



RESOLUTION

SUPPORTING THE INVESTMENT ADVISER ALIGNMENT ACT

TO PROMOTE ENHANCED TRANSPARENCY, ALIGNMENT AND GOVERNANCE IN THE PRIVATE EQUITY ASSET CLASS FOR THE BENEFIT OF STATE PENSION AND RETIREMENT SYSTEMS

- WHEREAS,** Many state pension and retirement systems, including those directly or indirect overseen or administered by State Treasurers, are increasing their investments in private equity in order to meet their financial obligations to retirement beneficiaries, many of which require an annual rate of return of 7% or greater; and,
- WHEREAS,** Many state pension and retirement systems (otherwise known as “Limited Partners” or “LPs”) have confronted difficulties in investing their capital in the private equity market due to the increasing lack of alignment of interest, transparency challenges, particularly around the fees and expenses that are charged to those funds, and contractual reductions in private equity manager’s fiduciary duties; and,
- WHEREAS,** Many state legislatures, including those in California and Texas, have passed laws requiring their public retirement and pension systems to demand fee and expense reporting from their private equity advisers, and also have state laws that require those systems to have a fiduciary duty to their beneficiaries, which they must then receive from the private equity advisers they invest with; and,
- WHEREAS,** A legislative discussion draft, titled the “Investment Adviser Alignment Act” was noticed at a full hearing of the House Financial Services Committee on November 19, 2019, with the following subject: “America for Sale? An Examination of the Practices of Private Funds” and was supported by a number of LPs, including the Institutional Limited Partners Association (ILPA) which represents over 550 LPs globally, with close to 1/3 of those LPs being public pension and retirement systems; and,
- WHEREAS,** The Investment Adviser Alignment Act would provide targeted, bipartisan reforms that would improve the private equity industry overall, and ensure that certain minimum standards are required in the investment contracts with private equity advisers signed by state retirement and pension systems; including:

1. Ensuring that private equity advisers cannot contract to a lower standard of care than that under the Investment Advisers Act of 1940;
2. Requiring fee & expense reporting to all LPs invested in private equity;
3. Ensuring LPs can communicate with one another to promote enhanced governance in private equity;
4. Permitting LPs to access compliance issues uncovered in SEC examinations of private equity advisers they are invested with;
5. Providing LP access to fund leverage exposure information on Form PF.

NOW, THEREFORE BE IT RESOLVED, that the National Association of State Treasurers urges Congress to introduce and pass the Investment Adviser Alignment Act (or substantially similar bills in subsequent Congresses) to strengthen transparency, governance and alignment of interest in the private equity marketplace, thereby providing enhanced protection of state pension and retirement systems' growing investments in the private equity asset class.

Approved this 15th day of December 2020, by
the National Association of State Treasurers