVCO and/or Villalobos.

11 68. Upon information and belief, Buenrostro attended ARVCO's Christmas parties at  
12 Villalobos' home in Lake Tahoe. In 2005, he stayed at Harvey's Resort and Casino for two  
13 nights; in 2006, he stayed at Harrah's Lake Tahoe Resort and Casino ("Harrah's") for one night.  
14 Some of his expenses in connection with the parties (including food, lodging, and entertainment)  
15 were paid by ARVCO.

16 69. On information and belief, while Buenrostro was still acting as CalPERS' CEO,  
17 Villalobos discussed employment opportunities at ARVCO with Buenrostro and made a standing,  
18 but undisclosed, job offer to Buenrostro. The job offer package also included Villalobos' promise  
19 that he would give Buenrostro a condominium. Public records show that sometime in December  
20 2009 Villalobos transferred title of one of the condominiums he owned to Buenrostro.

21 70. When Buenrostro was asked in March of 2008 by Rob Feckner, President of the  
22 CalPERS' Board, to respond to written allegations regarding his job performance at CalPERS, he  
23 emailed the written allegations and his comprehensive draft response (which included  
24 confidential personnel information about a CalPERS' employee) to Villalobos, soliciting his  
25 comments and advice. Buenrostro also forwarded to Villalobos another email from Rob Feckner  
26 addressing concerns about his performance raised by the CalPERS' Board.

27  
28

1                   **(b) Villalobos' Relationship With Valdes.**

2           71. Valdes, the head of CalPERS' Investment Committee for the past thirteen years  
3 and a graduate of University of California at Los Angeles School of Law, is also an acquaintance  
4 of Villalobos. In 2005, his campaign to be reelected as a CalPERS' board member for a sixth  
5 term received \$22,400 in contributions from CF Partners (solely owned by Villalobos) and three  
6 ARVCO employees (Dustin Fox, Brian S. David, and Carrissa M. Villalobos), each contributed  
7 \$5,600. On information and belief, these employees' contributions were made at the direction of  
8 Villalobos and were later reimbursed by ARVCO.

9           72. In addition to these campaign contributions, Villalobos also paid for or arranged  
10 the payment of Valdes' expenses in connection with attending the Academy Awards ceremony in  
11 March of 2006 (including, but not limited to, two nights' lodging at the Renaissance Hotel in  
12 Hollywood, ground transportation by limousine services and tickets to the ceremony).

13           73. Upon information and belief, in December of 2005 and 2006, Villalobos hosted  
14 Christmas parties at his home, as well as parties at casinos, in Lake Tahoe. ARVCO paid for  
15 Valdes' expenses (including, but not limited to, accommodations, food, ground transportation,  
16 and entertainment) for two days in connection with the parties.

17           74. In November of 2006, Valdes, flying first class, went on the ten-day Dubai Trip  
18 with Villalobos and Buenrostro. Although Valdes produced a check dated December 1, 2006 and  
19 payable to ARVCO in the amount of \$23,630 for the Dubai Trip, whether he indeed paid for this  
20 trip remains questionable since Valdes had been struggling for years to pay off his debts leading  
21 to the filing of two bankruptcy petitions (one in 1991 and another in 1997). Further, on August 3,  
22 2006, a judgment lien in the amount of \$17,917 was filed on Valdes' house.

23           75. On information and belief, Villalobos and/or ARVCO subsidized Valdes'  
24 expenses in connection with the Dubai trip. Valdes' bank records indicate that he made cash  
25 deposits of \$9,000 on November 30, 2006 and of \$5,000 on December 2, 2006 in order for his  
26 \$23,630 check to clear on December 4, 2006. Valdes also made another cash deposit on  
27 December 23, 2006 for \$4,000, consisting of forty \$100 bills.

28

1                   (c) **Villalobos Attempted To Bribe Shahinian.**

2           76. Senior Investment Officer Shahinian was responsible for managing the Alternative  
3 Investment Management Program at CalPERS, which had approximately \$44 billion under  
4 management as of June 30, 2009 and was where all of the investments ARVCO was hired to  
5 solicit would come from. Since Shahinian's cooperation and/or complicity was needed in order  
6 to further ARVCO's fraudulent scheme, Buenrostro instructed Shahinian to build a closer  
7 relationship with Villalobos.

8           77. When Villalobos was trying to persuade CalPERS to purchase a ten-percent (10%)  
9 equity interest in Apollo Global Management for \$700 million in 2007 (as alleged in paragraphs  
10 36-37 above), Shahinian accepted Villalobos' invitation to travel by private jet to New York City  
11 to attend a fund-raising event on the evening of May 15, 2007, hosted by the Museum of Modern  
12 Art in honor of Leon Black (the "MOMA Event"), the founder and controlling shareholder of  
13 Apollo Global Management.

14           78. In the early morning of May 15, 2007, one of Villalobos' employees, Dustin Fox,  
15 drove Villalobos to Shahinian's house in El Dorado Hills, California, and picked up Shahinian.  
16 They then drove to the Sacramento Executive Airport. ARVCO rented a private jet for \$53,000  
17 from Jet Methods in Carlsbad, California, which transported Villalobos and Shahinian alone to  
18 LaGuardia Airport in New York. Upon arrival, they were transported by a limousine owned by  
19 Bermuda Limousine to the Mandarin Oriental Hotel, where Villalobos shared a two-bedroom  
20 suite with Shahinian. Villalobos and/or ARVCO paid \$9,552.90 in connection with their stay at  
21 the Mandarin Oriental Hotel.

22           79. That evening, Villalobos and Shahinian arrived together at the MOMA Event,  
23 tickets for which cost \$2,000 each. Guests of this event included celebrities, members of New  
24 York's high-society, and high-ranking public officials.

25           80. Villalobos introduced Shahinian to various guests whom he knew during the  
26 cocktail hour. At dinner time, Shahinian was seated near the front at a table of guests invited by  
27 Leon Black's wife. At some point during the evening, Villalobos and Shahinian met Leon Black,  
28 who told Shahinian that he was glad Shahinian could make it.

1           81.     The next morning, Shahinian was driven by limousine owned by Bermuda  
2     Limousine to LaGuardia Airport where he boarded American Airlines for Fort Lauderdale. Upon  
3     arrival in Fort Lauderdale, a sedan ordered and paid by Villalobos took Shahinian to the Boca  
4     Raton Resort and Club, where he attended the annual meeting for BlackRock, another investment  
5     firm that manages some of CalPERS' assets. On May 17, 2007, Shahinian returned to  
6     Sacramento International Airport on United Airlines where he was met by Paramount Sedans,  
7     which drove him home.

8           82.     All of the foregoing expenses, with the possible exception of the United Airlines  
9     flight back to Sacramento, for this trip were paid by Villalobos and/or ARVCO and later  
10    reimbursed by Apollo Global Management, amounting to at least \$63,000.

11          83.     Shortly after Shahinian returned to Sacramento, he received three bottles of  
12    champagne from Villalobos, including a \$200 bottle that they discussed at the MOMA Event. On  
13    information and belief, on May 30, 2007 (less than two weeks after the MOMA Event),  
14    Villalobos faxed Shahinian the term sheet for the proposed \$700 million investment in Apollo  
15    Global Management.

16          84.     On June 18, 2007, one month after the MOMA Event, the Investment Committee  
17    of the CalPERS' Board (headed by Valdes) conducted a closed session to discuss the proposed  
18    \$700 million investment in Apollo Global Management. At this meeting, Shahinian made a  
19    presentation recommending that the CalPERS' Board authorize an up to \$700 million investment  
20    in Apollo Global Management.

21          85.     Shahinian touted CalPERS' successful and long-term relationship with Apollo,  
22    stating, among other things, that CalPERS' relationship with Apollo dated back to 1995 and that  
23    CalPERS had invested \$1.4 billion in various Apollo Funds. Shahinian did not disclose to the  
24    CalPERS' Board that he had just returned from an all-expenses paid trip with Villalobos to New  
25    York to attend the MOMA Event.

26           **(d) No Disclosure of Gifts Paid for by Villalobos and ARVCO.**

27          86.     Villalobos' name or the names of his companies (ARVCO and CF Partners) did  
28    not appear on any Form 700 filed by Buenrostro, Valdes, and Shahinian during the period from

1 2005 to 2008. When Buenrostro occasionally disclosed on his Form 700 gifts from persons he  
2 knew worked for ARVCO/Villalobos, he was careful not to mention Villalobos or ARVCO.  
3 Instead, the donors of the gifts were identified as Brian David, "a general consultant," or Dustin  
4 Fox, a person working in "financial advisory services." These misleading disclosures evidence  
5 Buenrostro's intent to conceal his relationship with Villalobos and ARVCO, and his awareness  
6 that his relationship with ARVCO and Villalobos was improper.

7 87. The CalPERS' Board specifically requested Form 700s filed by CalPERS'  
8 management staff, including Buenrostro. The non-disclosures or misleading disclosures made by  
9 Buenrostro, Valdes, and Shahinian allowed Villalobos to conceal his fraudulent scheme from the  
10 CalPERS' Board, members, and beneficiaries.

11 88. For example, unaware of the close relationships between Villalobos and  
12 Buenrostro, Valdes, and Shahinian, the CalPERS' Board ultimately approved a \$601 million  
13 investment in Apollo Global Management on July 12, 2007.

14 **2. Defendants Defrauded The CalPERS' Board And Members By Failing To**  
15 **Disclose The Fees They Earned And The Gifts And Gratuities They Gave.**

16 89. Although ARVCO's placement agent agreements required it to disclose these  
17 agreements and the commissions thereunder to CalPERS, ARVCO admits to non-disclosure as to  
18 four of the nine transactions alleged above.

19 90. To conceal further his fraudulent scheme and to assist ARVCO in obtaining  
20 unlawful commissions, Buenrostro acceded to requests by Villalobos to sign disclosure forms  
21 purportedly on behalf of CalPERS, supposedly acknowledging that ARVCO had disclosed the  
22 placement agent agreements and commissions thereunder to CalPERS.

23 91. ARVCO and Villalobos previously attempted to get a CalPERS' senior investment  
24 officer to sign a disclosure form but he refused to do so. The disclosure forms purportedly signed  
25 by Buenrostro are nowhere to be found in CalPERS' files. Neither the CalPERS' Board nor its  
26 investment staff knew about the existence of these disclosure forms.

27 92. Moreover and as more specifically alleged above, all of the disclosure forms  
28 purportedly signed by Buenrostro, with one possible exception, were dated months after CalPERS

1 had already approved the solicited investments. Four of the six disclosure forms were  
2 purportedly signed by Buenrostro before the placement agent agreements were even entered into.  
3 In one instance, the disclosure form was signed after ARVCO already received \$4.5 million in  
4 commissions.

5 93. Three of the disclosure forms regarding fees paid to ARVCO by Apollo SOMA,  
6 Apollo VII, and Apollo Europe Management were apparently dated the same day (November 20,  
7 2007) although the three transactions closed at different times (February 15, 2007, August 30,  
8 2007, and September 14, 2007, respectively).

9 94. The other three disclosure forms were apparently signed on January 11, 2008  
10 (Apollo EPF Fund), May 20, 2008 (Apollo SOMA), and May 20, 2008 (Apollo Credit  
11 Opportunity Fund). The latter two were signed almost one month after Buenrostro announced his  
12 retirement from CalPERS (on April 29, 2008) and after he had been relieved of all official  
13 responsibilities by the CalPERS' Board.

14 95. On information and belief, defendants Villalobos and ARVCO failed to disclose to  
15 both the Apollo Funds and Aurora Resurgence that CalPERS was not aware of these disclosure  
16 forms and was not informed of the amounts of the commissions defendants received. CalPERS  
17 was shocked when it learned of the magnitude of those fees after they came to light.

18 96. Defendants ARVCO and Villalobos not only concealed the placement agent  
19 agreements from CalPERS, but also concealed their close relationship with Buenrostro. CalPERS  
20 was never informed that Villalobos made a standing offer to employ Buenrostro and that  
21 Buenrostro was, in essence, working for and with Villalobos to assist ARVCO in obtaining illegal  
22 commissions.

23 97. Moreover, in furtherance of the fraudulent scheme, defendant Villalobos and  
24 ARVCO violated Government Code section 20152.5 by failing to disclose gifts they made to  
25 CalPERS' officials. Government Code section 20152.5 provides that "[n]o matter involving any  
26 vendor or contractor in their individual or any other capacity shall be considered during a closed  
27 session on any transaction involving [CalPERS] unless, prior to the closed session, a written  
28 disclosure has been submitted by the vendor or contractor of any campaign contributions

1 aggregating two hundred fifty dollars (\$250) or more and any gifts aggregating fifty (\$50) dollars  
2 or more in value that the vendor or contractor has made during the preceding calendar year to any  
3 member of the board or any officer or employee of [CalPERS].”

4 98. Defendants Villalobos and ARVCO concealed their fraudulent scheme because  
5 they were not licensed to act as broker-dealers and the exorbitant fees they received were not  
6 commensurate with the value of services they provided. Indeed, the broker-dealer services of  
7 Villalobos and ARVCO were unnecessary because CalPERS initially invested in Apollo in 1995  
8 and in Aurora in 1994 while Villalobos served on the CalPERS’ Board.

9 99. In their placement agent agreements, Villalobos and ARVCO falsely represented  
10 that they had the required licenses to engage in the securities sales activities contemplated in the  
11 placement agent agreements, and complied with all applicable securities law and laws prohibiting  
12 bribery and payments to CalPERS’ officials.

13  
14 **FIRST CAUSE OF ACTION**

15 **Securities Fraud By A Broker-Dealer**

16 **(Corporations Code Section 25216(a) Against Villalobos And ARVCO)**

17 **(Corporations Code Section 25403 Against Villalobos And Buenrostro)**

18 100. The People re-allege and incorporate by reference paragraphs 1 through 99 above  
19 as though fully set forth herein.

20 101. Pursuant to California Corporations Code section 25216(a), “[n]o broker-dealer or  
21 agent shall effect any transaction in, or induce or attempt to induce the purchase or sale of, any  
22 security in this state by means of any manipulative, deceptive or other fraudulent scheme, device,  
23 or contrivance.”

24 102. Cal. Code Regs., tit. 10, section 260.216(a), a rule of the Commissioner, defines  
25 the phrase “manipulative, deceptive, or other fraudulent scheme, device, or contrivance” as  
26 including “[a]ny act, practice, or course of business which operates or would operate as a fraud or  
27 deceit upon any person.”  
28

1           103. California Corporations Code section 25004 defines a securities broker-dealer as  
2 “any person engaged in the business of effecting transactions in securities in this state for the  
3 account of others or for his own account.”

4           104. In assisting private equity funds or companies in offering and selling securities to  
5 CalPERS, as alleged in this complaint, defendants Villalobos and ARVCO acted as securities  
6 broker-dealers as defined by California Corporations Code section 25004.

7           105. The private limited partnership interests, shares of stock in various companies, or  
8 other interests offered for sale and sold by various private equity funds through defendants  
9 Villalobos’ and ARVCO’s assistance and solicitation, as alleged herein, are “securities” as  
10 defined by California Corporations Code section 25019.

11           106. In assisting private equity funds or companies in offering and selling securities to  
12 CalPERS, by means of a manipulative, deceptive or other fraudulent scheme, device, or  
13 contrivance as alleged above, Villalobos and ARVCO violated California Corporations Code  
14 section 25216(a) as defined by Cal. Code Regs., tit. 10, section 260.216(a).

15           107. Under California Corporations Code section 25403(a), “[e]very person who with  
16 knowledge directly or indirectly controls and induces any person to violate any provision of this  
17 division or any rule or order thereunder shall be deemed to be in violation of that provision, rule,  
18 or order to the same extent as the controlled and induced person.”

19           108. Under California Corporations Code section 25403(b), “[a]ny person that  
20 knowingly provides substantial assistance to another person in violation of any provision of this  
21 division or any rule or order thereunder shall be deemed to be in violation of that provision, rule,  
22 or order to the same extent as the person to whom the assistance was provided.”

23           109. As a person owning and controlling the business of ARVCO, Villalobos knew that  
24 ARVCO had assisted private equity funds and companies in offering and selling securities to  
25 CalPERS by means of a manipulative, deceptive or other fraudulent scheme, device, or  
26 contrivance. Nevertheless, he knowingly induced ARVCO to violate and/or provided substantial  
27 assistance to ARVCO in violation of California Corporations Code section 25216(a) as alleged  
28

1 above. Accordingly, Villalobos is liable for the illegal conduct of ARVCO pursuant to California  
2 Corporations Code section 25403(a) and/or (b).

3 110. By engaging in the fraudulent conduct as alleged above in general and more  
4 specifically in paragraphs 24, 35, 39-40, 42-43, 46-47, 52-55, 59-70, 86-98, Buenrostro  
5 knowingly provided substantial assistance to defendants Villalobos and ARVCO in violation of  
6 California Corporations Code Section 25216(a), as defined by Cal. Code Regs., tit. 10, section  
7 260.216(a). Accordingly, Buenrostro is liable for the illegal conduct of Villalobos and ARVCO  
8 pursuant to California Corporations Code section 25403(b).

9  
10 **SECOND CAUSE OF ACTION**  
11 **Unlicensed Broker-Dealer Activity**  
12 **(Corporations Code Section 25210 Against Villalobos And ARVCO)**  
13 **(Corporations Code Section 25403 Against Villalobos)**

14 111. The People re-allege and incorporate by reference paragraphs 1 through 99 above  
15 as though fully set forth herein.

16 112. California Corporations Code section 25210 provides that “no broker-dealer shall  
17 effect any transaction in, or induce or attempt to induce the purchase or sale of, any security in  
18 this state unless the broker-dealer has first applied for and secured from the commissioner a  
19 certificate, then in effect, authorizing that person to act in that capacity.”

20 113. California Corporations Code section 25004 defines a securities broker-dealer as  
21 “any person engaged in the business of effecting transactions in securities in this state for the  
22 account of others or for his own account.”

23 114. In assisting private equity funds or companies in offering and selling securities to  
24 CalPERS, as alleged in this complaint, defendants Villalobos and ARVCO acted as securities  
25 broker-dealers as defined by California Corporations Code section 25004.

26 115. The private limited partnership interests, shares of stock in various companies, or  
27 other interests offered for sale and sold by various private equity funds through defendants  
28 Villalobos’ and ARVCO’s assistance and solicitation, as alleged herein, are “securities” as  
defined by California Corporations Code section 25019.



1 17200 by carrying out unlawful or fraudulent business acts or practices which include, but are not  
2 limited to, the acts or practices described in detail in Paragraphs 59-99 and summarized below.

3 122. Defendants ARVCO and Villalobos and persons acting on their behalf or at their  
4 direction violated and continue to violate:

5 a. California Penal Code section 67 by giving or offering bribes as defined in  
6 California Penal Code section 7 to CalPERS' officials with intent to influence them in respect to  
7 the investment decisions they made on behalf of CalPERS; and

8 b. California Government Code section 20152.5 by failing to disclose the  
9 gifts aggregating fifty dollars (\$50) or more in value that they made to CalPERS' officials.

10 123. Defendant Buenrostro violated:

11 a. California Penal Code section 68 by receiving bribes with an agreement or  
12 understanding that his official actions shall be influenced thereby;

13 b. Government Code section 19990 by, among others, receiving gifts and  
14 gratuities from ARVCO and Villalobos; and

15 c. Government Code sections 87200, 87203, and 87207 by failing to report  
16 gifts from Villalobos and ARVCO.

17 124. Defendants ARVCO and Villalobos and persons acting on their behalf or at  
18 their direction engaged in and continue to engage in fraudulent business acts or practices which  
19 include, but are not limited to, the following:

20 a. making false representations that Villalobos and ARVCO had the required  
21 securities license and complied with all applicable laws;

22 b. failing to disclose placement agent agreements and commissions received  
23 thereunder;

24 c. giving or offering bribes as defined in California Penal Code section 7 to  
25 CalPERS' officials with intent to influence them in respect to the investment decisions they made  
26 on behalf of CalPERS;

27 d. failing to disclose the gifts aggregating fifty dollars (\$50) or more in value  
28 that they made to CalPERS' officials; and

1 e. making false representations to the funds that they disclosed their  
2 commissions to CalPERS.

3 125. Defendant Buenrostro engaged in fraudulent business practices by:

4 a. receiving bribes with an agreement or understanding that his official  
5 actions shall be influenced thereby;

6 b. receiving gifts and gratuities, but failing to disclose them as required by  
7 Government Code sections 87200, 87203, and 87207; and

8 c. signing forms purportedly disclosing the existence of the placement agent  
9 agreements between ARVCO and Apollo, including the amount of commissions paid under those  
10 contracts, without authority and without disclosing them to the CalPERS' Board or investment  
11 staff.

#### 12 PRAYER FOR RELIEF

13 Wherefore, the People pray for judgment against defendants as follows:

14 1. Pursuant to Government Code section 12658(a), defendants, their successors, agents,  
15 representatives, employees and all persons who act in concert with defendants be permanently  
16 enjoined from engaging in any conduct violating California Corporations Code sections 25216(a),  
17 25210, and 25403, including, but not limited to, the acts and practices alleged in this complaint;

18 2. Pursuant to Business and Professions Code section 17203, defendants, their  
19 successors, agents, representatives, employees and all persons who act in concert with defendants  
20 be permanently enjoined from directly or indirectly engaging in unfair competition as defined in  
21 Business and Professions Code section 17200, including, but not limited to, the acts and practices  
22 alleged in this complaint;

23 3. Pursuant to Government Code section 12660(a), for an order that defendants pay,  
24 jointly or severally, to the People a civil penalty (not less than \$25 million) based on the  
25 maximum sum of twenty-five thousand dollars (\$25,000) for each violation of California  
26 Corporations Code sections 25216(a), 25210, and 25403, which occurred within four years of the  
27 filing of this complaint;

28

1 4. Pursuant to Business and Professions Code section 17206, that the Court assess a civil  
2 penalty of two thousand five hundred dollars (\$2,500) against defendants for each violation of  
3 Business and Professions Code section 17200, as proved at trial, but in an amount of not less than  
4 \$25 million.

5 5. Pursuant to Government Code section 12658(b), for an order requiring defendants to  
6 disgorge, jointly or severally, all profits and compensation (not less than \$70 million) obtained by  
7 them as a result of their violations of California Corporations Code sections 25216(a), 25210, and  
8 25403;

9 6. Pursuant to Government Code section 12658(b) and Business and Professions Code  
10 section 17203, for an order requiring defendants, jointly or severally, to make restitution to  
11 California investors, including CalPERS, in an amount not less than \$70 million;

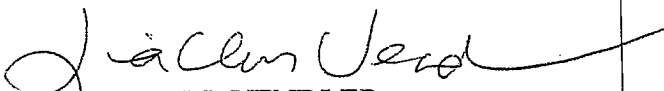
12 7. Pursuant to Government Code section 12658(a) and/or (b) and Business and  
13 Professions Code section 17203, for an order imposing a constructive trust on all of defendants'  
14 assets accumulated and acquired from 2005 to the present as a result of their unlicensed, unlawful,  
15 or fraudulent activities;

16 8. For the People's cost of suit incurred herein; and

17 9. For such other and further relief as this Court deems just and proper.

18  
19 Dated: May 5th, 2010

20 EDMUND G. BROWN JR.  
21 Attorney General of California  
22 MARK J. BRECKLER  
23 Senior Assistant Attorney General  
24 JON M. ICHINAGA  
25 Supervising Deputy Attorney General  
26 IRENE K. TAMURA  
27 W. RICHARD SINTEK  
28 DANIEL O'DONNELL  
Deputy Attorneys General

  
XIANCHUN J. VENDLER  
Deputy Attorney General  
Attorneys for Plaintiff the People of the  
State of California