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 Chris Noble, policy coordinator for the Private Equity Stakeholder Project. We are a nonprofit watchdog organization focused on the impacts of private equity firms, hedge funds, and similar Wall Street firms, on workers and communities. I am an attorney and have previously worked with other state pension systems on investment agreements with private equity firms.

I wish to speak in support of House Bill 905, which would provide greater transparency into the hundreds of millions of dollars in fees that private equity firms, hedge funds, and other alternative asset managers charge to the Maryland State Retirement and Pension System (SRPS) every year and the investment performance of the investment managers that receive those fees.

House Bill 905 builds on 2019 legislation that required the Maryland State Retirement and Pension System to disclose carried interest, or incentive fees that it pays to private equity firms and hedge funds.

Private equity firms and other alternative asset managers charge investors like the SRPS fees in a few different ways – annual management fees, carried interest or performance fees, fees and expenses charged to the fund, and fees they collect directly from the portfolio companies they own on behalf of investors like the SRPS.

It is currently impossible to get a full picture of how much the SRPS is actually paying in fees to private equity firms, hedge funds, and other alternative asset managers in a given year.

Alternative investments accounted for almost half (43%) of SRPS' portfolio as of June 30, 2021, yet unlike its public equity (stock) and fixed income (bond) investment managers, the SRPS only reports fees and performance paid to private equity and hedge fund managers in aggregate, not on a fund-by-fund basis.

SRPS reports aggregate carried interest on a calendar year basis while it reports all other fees paid on a fiscal year basis, making it impossible to get a full picture of how much the SRPS is paying in fees to alternative asset managers in a given year.

Further, SRPS does not appear to count fees charged by private equity or hedge fund managers to portfolio companies, or fees and expenses associated with fund formation that are charged to the private equity or hedge fund, even though it ultimately bears the cost of them.

The SRPS also does not report performance for individual alternative asset managers, so there is no easy way to compare the fees a manager charges to their fund performance to understand whether those fees are merited.

House Bill 905 would provide greater transparency into the hundreds of millions of dollars in fees that private equity, hedge fund, and other alternative investment managers charge to the State Retirement and Pension System.