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GLOBAL NETWORK, LOCAL PRESENCE

# CFA SOCIETY OF SACRAMENTO

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## President's Message

Welcome to the CFA Society of Sacramento's first biennial newsletter. With this and upcoming issues, we will inform you about local events, introduce Society investment professionals and present issues important to investing in today's markets. This newsletter shows our continued effort to share information across the investment profession.

*Geraldine Jimenez, CFASS President*

## Getting the Read on CalPERS' New CIO



Russell Read

Russell Read, Chief Investment Officer of the California Public Employees Retirement System since June, grew up in Chicago, went to high school in Houston and as a boy worked delivering newspapers and fitting tuxedos.

No stranger to hard work, Read, 42, knows a good job when he sees it. He quickly accepted the offer of the top job at the \$208 billion public pension fund, largest in the United States and one of the best performing. His mission: Don't break it but transform it into the best provider of superior and consistent performance possible.

He replaced Mark Anson, who left CalPERS last January to become CEO of Hermes. Read previously was Deputy Chief Investment Officer—Americas for Deutsche Asset Management and Scudder

Investment overseeing more than \$250 billion in the Americas and an investment staff of 280.

Read has more than 20 years of investment management experience and a strong expertise in global markets, asset/liability management, asset allocation, risk management and experience across all asset classes.

He also was chairman of Deutsche's Americas Investment Committee and principal investment representative to the firm's retail mutual fund board of trustees—pretty solid credentials for the new job, which brought him back to California.

### Best Investment Job

"I honestly believe this is the finest investment job in America, from my perspective and discipline," says the 42-year-old midwesterner and Davis resident with an MBA from the

*continues on page 2*

**RUSSEL READ CONT.**

University of Chicago and a Ph.D. from Stanford.

He taught courses in financial risk management and statistical methodology at Stanford and the University of Maine. At CalPERS, he heads a staff of 180 that includes about 100 investment analysts and portfolio managers.

He's a member of the CFA Society of Sacramento, in which he looks forward to "active involvement." Read has been a member of the CFA societies in San Francisco and New York.

"We will be greatly enhancing and supporting our link to the CFA program and to the CFA society," Read continues. "Over the coming year we will be looking to make those enhancements also a means to attract, maintain and develop new investment talent."

CFA programs have been "of central importance to me, but more importantly, to the successful development of our staff," he adds. Read also is a Chartered Financial Consultant and a Chartered Life Underwriter.

**Strengthening CFA Link**

He plans to "greatly enhance and support" the CalPERS link to the local CFA society and its programs. Read calls the CFA and its members "a critical mechanism for achieving overall investment success by developing investment and helping to create the most effective investment teams possible.

"Over the coming year, we will make those enhancements as a

means to attract, maintain and develop new investment talent," he says. Read wants to be certain CalPERS extends its reach to other critical asset classes for effectively managing a pension fund, including commodities, global "linkers"—inflation-link securities—and bank loans to meet its pension and health benefit obligations.

Read describes his management style as resembling that of a "player/coach" and doesn't care for micro managing. He didn't bring with him to CalPERS either a set of Read's Rules for investing or a specific agenda. "My most important mandate," he says, "is to create the finest and most effective investment organization among all endowment and pension plans."

He expects to see results of the improvements he envisions within two to three years. One of them will be changing how CalPERS is organized as an investment office, both in personnel and how it manages its investment capital. "It will be very different than what we see today," Read promises.

**Big Changes Ahead**

Acknowledging the CalPERS investment performance speaks for itself, he's not looking for "precipitous changes." But he intends to flex the fund's mammoth assets and investment

insights and use them as a competitive advantage.

"We also view successful investing as the art, science, and practice of identifying where capital is needed in an economy and how it can be deployed productively. Since capital needs change, successful investing requires adapting our personnel and capital resources to take advantage of changing opportunities.

"We'll be undergoing a very important evaluation of our resources and organization, but coming at it from a position of strength," he continues. "We're going to be evaluating very carefully what's the best organization, in terms of geography, people and positions," notes the

soft-spoken and affable Read, who enjoys the give and take of an interview, often ending his comments with a light chuckle.

Looking globally, he says the biggest shift in that market isn't by asset class but by sector, particularly a resurgence in the importance of natural resources investments.

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**UPCOMING EVENTS:****FOURTH ANNUAL MARKET FORECAST LUNCHEON: 2007**

**JANUARY 17,**

**11 AM-NOON, NETWORKING;  
NOON-2PM, LUNCH & PRESENTATIONS**

**WHERE: MONDAVI CENTER  
UC DAVIS**

**NO COST TO CFASS MEMBERS  
NON-MEMBERS: \$50**

“One of the keys is that we have come to know about capital markets over the past two decades—in particular what constitutes growth versus value companies, *i.e.*, P/E ratios—is also likely to shift very dramatically,” says Read.

“This shift in what growth and value mean in capital markets, I believe, is the single biggest challenge and opportunity available to professional investors today.”

## New CIO Chief Has a Wide Range of Interests

Russell Read, newly hired chief investment officer of CalPERS, has a load of degrees, advanced degrees and an impressive history of holding top-level financial management positions.

But he's far from fitting any stuffy professorial or bigwig business stereotype. He also brought with him to Sacramento a varied list of interests, hobbies and other out-of-office activities. One of his favorite hobbies is brass playing, including trumpet, trombone and euphonium, which he did with community groups in Chicago, New York City and in Maine.

“I greatly look forward to joining local musical organizations,” says Read, who's settled into a home in Davis. “I love Davis and I'm looking forward to potentially teaching courses at the University of California, Davis. But I haven't informed UCD yet,” he laughs.

### *Holiday Spirit, Members Mix at Old Town Dinner*

Seventy-seven CFASS members and guests attended the local Society's third annual holiday dinner, held for the second consecutive year at The Fire House restaurant in Old Town Sacramento.

Five CFASS members were there to receive their charters from Marla Harkness, the Western Region President's Council Representative for the CFA Institute in its Los Angeles office.

Accepted as regular new members of the CFASS are Russell Read, CalPERS CIO; Hao Lin, California State University, Sacramento; Simiso Nzima, CalPERS; Bill McGrew, CalPERS. Timothy Hsu, California Housing Finance Agency, joined as an affiliate member.

### A Man of Many Tastes

Another special interest, far removed from music and teaching, is reforestation, which he calls “a labor of love.” Prior to his return to California, he headed the largest reforestation project in Maine, an effort to recreate the hardwood mix of trees that would have been dominant pre-1770 over some 500-acres that he owns and manages.

He also serves as the financial and socio-economic advisor for a University of Maine-sponsored project exploring the feasibility of creating bio-based liquid fuels from softwood timber feedstock.

Besides teaching, playing horn in local orchestras and searching for a wood-based alternative fuel, Read will attend some of the Sacramento region's unique fairs and festivals, such as the Garlic Festival in Gilroy he regrettably missed this year. “I'm a garlic lover. I like even garlic ice cream,” he says. “Garlic is the best thing there is.”

Read grew up in an “R's-Are-Us” family. His brothers are Rory, Randy, Roddy and Reese. “I'm the fifth ‘R,’” he says. “My father's name was Ralph. But I blew the ‘R’ theme with my kids, Alex and Hannah.”

### The 3,000-Mile Commute

His is a “split” family, with 17-year-old Hannah living with Read in Davis and a 94-year old uncle in Walnut Creek. Hannah was born in New Jersey but grew up in Palo Alto, where Read earned masters degrees in economics and political science and a Ph.D. in Political Economy.

His prior academic training at the University of Chicago included his undergraduate work in Statistics and his graduate degree in Finance and International Business. He has also taught courses in risk management and statistical methodology at Stanford and the University of Maine.

His sons, Alex, 16, and Jack, 5, are in Maine with their mother, Andrea (who is developing the NewForest

Institute which is oriented to research and solutions associated with sustainable economic development).

The elder Read boy will commute occasionally between Sacramento and Brooks in Maine and is particularly intrigued with improved prospects for snowboarding. Hannah is out of high school and doing vocational work for a year before choosing a college.

Read sees her as potential UC Davis material, but unlikely to get into the investment business. "Still, you never know," he says. Alex attends a rural high school in Maine and travels often with his father.

Dad, while heading a \$208-billion public pension fund, cross-country parenting, playing in an orchestra and tracking local-area festivities and celebrations, will otherwise be busy scanning the Northern California horizon for new interests, projects and opportunities. The well-rounded man, after all, is energized by diversions and discoveries.

## Is Major Company CEO Pay Justified?

Obscene profits for Big Oil? How about sky-high compensation for CEOs of many major U.S. companies? Take, for example, the stock valued at about \$14.8 million Wall Street's Bear Stearns dropped on CEO James Cayne as a 2006 bonus. In 2005, he was paid \$30.3 million, rewards for the firm's performances both years.

After a year of record profits in 2006, big investment houses like Lehman Brothers, Goldman Sachs and Morgan Stanley are awarding bonuses of as much as \$60 million.

The daddy of all golden goodbyes may be the recent \$210 million package Home Depot awarded its CEO to encourage him to leave.

Meanwhile, a Bloomberg online report researched by Graef Crystal says the tug-of-war between the Business Roundtable—made up of 160 large company CEOs—and corporate governance advocates is pretty much of a stand-off debate.

The Roundtable, with a membership of invited CEOs from 160 companies, earlier published a study that concluded increases in CEO pay over 10 years matched companies' 10-year shareholder returns.

Corporate governance supporters call the study an effort to "con the American people" into believing CEO compensation is fair; the governance folks called it "obscene."

"Not surprisingly, the CEO Roundtable-sponsored study compares its payouts against strong equity market returns in an effort to diminish the appearance of accel-

erating CEO pay," notes Ray Venner, CFASS board member and a portfolio manager at CalPERS Investments

"It heroically presumes that CEO decisions caused the rise in equity markets," he says. "A more meaningful comparison is CEO compensation versus that of the average worker, a gap that continues to widen."

### Measuring Exec Pay

Crystal defined total pay as base salary, annual bonus, value of restricted stock awards when awarded, estimated present value of stock option grants measured at the grant date, payouts and other forms of long-term incentive compensation, plus miscellaneous compensation.

He came up with 83 CEOs from a search of Standard & Poors' Execucomp database for CEOs in their jobs between 1995 and 2005. Median and average cumulative increase in total pay, respectively, was 228 percent and 412 percent.

Crystal found that for the same 83 companies, median and average cumulative shareholder return over the same decade was 276 percent and 377 percent, respectively.

He also concludes that, with supporting evidence, the Roundtable study "falls apart" under scrutiny, but adds, "both sides in this debate have good points to make."

For more information, contact Graef Crystal by phone at (702) 873-9055 or via e-mail at [graefc@bloomberg.net](mailto:graefc@bloomberg.net)

### ABOUT CFASS

The CFA Society of Sacramento is an organization of investment professionals in the Sacramento area. The society was founded in 1991 as a chapter of The Security Analysts of San Francisco Society. In 2001, the Sacramento chapter was granted full society status. Contact: Raquel Altavilla, phone: (916) 715-5939; [raltavilla@comcast.net](mailto:raltavilla@comcast.net)



## CFASS Scores Big With 1st Annual Golf Tourney

The CFA Society of Sacramento got into the swing of social events with a successful golf tournament it hosted in July at Teal Bend Golf Club for Society members and invited guests.

The generous financial support of sponsors allowed the CFASS to put on the event with no cost. The tournament served as a mixer for members, an opportunity to meet and interact with business professionals in the Sacramento region, and widen the Society's exposure to that community.

"The tournament was one of our more successful events of the year," says Society board member Dave Carmany. "One of the first societies to host such an event, the golf tournament took on the caliber of our annual Market Forecast luncheon."

### Rounds Fore Networking

In early December, the CFASS also hosted a holiday dinner at the highly regarded Firehouse restaurant in Old Sacramento.

Teal Bend is an 18-hole championship course measuring more than 7,000 yards. Its four sets of tees make it playable but a challenge for golfers of all abilities.

Located adjacent to the Sacramento River and close to Sacramento International Airport, Teal Bend boasts 250 acres of natural wetlands, lush fairways and undulating greens.

As golfers arrived to register at 11:30 a.m. they were greeted and presented a bag of golf balls and other golf trinkets. Complimentary beverages were available throughout the day.

### Playing for Prizes

The 73 players who entered competed for a chance to win a Callaway driver for the longest drive and an Odyssey putter for coming closest to the pin. The lowest-score winning team of the best-ball match won three paired rounds at any of the ClubCorp courses: Empire Ranch, Turkey Creek and Teal Bend.

Prizes and awards were presented at the end of the day when participating golfers and members were hosted to a BBQ lunch, as well as appetizers and a cocktail hour.

Many thanks from the CFASS to tournament sponsors: Nomura Securities International, ITG, Morgan Stanley, HSBC, Investors Bank & Trust, FactSet, Alliance Bernstein FTSE and CSFB Transition Services, plus participants who made the inaugural golf tournament a success.

*—Dan Bienvenue is portfolio manager at CalPERS and responsible for managing the fund's international index strategy within the Global Equities Group. He worked on attracting sponsors for the tournament. Dave Carmany is an investment officer at CalPERS, in charge of hiring and evaluating external money managers and serves as a portfolio manager in Global Equities, with responsibility for the international portfolio. He and Bienvenue were organizers for the event.*

## CFASS Presidents Expanded Membership, Funds, Vision



Jason Bell

The torch was already lit when CFASS President Jose Arau handed it to Jason Bell, the newly elected president for the 2004-05 June 30 fiscal year.

In his three consecutive terms as president, Arau managed the CFASS' separation from the CFA Society of San Francisco and created a stable environment for the fledgling Society to stand on its own. He also recruited members to the Board he believed could take the Society to the next level.

Bell credits Arau with doing "a good job in making sure the transition was fluid, professional and in the members' best interests." Bell continued the multiple-term direction by being elected president twice, his second term ending last June 30. His successor is Geraldine Jimenez, division chief of supplemental savings at CalPERS.

### Blueprint and Road Map

Bell's goal was to develop a blueprint for making the CFAAS a prominent player in the Sacramento region's investment and financial community by increasing the organization's visibility, identity and public image.

"When I came on board, I realized we needed to create a good road map for having a good operating year," he says. We began recruiting good people and instilling vision, drive and a focusing of energies."

Bell, 36, joined the then 73-member Society in 2003, the year he passed his final CFA exam, and was appointed quickly to public awareness chairman, essentially a one-man committee. From that post, he saw opportunities for allocating the Society's resources, especially its lean finances, and increasing the Society's membership base and its prestige.

"If we could to this, we could take the CFASS to a whole different level," he says. A key was "recruiting folks who had vision, resources and contacts they could bring us."

**Let's All Have Fun(ds)**

Other items on the new agenda included development of corporate sources, broadening the core membership in age and gender, improving the infrastructure, updating the legal systems, producing a stronger technology platform and sharpening what he calls the Society's business acumen.

"There's not a lot you can do if you don't have a lot of financial resources to draw on," Bell says. "It wasn't money for money's sake, but we needed funds to put on events and put an infrastructure in place.

"We put the right team in place and grew the membership from 90 to 135, a 50 percent gain. Another primary goal was building the brand. We really didn't have one, but once we had it, we had to build it. No one knew what a CFA was and nobody knew who we were."

Under Bell's leadership, the board approved proposals to expand the Society's membership base, which currently stands at 145 and growing.

Buttressed by the widening membership, ballots were distributed and, he says, "We actually had a contested election for officers. We did a lot of internal marketing and public awareness campaigns, a lot of reaching out to the professional community."

**Forecasts, Feasts, Fairways**

Bell also wanted members to be more socially active by participating in CFASS events, from the yearly economic and financial forecast luncheons to year-end dinner party mixers and hosted golf tournaments.

The new-year outlooks proved popular, as indicated by a turnout of 120 guests for the first luncheon in January 2004 at Sacramento's downtown Sutter Club. The 2005 forecast was held again at the Sutter Club and the 2006 outlook moved to the Mondavi Center at the UC Davis campus.

All proved to be effective fund-raisers, the returns steadily bolstering the Society's bank balance and its

ability to continue supporting more events and gatherings. "We didn't want to raise money by increasing membership dues," says Bell.

"We wanted to find a way to obtain real returns for our members, who, in a sense, are our stakeholders. They're paying dues, but what are the dues for? The fund-raiser events enhanced the value of the membership.

**Establishing 'Substance'**

"And we wanted to be known as a professional organization," he adds, "but there has to be substance behind it." A CFA logo was developed, as were collateral materials—brochures and a web site, for example—"the things you do to let people know you're for real.

"I felt terrific when I handed the reins to Geraldine. We had cash in the bank on the order of \$20,000, some established events and an operating calendar," beams Bell.

Early membership was tilted towards CFA charterholders working for the California Public Employees' Retirement System, the nation's largest manager of pension and health benefits for about 1.5 million California public employees, retirees and their families. Bell and the board worked to draw CFAs from outside CalPERS to broaden the Society's diversity.

Bell considers it important for financial analysts to earn CFA standing because it's the "gold standard" for the investment profession. It shows tremendous dedication, but the process of obtaining it is just grueling."

Currently a vice president and investment manager at Wells Fargo Private Client Services, Bell earned an undergraduate degree in business at the University of the Pacific in Stockton then moved to Sacramento after graduation. He also has an MBA from the University of California, Davis.

The Novato, Calif., native, his wife, Patti, a four-year old daughter and a recently arrived girl make their home in Granite Bay.

**MISSION STATEMENT**

Our mission is to utilize our collective investment knowledge, expertise and global professional network in order to function as a valuable resource to our members and to benefit our regional community.

As its membership and identity grow with the Sacramento region, the CFASS leadership is working on scheduling more events between its successful golf tournament last summer and its annual market and economic Forecast luncheon, set for January 17, 2007.

“We’ve done some experimenting over the years and have found the golf tourney, the Forecast and the year-end holiday dinner receive pretty good responses,” says Brent Cardwell, a four-year CFASS member, its vice president/education and the regional investment manager at Wells Fargo Private Bank in Roseville.

Efforts to introduce other more spontaneous, more formal member-socializing affairs haven’t fared as well in attendance.

“But starting with nothing four years ago then incrementally adding the golf tournament in 2006 to three years of the Forecast luncheon and three years of the year-end dinner, we’ve had close to sell-outs,” Cardwell says. Attendees include members, other stakeholders and interested people.

Cardwell and Jason Bell, past two-term CFASS president, are working on plans for a wealth manage-

ment conference to be held in the Sacramento area as a joint project with the CFA Institute.

## Next Step: ‘Pull It Off’

“That will be our next big step, our next experiment to see if we can pull it off,” says Cardwell. “It will be significant if we do.” Preliminary plans are for the conference to be held in 2007’s spring or summer.

“The CFI says it’s ready to go,” he adds. “Jason and I have to sit down with CFI representatives to determine the venue and who will have which roles between the CFI and the CFASS for what will be a one- or two-day event.”

No theme has been determined, “but we’re working on it,” he says. “Still pretty much in the air are the kinds of speakers we want and what we want to cover.”

Also for 2007 the CFASS board is considering development of a study session for CFA candidates preparing for the June exam. “We did that two years ago and had a pretty good response but when we went back to poll individuals who might be interested in attending the same sort of study session we didn’t get a sufficient response to break even financially,” Cardwell says. “But we’re considering whether to do it again.”

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