

SENATE BILL 727

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By: **Senator Rosapepe**

Introduced and read first time: February 7, 2022

Assigned to: Budget and Taxation

A BILL ENTITLED

1 AN ACT concerning

2 **State Retirement and Pension System – Investment Management Fees**

3 FOR the purpose of requiring the Board of Trustees for the State Retirement and Pension
4 System, on or before a certain date each year, to require each alternative investment
5 vehicle in which the system invests to disclose certain information regarding certain
6 fees and expenses for the preceding fiscal year; requiring the State Retirement
7 Agency to report certain information pertaining to the disclosures; and generally
8 relating to investment management fees of the State Retirement and Pension
9 System.

10 BY repealing and reenacting, without amendments,
11 Article – State Personnel and Pensions
12 Section 21–315(g)
13 Annotated Code of Maryland
14 (2015 Replacement Volume and 2021 Supplement)

15 BY adding to
16 Article – State Personnel and Pensions
17 Section 21–315(h)
18 Annotated Code of Maryland
19 (2015 Replacement Volume and 2021 Supplement)

20 SECTION 1. BE IT ENACTED BY THE GENERAL ASSEMBLY OF MARYLAND,
21 That the Laws of Maryland read as follows:

22 **Article – State Personnel and Pensions**

23 21–315.

EXPLANATION: CAPITALS INDICATE MATTER ADDED TO EXISTING LAW.

[Brackets] indicate matter deleted from existing law.



1 (g) (1) (i) On or before December 31 of each year, the Board of Trustees
2 shall report to the General Assembly the actual amount spent for investment management
3 services during the preceding fiscal year.

4 (ii) The report required under subparagraph (i) of this paragraph
5 shall include the amount of carried interest on any assets of the system.

6 (2) On or before December 31 each year, the Board of Trustees shall report
7 to the General Assembly the actual amount spent for Investment Division operations
8 during the preceding fiscal year.

9 (H) (1) (I) IN THIS SUBSECTION THE FOLLOWING WORDS HAVE THE
10 MEANINGS INDICATED.

11 (II) "ALTERNATIVE INVESTMENT" MEANS AN INVESTMENT IN A
12 PRIVATE EQUITY FUND, A VENTURE FUND, A HEDGE FUND, OR AN ABSOLUTE
13 RETURN FUND.

14 (III) "ALTERNATIVE INVESTMENT VEHICLE" MEANS THE
15 LIMITED PARTNERSHIP, LIMITED LIABILITY COMPANY, OR SIMILAR LEGAL
16 STRUCTURE THROUGH WHICH THE STATE RETIREMENT AND PENSION SYSTEM
17 INVESTS IN AN ALTERNATIVE INVESTMENT.

18 (IV) "CARRIED INTEREST" MEANS ANY SHARE OF PROFITS FROM
19 AN ALTERNATIVE INVESTMENT VEHICLE THAT IS DISTRIBUTED TO A FUND
20 MANAGER, GENERAL PARTNER, OR RELATED PARTIES, INCLUDING ALLOCATIONS OF
21 ALTERNATIVE INVESTMENT VEHICLE PROFITS RECEIVED BY A FUND MANAGER IN
22 CONSIDERATION OF HAVING WAIVED FEES THAT IT MIGHT OTHERWISE HAVE BEEN
23 ENTITLED TO RECEIVE.

24 (V) "GROSS RATE OF RETURN" MEANS THE INTERNAL RATE OF
25 RETURN FOR THE ALTERNATIVE INVESTMENT VEHICLE PRIOR TO THE REDUCTION
26 OF FEES AND EXPENSES.

27 (VI) "INVESTMENT MANAGER" MEANS THE GENERAL PARTNER,
28 MANAGING MANAGER, ADVISER, OR OTHER PERSON OR ENTITY WITH PRIMARY
29 INVESTMENT DECISION-MAKING AUTHORITY OVER AN ALTERNATIVE INVESTMENT
30 VEHICLE AND RELATED PARTIES OF THE FUND MANAGER.

31 (VII) "OPERATIONAL PERSON" MEANS ANY OPERATIONAL
32 PARTNER, SENIOR ADVISOR, OR OTHER CONSULTANT OR EMPLOYEE WHOSE
33 PRIMARY ACTIVITY FOR A RELEVANT ENTITY IS TO PROVIDE OPERATIONAL OR BACK
34 OFFICE SUPPORT TO ANY PORTFOLIO COMPANY OF ANY ALTERNATIVE INVESTMENT
35 VEHICLE, ACCOUNT, OR FUND MANAGED BY A RELATED PERSON.

1 (VIII) "PORTFOLIO COMPANIES" MEANS INDIVIDUAL PORTFOLIO
2 INVESTMENTS MADE BY THE ALTERNATIVE INVESTMENT VEHICLE.

3 (IX) "RELATED PARTY" MEANS ANY:

4 1. RELATED PERSON;

5 2. OPERATIONAL PERSON;

6 3. ENTITY WITH MORE THAN 10% OF THE OWNERSHIP
7 HELD DIRECTLY OR INDIRECTLY, WHETHER THROUGH OTHER ENTITIES OR TRUSTS,
8 BY A RELATED PERSON OR OPERATIONAL PERSON, REGARDLESS OF WHETHER THE
9 RELATED PERSON OR OPERATIONAL PERSON PARTICIPATES IN THE CARRIED
10 INTEREST RECEIVED BY THE GENERAL PARTNER OR THE SPECIAL LIMITED
11 PARTNER; OR

12 4. CONSULTANT, LEGAL SERVICES PROVIDER, OR
13 OTHER SERVICE PROVIDER THAT:

14 A. IS REGULARLY ENGAGED BY PORTFOLIO COMPANIES
15 OF AN ALTERNATIVE INVESTMENT VEHICLE, ACCOUNT, OR FUND MANAGED BY A
16 RELATED PERSON; AND

17 B. ALSO PROVIDES ADVICE OR SERVICES TO ANY
18 RELATED PERSON OR RELEVANT ENTITY.

19 (X) "RELATED PERSON" MEANS ANY CURRENT OR FORMER
20 EMPLOYEE, MANAGER, OR PARTNER OF ANY RELATED ENTITY THAT IS INVOLVED IN
21 THE INVESTMENT ACTIVITIES OR ACCOUNTING AND VALUATION FUNCTIONS OF THE
22 RELEVANT ENTITY OR ANY OF THEIR RESPECTIVE FAMILY MEMBERS.

23 (XI) "RELEVANT ENTITY" MEANS THE GENERAL PARTNER, ANY
24 SEPARATE CARRY VEHICLE, THE INVESTOR ADVISOR, ANY OF THE INVESTMENT
25 ADVISOR'S PARENT OR SUBSIDIARY ENTITIES, OR ANY SIMILAR ENTITY RELATED TO
26 ANY OTHER ALTERNATIVE INVESTMENT VEHICLE, ACCOUNT, OR FUND ADVISED OR
27 MANAGED BY ANY CURRENT OR FORMER RELATED PERSON.

28 (2) (I) THIS SECTION APPLIES TO:

29 1. ALL NEW CONTRACTS THE BOARD OF TRUSTEES
30 ENTERS INTO ON OR AFTER JANUARY 1, 2023; AND

1 **2. ALL EXISTING CONTRACTS UNDER WHICH THE**
2 **SYSTEM MAKES A NEW CAPITAL COMMITMENT ON OR AFTER JANUARY 1, 2023.**

3 **(II) WITH RESPECT TO EXISTING CONTRACTS NOT COVERED**
4 **UNDER SUBPARAGRAPH (I) OF THIS PARAGRAPH, THE BOARD OF TRUSTEES SHALL**
5 **UNDERTAKE REASONABLE EFFORTS TO OBTAIN THE INFORMATION DESCRIBED IN**
6 **PARAGRAPH (3) OF THIS SUBSECTION AND COMPLY WITH THE REPORTING**
7 **REQUIREMENTS WITH RESPECT TO ANY INFORMATION OBTAINED ON OR AFTER**
8 **JANUARY 1, 2023.**

9 **(3) (I) ON OR BEFORE DECEMBER 31 EACH YEAR, THE BOARD OF**
10 **TRUSTEES SHALL REQUIRE EACH ALTERNATIVE INVESTMENT VEHICLE IN WHICH IT**
11 **INVESTS TO DISCLOSE AT LEAST ANNUALLY FOR THE PRECEDING FISCAL YEAR:**

12 **1. THE FEES AND EXPENSES THAT THE STATE**
13 **RETIREMENT AGENCY PAYS DIRECTLY TO THE ALTERNATIVE INVESTMENT**
14 **VEHICLE, THE INVESTMENT MANAGER, OR RELATED PARTIES;**

15 **2. THE SYSTEM'S PRO RATA SHARE OF FEES AND**
16 **EXPENSES NOT INCLUDED IN ITEM 1 OF THIS SUBPARAGRAPH THAT ARE PAID FROM**
17 **THE ALTERNATIVE INVESTMENT VEHICLE TO THE INVESTMENT MANAGER OR**
18 **RELATED PARTIES;**

19 **3. THE SYSTEM'S PRO RATA SHARE OF CARRIED**
20 **INTEREST DISTRIBUTED TO THE INVESTMENT MANAGER OR RELATED PARTIES; AND**

21 **4. THE SYSTEM'S PRO RATA SHARE OF AGGREGATE FEES**
22 **AND EXPENSES PAID BY ALL OF THE PORTFOLIO COMPANIES HELD WITHIN THE**
23 **ALTERNATIVE INVESTMENT VEHICLE TO THE INVESTMENT MANAGER OR RELATED**
24 **PARTIES.**

25 **(II) 1. THE STATE RETIREMENT AGENCY SHALL DISCLOSE**
26 **THE INFORMATION PROVIDED IN ACCORDANCE WITH SUBPARAGRAPH (I) OF THIS**
27 **PARAGRAPH AT LEAST ONCE ANNUALLY IN A REPORT PRESENTED TO THE GENERAL**
28 **ASSEMBLY, IN ACCORDANCE WITH § 2-1257 OF THE STATE GOVERNMENT ARTICLE.**

29 **2. THE REPORT REQUIRED UNDER SUBSUBPARAGRAPH**
30 **1 OF THIS SUBPARAGRAPH SHALL ALSO INCLUDE THE GROSS AND NET RATE OF**
31 **RETURN OF EACH ALTERNATIVE INVESTMENT VEHICLE, SINCE INCEPTION, IN**
32 **WHICH THE SYSTEM PARTICIPATES.**

33 **3. THE STATE RETIREMENT AGENCY MAY REPORT THE**
34 **GROSS AND NET RATE OF RETURN AND INFORMATION REQUIRED BY**

1 SUBPARAGRAPH (I) OF THIS PARAGRAPH BASED ON ITS OWN CALCULATIONS OR
2 BASED ON CALCULATIONS PROVIDED BY THE ALTERNATIVE INVESTMENT VEHICLE.

3 4. A. THE STATE RETIREMENT AGENCY MAY
4 INDEPENDENTLY CALCULATE THE INFORMATION REQUIRED UNDER THIS
5 SUBPARAGRAPH BASED ON INFORMATION CONTRACTUALLY REQUIRED TO BE
6 PROVIDED BY THE ALTERNATIVE INVESTMENT VEHICLE TO THE BOARD OF
7 TRUSTEES.

8 B. IF THE STATE RETIREMENT AGENCY
9 INDEPENDENTLY CALCULATES THE INFORMATION REQUIRED UNDER THIS
10 SUBPARAGRAPH, THEN THE ALTERNATIVE INVESTMENT VEHICLE MAY NOT BE
11 REQUIRED TO PROVIDE THE INFORMATION IDENTIFIED IN THIS PARAGRAPH.

12 SECTION 2. AND BE IT FURTHER ENACTED, That this Act shall take effect
13 October 1, 2022.