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Final Edition

**Double-Duty Davis; Rezko pal pushed pension deal -- and months later, the pension firm hired him**

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In July 2004, state pension board member Allison S. Davis voted to turn over as much as $100 million in state workers' retirement cash to an investment management firm.

Months after it won the lucrative deal at Davis' urging, that investment firm hired Davis.

RREEF America REIT II Inc. agreed to pay the Chicago developer $30,000 a year to take a part-time post on its board of directors, even as Davis continued to serve on the Illinois State Board of Investment.

There were questions about the legality of the dual roles. According to Illinois law, "No member of the board shall have any interest in any brokerage fee, commission or other profit or gain arising out of any investment made by the board."

But the state board got a legal opinion that Davis could hold both posts as long as he didn't vote on any future state deals for RREEF, a real estate investment trust.

It's an unusual situation. Davis -- who was appointed to the state pension board by Gov. Blagojevich at the behest of since-convicted gubernatorial adviser Tony Rezko -- is the only member of the state's two main pension boards to also serve as a paid board member of a firm that handles state employees' retirement money.

"It's extremely uncommon to have a [pension] board member serve on the board of a portfolio adviser," says Edward Siedle, a former U.S. Securities and Exchange Commission lawyer. "It raises a lot of serious conflict-of-interest questions."

The pension board has more than $125 million invested with RREEF America REIT II but is in the process of withdrawing $82 million to pay retirement benefits. The pension board invests money on behalf of 120,000 current and retired state government employees, legislators and judges.

Davis is a 67-year-old lawyer and real estate developer with long ties to Mayor Daley and Sen. Barack Obama, as well as to the governor.

He served on the Chicago Plan Commission and, with his former law firm, Davis Miner Barnhill & Galland, was a boss to Obama early in the presidential hopeful's career.

Davis was appointed to the unpaid post on the state pension board Feb. 13, 2003. On July 22, 2004, he recommended that the agency give RREEF up to $100 million to invest. RREEF was already handling $55 million for the board.

The next day, Davis voted to approve RREEF's deal.

In February 2005, RREEF agreed to put Davis on its board. He began working as a paid board member that April, state records show.

In a letter that June, Davis notified the pension board of his appointment and said, "To avoid any potential for, or appearance of, a conflict of interest, I will recuse myself from any vote of ISBI having to do with RREEF II."

That was all he needed to do, according to another pension board member, Illinois Appellate Court Justice Thomas E. Hoffman, who was the board's ethics officer. In fact, Hoffman thought Davis' role "was to ISBI's advantage," according to the minutes of the pension board's June 22, 2005, meeting.

Neither Davis nor Hoffman responded to requests for comment.

The State Board of Investment's executive director, William Atwood, calls Davis' service on both boards "an appropriate thing for him to do.

"The whole purpose of that directorship is to oversee the interest of investors," says Atwood. "Who better to do that than a member of our board?"

RREEF executives also defend Davis' arrangement, issuing a statement that says, in part: "Mr. Davis did not become a director of the REIT until several months after ISBI made its commitments, and no additional subscription commitments were made by ISBI after Mr. Davis was elected to the REIT's Board of Directors."

Siedle, the former SEC lawyer, questions why the pension board would want Davis on the investment firm's board. The state pension system's staff could monitor the investment as well as Davis could, says Siedle, who heads Benchmark Financial Services, a Florida firm. Also, Davis could not pass along any sensitive information to the state about RREEF without violating his fiduciary duty as a RREEF board member, he adds.

"Serving on the two boards simultaneously may create conflicting fiduciary duties and other dangers. . . . I can't see any benefit that would justify the risks," Siedle says.