



CALIFORNIA STATE TREASURER JOHN CHIANG

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PR16:20
May 31, 2016

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Legislation to Bring Transparency to Public Pension Fund Fees Heads to Assembly Floor

SACRAMENTO – Assemblyman Ken Cooley’s AB 2833 relating to public retirement system’s disclosure of fees paid to alternative investment vehicles was unanimously voted out of the Assembly Appropriations Committee on Friday and now heads to the Assembly floor.

AB 2833, sponsored by State Treasurer John Chiang, creates greater transparency and accountability by requiring all public pension funds to publicly disclose the various fees paid to their private equity general partners, hedge fund partners, and other alternative investment partners on an annual basis.

“Millions of public and private sector workers have entrusted their retirement to either pension funds or 401Ks with substantial stakes in private equity investments. As a recent federal enforcement action revealed, the hidden fees and incomplete disclosures that are commonplace in the \$3.9 trillion private equity industry, are robbing us of the ability to determine the true risks and rewards of these investments,” said Treasurer Chiang.

“Shadow fees, which the private equity industry arrogantly defends as ‘trade secrets,’ should be fully disclosed for the simple reason that every dollar paid to Wall Street firms is one less for retirees who depend on returns to fund their retirement security,” the Treasurer added. “By requiring fee disclosure for California public pension funds, some of the largest investors in the private equity marketplace, AB 2833 will serve as a catalyst to bring about greater transparency for all private equity investors.”

Private equity is a source of investment by institutions or wealthy individuals aimed at gaining significant, or even complete, control of a company and then earning a high return from the sale or public offering of that company at a later date. Typically a group of investors buy out a company and use that company’s earnings to recover the cost of the initial acquisition. U.S. public pension funds are currently the largest investors in private equity with more than \$350 billion committed worldwide.

These types of investments account for a significant portion of the portfolios for CalPERS, CalSTRS, and the University of California. CalPERS disclosed in November, 2015 that it paid \$3.4 billion in performance fees to private equity managers since 1990. From 1990 to June 30, 2015, CalPERS’ private equity program generated \$34.1 billion in profits.

AB 2833 requires all public pension funds to publicly disclose gross management fees, management fee offsets, fund expenses, carried interest and any related party transactions paid to their private equity general partners, hedge fund partners and other alternative investment partners on an annual basis. The disclosure requirements will apply to CalPERS, CalSTRS, 1937 Act retirement systems, the

University of California Retirement System, and all independent retirement systems. Transparency requirements would be applied on a prospective basis.

“Pensions are the flywheel in the American economy – when the economy takes a dive, their payments keep our nation’s economic engine spinning to help recovery,” said Assemblyman Ken Cooley. “It’s important that we strengthen our pensions and a part of that is ensuring that the pension investments are stable, sound, and providing the returns in financially responsible way. Greater transparency in the fees paid to Wall Street will benefit all stakeholders in pension administration – taxpayers, administrators of all public and private pensions plans, and all California cities, counties, and state governments and employees.”

Assembly Bill 2833 passed out of the Assembly Appropriations Committee on a 20-0 vote and will now head to the Assembly floor.

Treasurer John Chiang serves as the State's banker, overseeing trillions of dollars in transactions every year. He also sits on the governing board of the nation's two largest public pension funds – the California Public Employees' Retirement System and the California State Teachers' Retirement System. One of his top priorities is to conduct the State's business in the most transparent manner possible.

Assemblyman Ken Cooley represents the 8th Assembly District which includes the communities of Arden-Arcade, Carmichael, Citrus Heights, Rancho Cordova, Rancho Murieta, Rosemont, Wilton and other portions of unincorporated Sacramento County. For more information, please visit <http://asmdc.org/members/a08/>

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