This bill requires the State Retirement and Pension System (SRPS) to report annually on the amount of carried interest on any assets in the system; the first such report must include data from fiscal 2015 through 2019. The bill takes effect July 1, 2019.

Fiscal Summary

State Effect: The State Retirement Agency can carry out the bill’s reporting requirements with existing resources. No effect on revenues.

Local Effect: None.

Small Business Effect: None.

Analysis

Current Law/Background: SRPS is subject to a fee cap of 0.5% of the market value of its assets, not including real estate or alternative investments, which are not subject to any fee cap.

By December 31 of each year, the SRPS Board of Trustees is required to report to the General Assembly the actual amount spent for investment management services during the preceding fiscal year.

Exhibit 1 shows the investment management fees reported for the prior two fiscal years, by asset class and type of fee. In fiscal 2018, SRPS investments returned 8.1% net of fees paid. For fiscal 2018, SRPS finished the year with assets of almost $52.0 billion, so
investment management fees of $372.0 million in that year represented about 0.72% of assets.

### Exhibit 1
**Investment Management Fees**
**State Retirement and Pension System**
($ in Thousands)

<table>
<thead>
<tr>
<th></th>
<th>FY 2017 Management</th>
<th>Incentive</th>
<th>Total</th>
<th>FY 2018 Management</th>
<th>Incentive</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Equity</td>
<td>$77,520</td>
<td>$2,596</td>
<td>$80,116</td>
<td>$83,023</td>
<td>$19,247</td>
<td>$102,270</td>
</tr>
<tr>
<td>Fixed Income</td>
<td>10,300</td>
<td>220</td>
<td>10,520</td>
<td>12,555</td>
<td>4,351</td>
<td>16,906</td>
</tr>
<tr>
<td>Credit Opportunity</td>
<td>33,674</td>
<td>2,043</td>
<td>35,717</td>
<td>29,668</td>
<td>3,111</td>
<td>32,779</td>
</tr>
<tr>
<td>Real Return</td>
<td>22,284</td>
<td>3,174</td>
<td>25,458</td>
<td>16,504</td>
<td>2,323</td>
<td>18,827</td>
</tr>
<tr>
<td>Absolute Return</td>
<td>45,301</td>
<td>8,832</td>
<td>54,133</td>
<td>44,189</td>
<td>10,939</td>
<td>55,128</td>
</tr>
<tr>
<td>Private Equity</td>
<td>85,950</td>
<td>47</td>
<td>85,997</td>
<td>103,714</td>
<td>103,714</td>
<td>103,714</td>
</tr>
<tr>
<td>Real Estate</td>
<td>31,318</td>
<td>2,669</td>
<td>33,987</td>
<td>31,389</td>
<td>1,449</td>
<td>32,838</td>
</tr>
<tr>
<td>Currency Overlay</td>
<td>4,593</td>
<td>0</td>
<td>4,593</td>
<td>5,275</td>
<td>0</td>
<td>5,275</td>
</tr>
<tr>
<td>Other Investment Expenses</td>
<td>3,117</td>
<td>0</td>
<td>3,117</td>
<td>4,267</td>
<td>0</td>
<td>4,267</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$314,057</strong></td>
<td><strong>$19,581</strong></td>
<td><strong>$333,638</strong></td>
<td><strong>$330,584</strong></td>
<td><strong>$41,420</strong></td>
<td><strong>$372,004</strong></td>
</tr>
</tbody>
</table>

Source: 2018 Comprehensive Annual Financial Report, State Retirement and Pension System

**Carried Interest Transparency**

In the past five years, calls for greater transparency in the reporting of carried interest have led to changes in the investment management industry. Carried interest is earned by investment managers in private markets (e.g., private equity, private real estate) and is the amount that a general partner (investment manager) retains as an ownership interest in the investment profits generated by the partnership. Carried interest typically represents 20% of the profits generated, but that proportion may be negotiated among the parties involved. As carried interest represents shared profits that are retained by the general partner rather than paid by the investor, it is not typically reported as investment fees paid.

Recently, several public pension plans, including the California Public Employees’ Retirement System (CalPERS) and the Pennsylvania Public School Employees’ Retirement System (PSERS) have released reports showing carried interest earned by general partners managing investments on their behalf. In addition, the Institutional
Limited Partners Association developed a reporting template that includes carried interest that has been endorsed by many investment managers and public pension funds (including SRPS).

In its initial report, CalPERS reported that general partners earned $700 million in carried interest in fiscal 2015. PSERS reported that general partners earned $5.17 billion in cumulative carried interest from 1980 through 2017. For calendar 2017, PSERS reported that general partners earned $669 million in carried interest. Of note, PSERS indicated that it took 500 hours of staff and consultant time to generate the report on carried interest.

Additional Information

Prior Introductions: None.

Cross File: None.

Information Source(s): State Retirement Agency; Governing; Institutional Limited Partners Association; Pennsylvania Public School Employees’ Retirement System; Department of Legislative Services

Fiscal Note History: First Reader - February 27, 2019
Third Reader - March 14, 2019
Revised - Amendment(s) - March 14, 2019

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