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Vermont Treasurer, others call on SEC to strengthen disclosure of private equity expenses to limited partners

Vermont Business Magazine. A coalition of State and City Treasurers and Comptrollers, including Vermont Treasurer Beth Pearce, sent a letter yesterday to Securities and Exchange Commission (SEC) Chairwoman Mary Jo White asking the Commission to adopt new rules requiring greater transparency from private equity managers when disclosing fees and expenses to limited partners.

The bipartisan group, which represents 13 public pension funds overseeing approximately $1 trillion in assets, asked the SEC to require the clear and consistent disclosure of fees and expenses which are often hidden in complicated, and even opaque, reporting systems. The letter also requested that the SEC require private equity firms to disclose information relating to fees and expenses quarterly, rather than on an annual basis, and called for an industry-wide standard for reporting.

The letter notes that, of the four types of private equity firm expenses, only one – directly billed management fees – is regularly provided to investors. The other three – fund expenses, allocated incentive fees and portfolio-company charges – are often reported deep in annual financial statements, and only on an annual basis.

The coalition's goal is to compel private equity firms to provide consistent and comparable fee disclosures. Every stakeholder, from the SEC to institutional investors and those who set accounting standards, must play a constructive role in helping public pension funds meet their fiduciary obligations. However, the SEC is in the best position to take common-sense steps to standardize how fees are determined and disclosed.

Signatories included District of Columbia Treasurer Jeffrey Barnette; California State Treasurer John Chiang; North Carolina State Treasurer Janet Cowell; New York State Comptroller Thomas P. DiNapoli; Virginia State Treasurer Mnaju Ganeriwala; Wyoming State Treasurer Mark Gordon; South Carolina State Treasurer Curtis Loftis, Jr.; Rhode Island General Treasurer Seth Magaziner; Vermont State Treasurer Beth Pearce; Nebraska State Treasurer Don Stenberg; New York City Comptroller Scott M. Stringer; Oregon State Treasurer Ted Wheeler; and Missouri State Treasurer Clint Zweifel.

Treasurer Chiang of California said, "We are fiduciaries, entrusted with the care of the pension savings of hundreds of thousands of public workers. It's both our obligation and our sworn duty to ensure maximum transparency in the management of these funds. Transparency matters because it promotes accountability and protects us from abusive and wasteful spending."

Treasurer Cowell of North Carolina said, "I'm proud that North Carolina is already collecting and reporting private equity performance and fees voluntarily. The time has come to require

standardized and comprehensive reporting from private equity firms to level the playing field."

Treasurer Loftis of South Carolina said, “Working people have the right to know what their pension funds are paying Wall Street for investment services. Too often public pension funds pay outrageous fees and expenses that rob the funds of the ability to pay retirement benefits. Standardization of fees and an increase in pension fund transparency is long overdue."

Treasurer Magaziner of Rhode Island said, “As fiduciaries of public funds, we must have the information necessary to give us confidence that we are not being improperly overcharged by our private equity managers. Strong national standards for private equity fee and expense disclosure are in the best interest of workers, retirees and taxpayers in Rhode Island and nationally.”

Treasurer Pearce of Vermont said, “Pension plans want to achieve the best risk-adjusted return while minimizing fees on behalf of their members and taxpayers. Increased transparency in the disclosure of fees will provide investors with improved tools to monitor performance and assess investment opportunities.”

New York City Comptroller Stringer said, “It’s time to take the detective work out of how private equity managers report their fees. Billing practices are cryptic at best and many partnership statements are so vague they could be considered purposefully opaque. I stand with my fellow fiduciaries from across the country in calling on the SEC to require standard disclosure of all fees and expenses from private equity funds.

Treasurer Wheeler of Oregon said, “The Oregon Investment Council has long history of studying and negotiating fee structures to get the best deal for beneficiaries. As private equity continues to mature as an asset class, so should industry standards and best practices on disclosure.”

Treasurer Zweifel of Missouri said, “It is time that private equity investments in our state pension funds see the same improvements that consumers have seen across other markets through better transparency. Today we are taking steps that will ensure pension plans can judge the true costs of private equity investments for those taxpayers and retirees states are working to protect."

Source: State Treasurer. 7.22.2015