Private Equity Stakeholder Project comment to the Maryland House Appropriations Committee in support of HB905, March 15, 2022

Good afternoon Chair McIntosh and members of the committee. My name is Jim Baker, executive director of the Private Equity Stakeholder Project.

I also wish to speak in support of House Bill 905.

House Bill 905 is modeled on a 2016 California law (Assembly Bill 2833) that required greater disclosure of alternative investment manager fees and performance. That law has been in effect for five years now and under it dozens of state and local pension systems, many of them much smaller than Maryland State Retirement and Pension System (SRPS), report the fees they pay to and investment performance of their private equity, hedge fund, and other alternative asset managers on at least an annual basis.

In addition, several other state and local pension systems around the country including the Missouri State Employees Retirement System, Pennsylvania Public School Employees Retirement System, and Employees' Retirement System of Rhode Island, report fees that individual alternative asset managers charge including management fees, carried interest, and other fees.

Disclosing fees and investment performance has had little to no impact on these pension systems' ability to invest with private equity or hedge fund managers. Indeed, these pension systems are invested with many of the same private equity and hedge fund managers – for example Institutional Venture Partners, New Mountain Partners, and Madison Dearborn Capital – that the SRPS currently invests with.[1] If they can disclose their fees in other places, why not in Maryland?

In is unclear why the SRPS is so far behind many of its peers in reporting the fees it pays to private equity and hedge fund managers and the investment performance of those managers.

For example, last year SRPS' hedge fund/ absolute return investments substantially underperformed its public equity/ stock investments (15.5% for hedge funds versus 44.5% for public equity), yet charged fees that were four times as high (2.5% for absolute return versus 0.6% for public equity), not including carried interest and other fees.

Some of the SRPS' investment managers likely substantially underperformed, but there is no easy way to know since SRPS does not disclose performance on a fund-by-fund basis.

It is time for private equity and hedge fund managers to stop hiding the hundreds of millions of dollars in fees they charge to the State of Maryland each year.

House Bill 905 would provide important transparency that would benefit Maryland retirees, employees, and taxpayers.

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[1] San Francisco ERS is invested in Institutional Venture Partners XVII, California Public Employees Retirement System is invested in Madison Dearborn Capital Partners VIII, and California Public Employees Retirement System and Pennsylvania Public School Employees Retirement System are invested in New Mountain Partners VI.