

CalPERS receives lesson in PE 101

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At its latest investment committee meeting, the pension's investment staff presented an elementary private equity cash flow example, prompting tough questions from board members.

Two months after it was revealed that the California Public Employees Retirement System (CalPERS) was unable to track the amount it had paid private equity managers in carried interest, the pension's Board of Directors received a refresher course on the basics of the asset class at its August Investment Committee meeting, revealing some gaps in staff's private equity knowledge.

A video of the August 17 meeting, which was made available online last week, includes a simplistic presentation on private equity cash flow distribution from managing investment director of private equity Réal Desrochers.

The presentation prompted many questions from the board, like an inquiry from Priya Mathur on whether the typical 1.5 percent or 2 percent management fees charged are fair amounts for the actual costs of running a firm. In response, Desrochers said he did not know.

They're going to get rich no matter what. They should not get rich on the management fee, they have to have the incentive to work and to earn through the profit sharing, he stated.

The high level presentation also prompted a string of drilled-down questions from JJ Jelincic, the board member who initially raised the carried interest tracking issue back in April. Jelincic inquired about management fee offsets, fee waivers and portfolio company fees, many of which Desrochers and private equity senior portfolio manager Christine Gogan struggled to answer or could not answer.

The meeting video has drawn intense scrutiny from one of the media's most vocal private equity critics, Yves Smith, author of the Naked Capitalism blog. Smith is dissecting the video in a two-week series called CalPERS Private Equity Exposed with posts like CalPERS Staff Demonstrates Repeatedly That They Don't Understand How Private Equity Fees Work.

Despite fumbling with questions throughout the meeting, staff did indicate that CalPERS is making progress with its Private Equity Accounting & Reporting Solution (PEARS). The pension has collected carried interest information for 94 percent of its GPs and plans to publish data on that information this fall for the fiscal year ending last June.

Chief investment officer Ted Eliopoulos also indicated that CalPERS is collaborating with other LPs through the Institutional Limited Partners Association to require more disclosure and transparency on portfolio company payments made to GPs going forward.