Chair Mary Jo White
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

RE: Standardized Private Equity Fee Disclosure

Dear Chair White:

As state Treasurers and Comptrollers, we hereby urge the SEC to require general partners to make better disclosure of private equity expenses to limited partners.

Private equity as an asset class plays a central role in public pension fund investment. The Private Equity Growth Capital Council estimates U.S. public pension funds invest 9.4 percent of their portfolios in private equity on a dollar-weighted basis. When comparing 10-year annualized returns, pension fund investments in private equity have outperformed other asset classes. Given the funding challenges facing so many public pension plans, strong returns continue to make private equity investments an attractive option for public pension systems.

However, when compared to public asset classes, the cost structures of private equity are complicated. This complexity, combined with a lack of industry disclosure best practices, has led to an uneven playing field for state fiduciaries seeking to report private equity fees fully.

Among the four types of private equity firm expenses—management fees, fund expenses, allocated incentive fees, and portfolio-company charges, a portion of which serve as offsets or contra-expenses to limited partners—only directly billed management fees are easily segregable and therefore regularly disclosed. Though private equity firms generally disclose information on all types of fees, it is often reported deep in annual financial statements and is not reported directly to limited partners on a quarterly basis. This lack of clear and frequent reporting has resulted in an uneven approach to fee disclosure from private equity general partners to limited partners.

One tangible example of inadequate expense reporting relates to portfolio company monitoring fees. Limited partners, such as state pension portfolios, are typically eligible for an allocation of fees that private equity managers collect from their portfolio companies. However, this limited partner share is usually not transferred to the limited partner, and instead it is maintained by the manager and used as an offset against payment of management fees. The calculation behind this offset is often opaque to the limited partner, making consistent disclosure of private equity expenses to the public extremely challenging.

Broadly, this opacity has also led to a culture in which management fees reported by state pension funds often do not reflect total management fees accrued by private equity firms. In the absence of a clearly defined standard, states that voluntarily disclose more comprehensive accounts of total fees and expenses are put at a disadvantage in state-to-state comparisons.

We believe increased disclosure transparency will provide limited partners with a stronger negotiating position, ultimately resulting in more efficient investment options. We have a fiduciary obligation to achieve these goals, and therefore assert that greater private equity fee disclosure standards are in the public interest.

We welcome the opportunity to continue dialogue on this very important issue, and stand ready and willing to assist the SEC in the consideration of this concept.

Sincerely,

Jeffrey Barnette,
Deputy Chief Financial Officer and Treasurer
District of Columbia

Mark Gordon,
State Treasurer
Wyoming

Scott M. Stringer
New York City Comptroller

John Chiang,
State Treasurer
California

Curtis M. Loftis, Jr.,
Treasurer
South Carolina

Don Stenberg,
State Treasurer
Nebraska

Thomas P. DiNapoli,
New York State Comptroller
New York State Common Retirement Fund

Seth Magaziner,
General Treasurer
Rhode Island

Ted Wheeler,
State Treasurer
Oregon

Manju Ganeriwala,
State Treasurer
Virginia

Beth Pearce,
State Treasurer
Vermont

Clint Zweifel,
State Treasurer
Missouri