



**JOHN CHIANG**  
TREASURER  
STATE OF CALIFORNIA

October 12, 2015

Henry Jones  
Investment Committee Chair  
CalPERS Board of Administration  
P.O. Box 942701  
Sacramento, CA 942292701

Sharon Hendricks  
Investment Committee Chair  
CalSTRS Teachers' Retirement Board  
100 Waterfront Place  
West Sacramento, CA 95605

Dear Mr. Jones and Ms. Hendricks:

To riff on the opening sentence of Jane Austen's *Pride and Prejudice*, "It is a truth universally acknowledged that a private equity firm in possession of an investment product must be in want of a public pension fund investor." Private equity firms have aggressively courted public pension fund dollars and have profited tremendously. Likewise, public pension funds have also benefitted from returns that have consistently exceeded projections and outperformed other asset classes.

Despite positive performance, the profit strategies private equity firms employ too often run counter to the values of public fund trustees and their constituents, particularly with respect to the lack of transparency and detail in how much it costs our pension systems to invest in their products.

In 2010, as State Controller I worked together with CalPERS and CalSTRS on Legislation to clean up the pay-to-play scandals involving placement agents that plagued CalPERS private equity investments. I am now urging CalPERS and CalSTRS to work with me to mop up another private equity industry mess. In the absence of federal rules, I believe state law should require private equity firms to disclose all fees charged to California public pension funds.

Pension funds and other limited partners pay excessive fees to private equity firms and do not have sufficient visibility into the nature and amount of those fees. As fiduciaries, public fund trustees have a duty to maximize investment returns in order to ensure promised benefits are adequately funded and to minimize taxpayer costs. Because fees paid to private equity general partners reduce returns, trustees should be able to see and understand all of the fees they are charged. Public funds need to be able to include fees and expenses related to private equity investments in their Comprehensive Annual Financial Reports (CAFRs).

Long before the current controversy over private equity fees, I demanded greater transparency of fees related to CalPERS and CalSTRS private equity investments. I applaud staff at both systems for steps they have taken thus far. CalPERS, for example, began developing its Private Equity Accounting Reporting System (PEARS) in 2011. The work is almost complete. As a result, CalPERS will report total carried interest paid across the private equity portfolio as part of the fund's annual financial statements in November. CalPERS and CalSTRS have positioned themselves as leaders by working with the International Limited Partners Association (ILPA) to develop templates for fee disclosure and urging other investors to adopt the templates.

While these efforts are a good start, more needs to be done to ensure public pension funds and their trustees have the transparency they need to determine the value of private equity investments. I urge my colleagues on the CalPERS Board of Administration and the CalSTRS Teachers' Retirement Board to direct CalPERS and CalSTRS staff to work with my office to develop legislation to place fee disclosure requirements on private equity firms. Disclosure requirements should be applicable to private equity investments of all public pension funds in California. This includes not only CalPERS and CalSTRS, but also the University of California Retirement System, 1937 Act county retirement systems and all independent retirement systems.

These new transparency requirements would be implemented on a prospective basis so as not to impair existing contracts with general partners. Disclosure requirements would include, but not be limited to, gross management fees, management fee offsets, fund expenses, carried interest and all other fees as well as related party transactions.

Thank you for considering my request. The current lack of transparency undermines our fiduciary duty to protect our members and the public at large. Without it, how can we ever hope to have a meaningful dialogue with private equity firms, regulators, and other investors about the appropriate level of fees that should be paid? I look forward to working together on this important issue.

Henry Jones and Sharon Hendricks  
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Sincerely,

A handwritten signature in black ink, appearing to read "John Chiang", is written over the printed name and title.

JOHN CHIANG  
California State Treasurer

Cc: CalPERS Board of Administration  
Anne Stausboll, Chief Executive Officer, CalPERS  
Ted Eliopoulos, Chief Investment Officer, CalPERS  
CalSTRS Teachers' Retirement Board  
Jack Ehnes, Chief Executive Officer, CalSTRS  
Chris Ailman, Chief Investment Officer, CalSTRS  
The National Association of State Treasurers