

AMENDED IN ASSEMBLY MARCH 17, 2016

CALIFORNIA LEGISLATURE—2015–16 REGULAR SESSION

**ASSEMBLY BILL**

**No. 2833**

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**Introduced by Assembly Member Cooley**

February 19, 2016

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An act to add Section 7514.7 to the Government Code, relating to retirement.

LEGISLATIVE COUNSEL'S DIGEST

AB 2833, as amended, Cooley. ~~Public retirement: pension retirement systems:~~ funds: disclosures.

The California Constitution commits to the retirement board of a public pension or retirement system plenary authority and fiduciary responsibility for investment of moneys and administration of the system. Existing law requires a retirement board to develop and implement a policy requiring disclosure of payments to placement agents, as defined, in connection with system investments in or through external managers that includes prescribed elements. Existing law requires disclosure of campaign contributions or gifts made by a placement agent to any member of a public pension retirement board, as specified. Existing law requires a public retirement system to obtain an actuarial valuation of the system not less than triennially and submit audited financial statements to the State Controller who then publishes a report on the financial condition of public retirement systems.

This bill, for contracts entered into on and after January 1, 2017, would require a public pension or retirement ~~system~~ *system, including that of the University of California*, to require ~~private equity fund managers, partnerships, portfolio companies, and affiliates~~ *alternative investment vehicles, as defined*, to make specified disclosures regarding

~~fees and expenses~~ *fees, expenses, and gross rate of return* in connection with ~~limited partner agreements~~ *these vehicles and the underlying investments* on a form prescribed by the system. Consistent with requirements relating to public records, the bill would require a public pension or retirement ~~system~~ *system, including that of the University of California*, to disclose the information received in connection with ~~the limited partner agreements~~ *alternative investment vehicles, with other specified information*, at least once annually at a meeting open to the public. The bill would make a statement of legislative intent. Because this bill would impose new requirements on local entities relating to the collection of information and its presentation at an open meeting, it would impose a state-mandated local program.

The California Constitution requires local agencies, for the purpose of ensuring public access to the meetings of public bodies and the writings of public officials and agencies, to comply with a statutory enactment that amends or enacts laws relating to public records or open meetings and contains findings demonstrating that the enactment furthers the constitutional requirements relating to this purpose.

This bill would make legislative findings to that effect.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority. Appropriation: no. Fiscal committee: yes.  
State-mandated local program: yes.

*The people of the State of California do enact as follows:*

1 SECTION 1. It is the intent of the Legislature in enacting this  
 2 section to increase the transparency of fees paid by public pension  
 3 funds to ~~private equity general partners~~ *alternative investment*  
 4 *vehicles*. Pension funds pay significant fees to ~~private equity firms~~  
 5 *alternative investment vehicles* and do not have sufficient  
 6 information regarding the character and amount of those fees. As  
 7 fiduciaries, public fund trustees have a duty to maximize  
 8 investment returns in order to ensure promised benefits are  
 9 adequately funded and to minimize taxpayer costs. Because fees  
 10 paid to ~~private equity general partners~~ *alternative investment*

1 *vehicles* reduce returns, public fund trustees need to be able to see  
2 and understand all of the fees they are charged.

3 SEC. 2. Section 7514.7 is added to the Government Code, to  
4 read:

5 7514.7. (a) Every public pension or retirement ~~system~~ *system*,  
6 *including that of the University of California*, shall require ~~its~~  
7 ~~private equity fund managers, partnerships, portfolio companies,~~  
8 ~~and affiliates~~ *each alternative investment vehicle in which it invests*  
9 to make the following disclosures, on a form prescribed by the  
10 ~~system, in regard to each limited partner agreement:~~ *system:*

11 (1) The *annual* fees and expenses that the retirement system  
12 pays directly to the ~~private equity fund managers and partnerships~~  
13 ~~subject to the agreement:~~ *alternative investment vehicle.*

14 (2) The *annual* fees and expenses not included in paragraph (1)  
15 that are paid from the ~~private equity fund,~~ *alternative investment*,  
16 including carried interest, to the ~~private equity fund general partners~~  
17 ~~and affiliates:~~ *alternative investment vehicle.*

18 (3) The *annual* fees and expenses paid by the ~~private equity~~  
19 ~~portfolio companies to the private equity fund general partners~~  
20 ~~and affiliates:~~ *the portfolio companies held within the alternative*  
21 *investment to the alternative investment vehicle.*

22 (4) *The gross rate of return of each alternative investment*  
23 *vehicle since inception.*

24 (b) ~~Consistent with the requirements of Section 6254.26, a~~ Every  
25 public pension or retirement ~~system~~ *system*, *including that of the*  
26 *University of California*, shall disclose ~~the information received~~  
27 ~~pursuant to subdivision (a)~~ *the following* at least once annually at  
28 a meeting open to the ~~public:~~ *public:*

29 (1) *The information received pursuant to subdivision (a). The*  
30 *disclosure of this information shall be consistent with the*  
31 *restrictions described in subdivision (a) of Section 6254.26.*

32 (2) *The information described in subdivision (b) of Section*  
33 *6254.26.*

34 (c) For purposes of this section, the following definitions shall  
35 ~~apply:~~ *section:*

36 (1) *“Alternative investment” means an investment in a private*  
37 *equity fund, venture fund, hedge fund, or absolute return fund.*

38 (2) *“Alternative investment vehicle” means the limited*  
39 *partnership, limited liability company, or similar legal structure*

1 *through which the state or local public pension or retirement*  
2 *system invests in an alternative investment.*

3 ~~(1)~~

4 (3) “Carried interest” means a share of the profits of a private  
5 equity fund *an alternative investment vehicle* that is due to the a  
6 fund manager or general partner.

7 ~~(2)~~

8 ~~“Private equity” means an asset class consisting of equity~~  
9 ~~securities and debt in operating companies that are not publicly~~  
10 ~~traded on a stock exchange.~~

11 (d) This section shall apply to contracts the system entered into,  
12 extended, renewed, or amended on or after January 1, 2017.

13 SEC. 3. The Legislature finds and declares that Section 1 of  
14 this act, which adds Section 7514.7 to the Government Code,  
15 furthers, within the meaning of paragraph (7) of subdivision (b)  
16 of Section 3 of Article I of the California Constitution, the purposes  
17 of that constitutional section as it relates to the right of public  
18 access to the meetings of local public bodies or the writings of  
19 local public officials and local agencies. Pursuant to paragraph (7)  
20 of subdivision (b) of Section 3 of Article I of the California  
21 Constitution, the Legislature makes the following findings:

22 The information in the disclosures required under subdivisions  
23 (a) and (b) of Section 7514.7 of the Government Code ~~are is~~  
24 necessary to ensure public confidence in the integrity of  
25 investments made by retirement boards pursuant to ~~limited partner~~  
26 ~~agreements.~~ *alternative investment vehicles.*

27 SEC. 4. No reimbursement is required by this act pursuant to  
28 Section 6 of Article XIII B of the California Constitution because  
29 the only costs that may be incurred by a local agency or school  
30 district under this act would result from a legislative mandate that  
31 is within the scope of paragraph (7) of subdivision (b) of Section  
32 3 of Article I of the California Constitution.