



March 10, 2020

The Honorable Maggie McIntosh
Chair, House Appropriations Committee
Room 121
House Office Building
Annapolis, Maryland 21401

Re: Oppose House Bill 1254

Dear Chairwoman McIntosh and Members of the Committee:

Managed Funds Association (“MFA”) welcomes the opportunity to submit this written statement in opposition to HB 1254, *State Retirement and Pension System –Investment Management Fees*. MFA represents the world’s largest alternative investment funds and is the primary advocate for sound business practices for hedge funds, funds of funds, managed futures funds, and service providers. MFA’s members manage a substantial portion of the approximately \$3 trillion invested in hedge funds around the world. They provide liquidity and price discovery to capital markets, capital to companies seeking to grow or improve their businesses, and important investment options to investors seeking to increase portfolio returns with less risk, such as pension funds trying to meet their future obligations to plan beneficiaries. Our members serve pensions, university endowments, and charities, among others, including many Maryland-based institutional investors. Our members’ skills help their customers plan for retirement, honor pension obligations, and fund scholarships, among other important goals.

Maryland state pension plans rely on MFA’s members to provide risk-adjusted returns that are uncorrelated to traditional asset classes and help the pension plans manage the risks in their diversified portfolios. These types of investments help pensions mitigate the risks associated with their investments in traditional markets (such as U.S. listed equity indices) when those markets experience their inevitable downturns or significant volatility.

Fiduciaries to the Maryland state pension system consider many factors when making investment decisions on behalf of the state pension funds. While the level and structure of fees are one factor that all investors consider when making investment decisions, they are not the only relevant factor. Fiduciaries and other investors also consider the investment performance and risk mitigation that a manager or investment can provide to the investor’s portfolio on a net basis, factoring in the fees and other expenses associated with making a particular investment. Ultimately, investors seek to maximize these net, risk-adjusted returns. Active investment management strategies, which typically

involve higher costs than passive investment management strategies because of the costs the investment manager bears to provide those services, help investors such as the Maryland state pension system achieve these net, risk-adjusted returns in ways that passive investment management strategies alone do not.

The fee cap and the prohibition on the Maryland state pension system entering into certain types of investment fee arrangements proposed by HB 1254 will place limits on the investment options available to the Maryland state pension plans. Limiting the state pension system's investment options would cause the system to forego the benefits those investments would otherwise provide to the system's portfolios on a net return basis, which would reduce the risk-adjusted returns to the system. Ultimately, lower net, risk-adjusted returns earned by Maryland state pensions will negatively harm the state and its pensioners by requiring increased contributions by Maryland pensioners to offset the lost investment returns caused by the restrictions in the bill. Lower risk-adjusted returns also could require the state to take additional legislative action, such as higher taxes or lower benefits for retirees, to offset those lost investment returns. Because of these harmful consequences of HB 1254, MFA opposes enactment of the bill and encourages policymakers to oppose the bill.

Sincerely,

Louis Costantino Jr.
Executive Vice-President and Managing Director, Government Relations
Managed Funds Association

Cc: Delegate Kumar P. Barve