



July 27, 2017

The Honorable Alma Adams
U.S. House of Representatives
222 Cannon House Office Building
Washington, DC 20515

Re: Private Equity Fees – Effective Disclosure Rules

Dear Representative Adams:

CIEBA would like to thank your office for reaching out to us about fees on private equity investments, how they affect pension funds, and what concerns pension funds may have with how those fees are, or are not, being regulated.

CIEBA members are the chief investment officers of more than 100 of the Fortune 500 companies who individually manage and administer Employee Retirement Income Security Act (ERISA) - governed corporate retirement plan assets. CIEBA members voluntarily sponsor plans and manage almost \$2 trillion of retirement assets on behalf of 15 million participants, representing a very significant portion of the largest private defined benefit and defined contribution pension plans in the US. Founded in 1985, CIEBA is the largest organization of corporate pension investment officers often serving as formally appointed ERISA investment fiduciaries for their plans.

As ERISA investment fiduciaries, CIEBA members are very concerned with the level of fees for any investments held in our plans, including private equity investments. We view ensuring the reasonableness of investment fees as a critical part of carrying out our fiduciary responsibilities.

1. Summary recommendation – fee disclosure is preferred over substantive fee regulation.

CIEBA members have been pleased with how the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 focused on fee disclosure (rather than substantive rules like fee caps). These rules have helped to improve transparency in fees and expenses and helped to enhance the compliance culture among private equity investment managers. **As Congress reconsiders Dodd-Frank in the coming months, we encourage lawmakers to build on an enhanced disclosure approach and resist efforts to impose substantive rules around the nature or level of fees that may be charged or paid with respect to private equity.**

2. Private equity investment -- Background.

By way of background, private equity investments are structured as limited partnerships. The private equity manager is a general partner (GP) in the fund, with the pensions and other investors entering a legal relationship as limited partners (LPs). The terms of the relationship between the GP and LP is defined by a limited partnership agreement (LPA). The LPA is a negotiated document which details which fees and expenses can be charged by the GP and paid by the LP.

Dodd-Frank required that GPs register under the Investment Advisers Act of 1940 with the U.S. Securities and Exchange Commission (SEC). In some instances, this additional oversight has helped to uncover fees and expense charge-backs not adequately disclosed in the LPA or that certain terms of the LPA were not being properly followed. The result of the uncovering of these

practices is that investors have seen improved transparency in fees and expenses being charged, improved compliance with the terms of LPA, enhanced clarity of LPA terms, and a general improvement in the compliance culture at GPs.

The regulatory requirements under the SEC registration regime have been effective in ensuring that LPs now have better assurance that the terms negotiated with the GP will in fact be complied with. We would encourage Congresswoman Adams and others to continue to support effective SEC oversight over GPs, and preserve the flexibility for pensions to deploy their capital where they are best able to seek the highest net return for their beneficiaries.

In summary:

- Private Equity investing is a valuable and important component of pension sustainability.
- GPs and LPs ought to remain free to negotiate fee structures in their LPAs as they each see fit. No new regulations governing these contracts are required.
- Fees and returns net-of-fees are important considerations.
- Full and proper reporting and disclosure of fees and expenses is critical.
- Dodd-Frank legislation requiring SEC registration and fee disclosure has helped to improve transparency in fees and expenses and a general improvement in the compliance culture at GPs.

Thank you for the opportunity to respond to your general concerns. Please feel free to reach out with any other questions you may have.

Best,

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