AB 2833: Piercing the Veil of Secrecy Covering Wall Street Private Equity Fees

State Treasurer John Chiang

THE PROBLEM

Public pension funds, made up of taxpayer dollars and the earnings of state workers, are among the largest investors in private equity, and they pay large fees to the firms that handle their investments. Despite positive performance, the profit strategies private equity firms employ too often run counter to the values of public fund trustees and their constituents, particularly with respect to transparency of fees.

Hidden fees paid to Wall Street firms decrease the net returns for public pension funds and cost taxpayers. If the fees paid to hedge fund and private equity managers are not disclosed, public pension plans do not have a complete picture when assessing a firm's performance.

$3.4B CalPERS disclosed in November 2015 that it paid $3.4 billion in performance fees to private equity managers since 1990.

$26.4B As of June 30, 2016 CalPERS had $26.4 billion of its $295.1 billion portfolio invested in private equity, about 8.95% of the portfolio.

8.34% CalSTRS had total assets of about $193.37 billion as of July 31 2016, and $16.124 billion or 8.34% of its portfolio invested in private equity.

$1B It is estimated that the University of California system paid out approximately $1 billion in hedge fund fees to partners during the past 12 years.

"Every dollar paid to the Wall Street managers of hedge and private equity funds is a dollar that is not available to ensure benefits are adequately funded and minimize taxpayer costs."

– State Treasurer John Chiang

THE SOLUTION

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In October 2015, Treasurer John Chiang wrote in a letter to CalPERS and CalSTRS that California's public pension systems do not have sufficient visibility into the amount of fees paid to private equity firms that invest their money. A year later, the Treasurer sponsored AB 2833, legislation authored by Assemblymember Ken Cooley, which requires public pension funds to disclose a share of charged fees paid by pension funds.

The bill, which was passed by lawmakers in August 2016 and sent to Gov. Jerry Brown, changes California law and imposes the most robust transparency requirements in the nation with respect to public fund investments in private equity firms. For the first time taxpayers will be able to view the previously hidden fees and charges public pension plans paid to private equity companies.

The disclosure requirements will apply to CalPERS, CalSTRS, county and city retirement systems, the University of California Retirement System and all independent retirement systems.

"It is absurd and dangerous that private equity firms are able to keep the fees they charge to public bodies secret. I am grateful to State Treasurer Chiang and Assemblyman Cooley for taking this important and needed step toward full transparency."

- Illinois State Senator Daniel Biss

"Many of private equity's fees are opaque; this bill is a step in the right direction to give the public and California's pension funds more information."

– UNITE HERE Labor Union

"You shouldn't need a detective to find out what fees Wall Street managers are charging pension funds. California is right to demand accountability and transparency from private equity firms about all of the fees they are charging. State Treasurer Chiang and Assemblyman Cooley have shown real leadership by passing this legislation."

– New York City Comptroller Scott M. Stringer

"For the first time, public pensions will be allowed to shine a big, bright light for taxpayers and pension beneficiaries on the previously hidden fees and charges paid to private equity investment companies."

– State Treasurer John Chiang

KEY SUPPORTERS

California Federation of Teachers AFT, AFL-CIO

California Nurses Association

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