

September 12, 2018

Board of Directors
CalPERS

RE: Marcie Frost Leadership and Integrity

Dear Board Members:

As some of you know, I am a retired member and a former Board representative of the Office of the State Controller for almost eight years. In 2016 when the Board hired a new CEO, I reviewed her background and noticed that she was involved in a dual degree program. I thought this was unusual and peculiar, and even wondered if this was a red flag. When I recently heard about the Naked Capitalism disclosures, I accessed the website for the first time ever and determined that the author documented serious ethics and integrity failures of CEO Marcie Frost and failures in the hiring process by Heidrick & Struggles and the CalPERS Board of Directors.

Subsequent public statements by Board leadership and my recent discussions with some Board members make me concerned that the Board may overlook the issues that were uncovered and attempt to justify their original hiring decision. This would be a travesty for the organization and society in general.

There are many questions that can and should be answered, and perhaps an independent investigation is necessary to clarify this mess and shed light on the truth. But I believe an investigation will accomplish little other than delay what should be an easy and the right decision of the Board. The CEO should be terminated.

The first critical question involves the CEO's actual education. It appears that no one now disputes that the CEO's education is limited to a high school diploma and two writing courses in 2010 at The Evergreen State College. She apparently never initiated work toward a formal undergraduate, graduate or dual degree program. She never had course work in business or management. But somehow the perception was created that the CEO had been working toward some higher education degree. We don't know when or how that perception was created, but it exists and only one person could have created or sustained it, the CEO. The CEO had almost six years to act upon (by enrollment) or repudiate that perception, but she did neither. The CEO had 2 years at CalPERS to correct the perception that she was pursuing a higher education degree, but she did nothing. The CEO knew this false information and perception existed, but she knew that exposure could result in her termination. I believe she feared exposure only for the risk of termination, not the damage it might cause for CalPERS and the reputation of public employees.

As this sad drama of dysfunction continues, the Board should not forget the direct responsibility of the CEO in the recent CFO hiring and termination fiasco. At CalPERS the CFO reports directly to the CEO and the CEO is the hiring authority, not the Board. Certain board members may have participated in late-stage interviews, but the CEO would be responsible for the hiring decision. CEO Frost totally failed in this responsibility and I understand that for some time CEO Frost attempted to downplay the serious nature of the false resume problem and protect the CFO

from dismissal. The current CEO Frost ethics and integrity disaster is a sequel to the CFO disaster movie.

The CEO knows that the Board controls her future and she is hopeful that the Board relationships she cultivated over the past two years will protect her. If she is right and she is not terminated, she will have achieved something beyond even her grandest expectations. The Board will have conferred on her two false degrees, a Masters of Subterfuge and a Doctorate of Illusion.

I regret that I will be out of the country and cannot provide public comment at your September meetings. I hope the Board will make the right decisions and act swiftly to terminate the CEO. Don't attack or blame those who expose the truth. It is the CEO's lack of honesty and integrity that reflects poorly on CalPERS, public employees and public pension funds. CalPERS cannot afford to continue under the leadership and decisions made by someone who does not practice the highest level of honesty and integrity. Very important decisions are on the horizon and a public pension fund with CalPERS' level of assets and responsibilities cannot entrust its leadership to someone who has cultivated a big lie (that likely started in the State of Washington in 2010) and has continued through the years to cover-up or obfuscate the truth.

What message does retention of the CEO send to all CalPERS active and retired members who have pursued education goals and accurately presented their qualifications for their positions? The Board failed the membership in the CEO hiring process; I hope the Board does not fail them again in the termination process.

Sincerely,



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Retired Member

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cc: George Diehr, Retired Member, Past CalPERS Board Member