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9  
10 **UNITED STATES DISTRICT COURT**  
11 **DISTRICT OF NEVADA**

12 SECURITIES AND EXCHANGE  
13 COMMISSION,

14 Plaintiff,

15 vs.

16 ARVCO CAPITAL RESEARCH, LLC,  
17 ARVCO FINANCIAL VENTURES,  
18 LLC, ALFRED J.R. VILLALOBOS, and  
19 FEDERICO (“FRED”) R.  
BUENROSTRO,

20 Defendants.  
21

Case No.

**COMPLAINT**

22  
23 Plaintiff Securities and Exchange Commission (“Commission”) alleges as  
24 follows:

25 **JURISDICTION AND VENUE**

26 1. This Court has jurisdiction over this action pursuant to Sections 20(b),  
27 20(d)(1), and 22(a) of the Securities Act of 1933 (“Securities Act”), 15 U.S.C.  
28 §§ 77t(b), 77t(d)(1), & 77v(a), and Sections 21(d)(1), 21(d)(3)(A), 21(e), and 27 of

1 the Securities Exchange Act of 1934 (“Exchange Act”), 15 U.S.C. §§ 78u(d)(1),  
2 78u(d)(3)(A), 78u(e), & 78aa. Defendants have, directly or indirectly, made use of  
3 the means or instrumentalities of interstate commerce, of the mails, or of the  
4 facilities of a national securities exchange, in connection with the transactions,  
5 acts, practices, and courses of business alleged in this complaint.

6 2. Venue is proper in this district pursuant to Section 22(a) of the  
7 Securities Act, 15 U.S.C. § 77v(a), and Section 27 of the Exchange Act, 15 U.S.C.  
8 § 78aa, because certain of the transactions, acts, practices, and courses of conduct  
9 constituting violations of the federal securities laws occurred within this district.

### 10 **SUMMARY**

11 3. This matter involves a fraudulent scheme perpetrated by Federico R.  
12 Buenrostro, the former Chief Executive Officer of the California Public  
13 Employees’ Retirement System (“CalPERS”), and his close personal friend, Alfred  
14 J.R. Villalobos (“Villalobos”), a placement agent who successfully convinced  
15 CalPERS and other public pension funds to invest in his clients, mostly private  
16 equity funds. Operating through two of his companies, ARVCO Capital Research,  
17 LLC and ARVCO Financial Ventures, LLC (collectively, “ARVCO”), Villalobos  
18 generated more than \$70 million in placement agent fees over an approximately 10  
19 year period, at least \$58 million of which was related to CalPERS’ investments.

20 4. Over at least a decade, Villalobos developed a longstanding (and  
21 extremely lucrative) relationship with one particular investment manager, Apollo  
22 Global Management (“Apollo”). In 2007, Apollo began to require signed  
23 “Investor Disclosure” letters from investors (such as CalPERS) from whom it  
24 raised money with the assistance of a placement agent (such as ARVCO) before  
25 Apollo would pay that placement agent any fees. ARVCO first agreed to this  
26 contractual provision in its placement agent agreement regarding Apollo Fund VII  
27 during the Summer of 2007. Just before the closing of CalPERS’ investment in  
28 Apollo Fund VII in August 2007, ARVCO’s General Counsel emailed CalPERS’

1 Investment Office to request that it sign the applicable investor disclosure letter. A  
2 few hours later, CalPERS informed ARVCO that it had been advised by counsel  
3 not to sign the disclosure letter. ARVCO did not contact CalPERS' Investment  
4 Office about investor disclosure letters ever again.

5 5. Over the next few months, Apollo's counsel repeatedly asked  
6 ARVCO for the signed CalPERS disclosure letter for Fund VII, and Apollo refused  
7 to pay ARVCO any placement agent fees on the CalPERS investment until it  
8 received the letter. Finally, on January 2, 2008, ARVCO's counsel and Apollo's  
9 counsel discussed whether Apollo should contact CalPERS directly to request the  
10 signed disclosure letter. Instead, however, Villalobos generated a letter using the  
11 CalPERS logo on Buenrostro's business card and, at Villalobos's request,  
12 Buenrostro signed what appeared to be a Fund VII disclosure letter purportedly on  
13 behalf of CalPERS.

14 6. As described in detail below, Villalobos and Buenrostro engaged in an  
15 ongoing scheme utilizing this and other false documents to create the false  
16 impression that a series of purported placement agent fee disclosure letters had  
17 been properly reviewed and approved by CalPERS in accordance with its  
18 established procedures, when in fact the defendants had actively and intentionally  
19 bypassed and subverted those procedures. Upon receipt of the fabricated Fund VII  
20 disclosure letter, Apollo paid ARVCO about \$3.5 million in placement agent fees.  
21 Less than two weeks later, Villalobos and Buenrostro created fabricated CalPERS  
22 documents regarding at least four more Apollo funds, under equally suspicious  
23 circumstances. As part of the scheme, Buenrostro signed blank sheets of (fake)  
24 CalPERS letterhead, which Villalobos and ARVCO used to generate investor  
25 disclosure letters as needed (by running the paper through a printer a second time).  
26 In aggregate, based on these fabricated documents, Apollo was induced to pay  
27 ARVCO more than \$20 million in placement agent fees it would not otherwise  
28 have paid without the disclosure letters.



1 **THE FRAUDULENT SCHEME**

2 **A. Background**

3 13. Villalobos served on the Board of Directors of CalPERS from 1992 to  
4 1995. During his tenure, Villalobos became close friends with several members of  
5 the CalPERS Board, including Buenrostro. Those relationships continued long  
6 after Villalobos left his position at CalPERS. From 1995 to 1997, Villalobos  
7 worked as an independent consultant for a prominent investment bank’s placement  
8 agent group, using his connections at various pension funds to make investment  
9 introductions.

10 14. In 1997, Villalobos left that position to work at his own placement  
11 agent firm, ARVCO Capital Research, LLC (and later its successor entity ARVCO  
12 Financial Ventures, LLC), which primarily solicited private equity investments  
13 from CalPERS and a few other public pension funds. By capitalizing on his  
14 personal relationships with Buenrostro (who became CalPERS’ Chief Executive  
15 Officer in 2002) and others, Villalobos enjoyed considerable success in securing  
16 massive capital commitments for his clients. Overall, as a result of their placement  
17 agent activities related to CalPERS, Villalobos and ARVCO received  
18 approximately \$58 million in fees.

19 15. Chief among Villalobos’s clients was Apollo Global Management, a  
20 New York-based private equity firm. Apollo registered with the Commission as an  
21 investment adviser in the Spring of 2007. In June 2007, CalPERS invested directly  
22 in Apollo, acquiring approximately 10% of Apollo’s non-voting shares for about  
23 \$600 million.

24 16. Sometime in the first half of 2007, Apollo began to require a signed  
25 “Investor Disclosure” letter from an investor (such as CalPERS) from whom it  
26 raised money with the assistance of a placement agent (such as ARVCO) before it  
27 would pay that placement agent. The disclosure letters were single-page  
28 documents that generally required an investor to acknowledge that (1) the

1 placement agent was to be paid a specific fee for the investment; (2) the cost to the  
2 investor of its investment was not increased by the placement fee; and (3) prior to  
3 investing, the investor had received certain documents.

4 **B. The First Fabricated Investor Disclosure Letter (*Apollo Fund VII*)**

5 17. In July 2007, ARVCO and Apollo negotiated and executed a written  
6 placement agent agreement regarding fundraising for Apollo Fund VII. That  
7 agreement required ARVCO to provide Apollo with investor disclosure letters  
8 signed by the investors that ARVCO had solicited before those investments closed,  
9 and the form of investor disclosure letter that Apollo required was attached as an  
10 exhibit to the ARVCO-Apollo Fund VII agreement.

11 18. CalPERS agreed to invest in Fund VII's first closing, scheduled for  
12 late August 2007. On August 23, 2007, ARVCO's General Counsel (who was also  
13 Villalobos' daughter) emailed CalPERS' Senior Portfolio Manager a copy of a  
14 Fund VII investor disclosure letter, and asked him to sign and return the letter  
15 promptly. Because the Senior Portfolio Manager had never seen such a document  
16 before, he sought guidance from both in-house counsel and CalPERS' outside law  
17 firm. A few hours later that same day, the Senior Portfolio Manager notified  
18 ARVCO's General Counsel in writing that he had "been advised by [CalPERS']  
19 Legal Office that [he] should not sign" the letter and that she should contact  
20 CalPERS' counsel if she had any questions. Shortly thereafter, ARVCO's General  
21 Counsel informed Villalobos of CalPERS' decision. Neither the Senior Portfolio  
22 Manager nor anyone else at CalPERS (except Buenrostro) ever heard about this or  
23 any other investor disclosure letter again.

24 19. Notwithstanding ARVCO's failure to provide an executed disclosure  
25 letter from CalPERS, Apollo proceeded with the Fund VII closing as planned. For  
26 the next four months, Apollo's outside counsel at the time, a large national law  
27 firm, repeatedly asked ARVCO's General Counsel about the missing disclosure  
28



1 envelope from “Fred Buenrostro, CalPERS” using a  
2 Sacramento address to Apollo’s outside law firm in  
3 New York.

4 22. The next day, January 3, 2008, that envelope was picked up by the  
5 FedEx distribution center that services the South Lake Tahoe area (not  
6 Sacramento). On Friday, January 4, 2008, FedEx delivered the envelope to  
7 Apollo’s outside counsel.

8 23. Apollo’s outside counsel received what appeared to be an executed  
9 Fund VII disclosure letter from CalPERS, signed by “Fred Buenrostro, Chief  
10 Executive Officer.” Buenrostro signed the Fund VII letter after Villalobos told  
11 him that CalPERS’ Investment Office had refused to sign it and without discussing  
12 the matter with anyone at CalPERS.

13 24. The Fund VII letter contained numerous obvious as well as subtle  
14 irregularities:

- 15 a. The letter purported to be on CalPERS’ letterhead, but the  
16 CalPERS logo was on the wrong side of the page and  
17 CalPERS’ address was missing. When he signed the letter,  
18 Buenrostro knew the logo was on the wrong side of the page.  
19 Also, the logo on the letter was blue and gray, but CalPERS  
20 only used that two-color logo on preprinted, engraved materials  
21 such as business cards.
- 22 b. Buenrostro signed the document on behalf of “California Public  
23 Employees Retirement Fund/CalPERS” (emphasis added),  
24 which was not the correct name of the institution that he had led  
25 for the preceding five years.
- 26 c. Buenrostro dated the letter “11/20/07,” about six weeks before  
27 lawyers for ARVCO and Apollo spoke in January 2008 about  
28 the need to receive the signed investor disclosure letter.

1 d. The document was printed on a printer that Villalobos bought  
2 and kept in ARVCO's office in Zephyr Cove, Nevada.

3 25. Roughly half an hour after the FedEx envelope was delivered to  
4 Apollo's outside counsel, Villalobos called Apollo's Director of Marketing and left  
5 a message asking her to call him back. Over the next several days, Villalobos  
6 repeatedly tried to contact her to confirm receipt of the signed disclosure letter.

7 26. Apollo refused to pay ARVCO placement agent fees related to a  
8 particular investor until Apollo received that investor's signed disclosure letter.  
9 Indeed, Apollo did not pay ARVCO for successfully soliciting another California  
10 public pension fund's investment in Fund VII simply because that investor told  
11 Apollo's outside counsel that it would not sign the investor disclosure letter. With  
12 the purported CalPERS letter in hand, however, Apollo paid ARVCO  
13 approximately \$3.5 million in placement agent fees related to CalPERS'  
14 investment in Fund VII.

15 **C. The Second Set Of Fabricated Investor Disclosure Letters (AP**  
16 **Investment Europe Limited, AP Investment Asia Limited, Apollo**  
17 **Special Opportunities Managed Account, Apollo European**  
**Principal Finance Loan Fund)**

18 27. CalPERS also agreed to invest in three other funds being offered by  
19 Apollo: (1) AP Investment Europe Limited ("AIE"), (2) Apollo Special  
20 Opportunities Managed Account ("SOMA"), and (3) Apollo European Principal  
21 Finance Loan Fund ("EPF").

22 28. In early January 2008, Apollo and ARVCO had not yet completed or  
23 executed placement agent agreements regarding these funds. Nonetheless, just a  
24 few days after sending in the CalPERS Fund VII disclosure letter, Villalobos  
25 started tackling the next set of investor disclosure letters to submit to Apollo. To  
26 further their scheme, Buenrostro signed blank sheets of paper provided to him by  
27 ARVCO that had no text, but only the fake CalPERS logo at the top of the page  
28

1 and his signature block at the bottom. Buenrostro gave these pages to Villalobos to  
2 use for ARVCO's benefit.

3 29. On Thursday, January 10, 2008, in the afternoon, Villalobos and  
4 Apollo's Director of Marketing spoke briefly by phone. The next day, Friday,  
5 January 11, 2008, attorneys at Apollo's outside law firm worked on preparing two  
6 form investor disclosure letters to be executed by CalPERS regarding its  
7 investments in AIE and SOMA. On Saturday, January 12, 2008, Apollo's Director  
8 of Marketing called Villalobos in the morning and then spoke to Apollo's in-house  
9 counsel. In-house counsel promptly informed Apollo's outside counsel that the  
10 form disclosure letters had to be completed that night because Villalobos was  
11 going to meet with CalPERS the next day (a Sunday). Even though the underlying  
12 placement agent agreements had not been finalized, two senior attorneys at the law  
13 firm worked into the night to complete the form investor disclosure letters and  
14 email them to ARVCO's General Counsel.

15 30. The following morning, Sunday, January 13, 2008, ARVCO's  
16 General Counsel forwarded the two form disclosure letters she had received from  
17 Apollo's lawyers to one of her father's assistants. In her email to the assistant, she  
18 wrote, "Here's [sic] the forms my dad needs. Please make sure you save them in  
19 Apollo's project folder in their completed form."

20 31. Beginning around 11:00 am that Sunday morning, the assistant  
21 prepared investor disclosure letters for four Apollo investment funds, based on the  
22 language Apollo's counsel had first sent to ARVCO's counsel the night before.  
23 The assistant used the same (fake) CalPERS letterhead that had been used on the  
24 previous Fund VII letter, but did get the pension fund's full name right. The  
25 assistant saved each Microsoft Word document (complete with the two-tone  
26 CalPERS logo) on the ARVCO computer server, and two copies of each of the  
27 four letters were printed in ARVCO's office.

1           32. That Sunday evening, a shipping label was created online using  
2 ARVCO's FedEx account to send an envelope to Apollo's outside law firm in New  
3 York. On Monday, January 14, 2008, FedEx picked up the envelope in San Diego  
4 (where Villalobos had traveled to a meeting). It was delivered to Apollo's counsel  
5 on Tuesday, January 15, 2008. The four pairs of letters were scanned onto  
6 Apollo's outside law firm's computer system on or about January 24, 2008, and  
7 were sent to Apollo around February 6, 2008. All eight of the letters bore  
8 Buenrostro's original signature.

9           33. Like the Fund VII letter, each pair of letters in this tranche contained  
10 significant irregularities (in addition to the ones noted above):

- 11           a. One pair of letters pertained to CalPERS' alleged investment in  
12 AP Investment Asia Limited, *but no such fund ever existed*.  
13 Apollo and ARVCO had discussed an Asia fund at the same  
14 time that they discussed AIE (AP Investment Europe Limited),  
15 but the Asia version never gained traction. Lacking any  
16 meaningful understanding of Apollo's investment offerings,  
17 Villalobos' assistant prepared investor disclosure letters for the  
18 nonexistent fund.
- 19           b. Buenrostro wrote the date "11/20/07" on the letters for three of  
20 the funds (AIE, SOMA, and the Asia fund); Buenrostro wrote  
21 the date "1/11/08" on the letters for the fourth fund (EPF).  
22 Both dates, however, were temporally impossible, because the  
23 letters repeated – verbatim – the language that Apollo's counsel  
24 had first sent to ARVCO's counsel on January 12, 2008.

25           34. The four sets of letters reflected other anomalies as well. For  
26 example:

- 27           a. The AIE placement agent agreement itself was not executed  
28 until January 25, 2008, over a week after Apollo's outside

1 counsel had received the corresponding signed disclosure  
2 letters.

3 b. The EPF placement agent agreement, which was not signed  
4 until February 20, 2008, required materially different investor  
5 disclosure language than the language in the letters Apollo had  
6 already received.

7 c. The SOMA placement agent disclosure letters were purportedly  
8 signed in November 2007 and actually given to Apollo in  
9 January 2008, but Apollo and ARVCO continued to negotiate  
10 the size and terms of the placement agent fee into late March  
11 2008 and no written agreement was ever reached.

12 35. Having received what purported to be investor disclosure letters  
13 signed by CalPERS, Apollo paid ARVCO placement agent fees of about  
14 (1) \$8,000,000 for SOMA, (2) \$625,000 for AIE, and (3) \$375,000 for EPF.

15 **C. The Final Investor Disclosure Letter (*Apollo Credit Opportunity***  
16 ***Fund I***

17 36. Sometime around May 10, 2008, ARVCO's General Counsel and an  
18 in-house attorney for Apollo began exchanging drafts of a placement agent  
19 agreement regarding Apollo Credit Opportunity Fund I, L.P. ("ACOF"). The  
20 placement agent fee disclosed in the proposed investor disclosure letter attached to  
21 the draft agreement evolved from a range of "between 0.50% and 4.0% of  
22 CalPERS capital commitment" (in the May 10, 2008 draft) to "0.625% of  
23 CalPERS capital commitment" (in the June 9, 2008 draft). Finally, on June 19,  
24 2008, Apollo's in-house counsel sent ARVCO's General Counsel a revised  
25 agreement and disclosure letter that specified that Apollo would pay ARVCO  
26 exactly \$9,250,000 in placement agent fees. In her cover email, the Apollo  
27 attorney wrote, "Once signed *and upon receipt of a signed Disclosure [sic] by*  
28 *CalPERS ... we will be able to release your first payment.*" (Emphasis added.)

1 Without any discussion, ARVCO switched the form disclosure letter attached to  
2 the final agreement back to the prior version with the broad “0.50% and 4.0%” fee  
3 range, executed the agreement, and returned it to Apollo.

4 37. The next day, June 20, 2008, Apollo received an ACOF investor  
5 disclosure letter. The letter, which acknowledged a fee ranging between “0.50%  
6 and 4.0% of CalPERS capital commitment” was dated “5/20/08” and bore  
7 Buenrostro’s signature. Apollo’s in-house counsel then emailed Apollo’s Director  
8 of Marketing, two attorneys at Apollo’s outside law firm at the time, and  
9 ARVCO’s General Counsel, writing, “I have received the Investor Disclosure.  
10 When I return the fully executed original, I will also include the copy of the other  
11 Investor Disclosure as you requested.”

12 38. Like the other investor disclosure letters discussed above, the ACOF  
13 disclosure letter contains many irregularities, one of which was the “5/20/08” date  
14 on the letter. CalPERS had stripped Buenrostro of all authority and replaced him  
15 as CEO on May 12, 2008. Accordingly, on May 20, 2008, Buenrostro had no  
16 authority to sign anything on behalf of CalPERS. Buenrostro did not actually sign  
17 the ACOF investor disclosure letter after he was relieved of his authority in May  
18 2008.

19 39. Rather, one of the blank documents that Buenrostro had signed in  
20 January 2008 was mistakenly printed with the SOMA (as opposed to ACOF)  
21 disclosure language, dated “5/20/08,” and, on June 13, 2008, emailed and  
22 overnighted to Apollo. On June 16, 2008, Apollo sent the letter to outside counsel  
23 at another law firm, who promptly told Apollo that the letter was unsatisfactory  
24 *because it was for the wrong Apollo fund.*

25 40. Sometime between June 16 and June 19, 2008, Villalobos learned that  
26 his staff had sent Apollo the wrong disclosure letter. Villalobos called his assistant  
27 and another employee into his office, retrieved another blank document with  
28 Buenrostro’s signature from a folder behind his desk, and ordered the assistant to

1 add the ACOF disclosure language above Buenrostro's signature. The assistant  
2 followed Villalobos' instructions, and the replacement disclosure letter was sent to  
3 Apollo by FedEx on June 19, 2008, along with the signed original of the ACOF  
4 placement agreement itself.

5 41. A few days after receiving the replacement disclosure letter, Apollo  
6 wired ARVCO over \$4 million in partial payment of the ACOF fees; by February  
7 2009, Apollo had paid ARVCO more than \$7.5 million in ACOF fees. Apollo  
8 stopped paying fees to ARVCO once it learned about various government  
9 investigations into ARVCO's activities.

10 **FIRST CLAIM FOR RELIEF**

11 **FRAUD IN THE OFFER OR SALE OF SECURITIES**

12 **In Violation of Section 17(a)(1) of the Securities Act**

13 **(Against All Defendants)**

14 42. The Commission realleges and incorporates by reference ¶¶ 1 through  
15 41 above.

16 43. The Defendants, and each of them, by engaging in the conduct  
17 described above, in the offer or sale of securities by the use of means or  
18 instruments of transportation or communication in interstate commerce or by use  
19 of the mails directly or indirectly with scienter, employed devices, schemes, or  
20 artifices to defraud.

21 44. By engaging in the conduct described above, the Defendants violated,  
22 and unless restrained and enjoined are reasonably likely to continue to violate,  
23 Section 17(a)(1) of the Securities Act, 15 U.S.C. § 77q(a)(1).



1 agents, servants, employees and attorneys, and those persons in active concert or  
2 participation with any of them, who receive actual notice of the order by personal  
3 service or otherwise, and each of them, from violating Section 17(a) of the  
4 Securities Act, 15 U.S.C. §§ 77q(a).

5 III.

6 Issue judgments, in a form consistent with Rule 65(d) of the Federal Rules  
7 of Civil Procedure, permanently enjoining the Defendants, and their officers,  
8 agents, servants, employees and attorneys, and those persons in active concert or  
9 participation with any of them, who receive actual notice of the order by personal  
10 service or otherwise, and each of them, from violating Section 10(b) of the  
11 Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 thereunder, 17 C.F.R.  
12 § 240.10b-5.

13 IV.

14 Order the Defendants to disgorge all ill-gotten gains from their illegal  
15 conduct, together with prejudgment interest thereon.

16 V.

17 Order the Defendants to pay civil penalties under Section 20(d) of the  
18 Securities Act, 15 U.S.C. § 77t(d), and Section 21(d)(3) of the Exchange Act, 15  
19 U.S.C. § 78u(d)(3).

20 VI.

21 Retain jurisdiction of this action in accordance with the principles of equity  
22 and the Federal Rules of Civil Procedure in order to implement and carry out the  
23 terms of all orders and decrees that may be entered, or to entertain any suitable  
24 application or motion for additional relief within the jurisdiction of this Court.

25 VII.

26 Grant such other and further relief as this Court may determine to be just and  
27 necessary.

1 **DEMAND FOR JURY TRIAL**

2 Pursuant to Rule 38 of the Federal Rules of Civil Procedure, the  
3 Commission demands trial by jury in this action of all issues so triable.  
4

5 DATED: April 23, 2012

Respectfully submitted,

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LESLIE A. HAKALA  
9 Attorney for Plaintiff  
10 Securities and Exchange Commission  
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