After Pension-Return Lag, Stringer Prods Investors Over Fees

By DAN ROSENBLUM | Posted: Monday, October 26, 2015 5:00 pm

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SCOTT STRINGER: What are we paying, and for what?

The City Comptroller's Office last week told its private-market and hedge-fund money managers to provide more disclosure regarding their fees or lose future business from the country's fourth-largest public-pension system.

"…We plan to recommend to the [New York City Retirement Systems'] trustees that they adopt a policy by which they will not consider new or increased NYCRS capital commitments to any managers and their hedge funds that are not in full compliance," Chief Investment Officer Scott Evans said in an Oct. 19 letter sent to hedge-fund managers. It came on the heels of a disappointing year for pension fund investments, which produced a 3.4-percent return just a year after an outstanding yield of 17.4 percent of fiscal 2014.

What's Being Sought

He asked for a one-time historical analysis by the end of the year to determine management, performance and other fees, as well as quarterly reports after that. The information will be aggregated and made publicly available.

"Beginning immediately, we're demanding that all private asset-class managers disclose their complete historical and current fees and expenses as a condition of their continued relationship with our office," Comptroller Scott Stringer said in a statement. "These disclosures are a critically important step towards achieving greater transparency from our money managers."

The new requirement follows recent moves in that direction through Federal help. In July, Mr. Stringer and State Comptroller Thomas DiNapoli urged the U.S. Securities and Exchange Commission to require that private-equity funds clarify their fees and expenses, which can be hard for clients to calculate. Earlier this year, Mr. Stringer estimated that private money managers collected more than $2.5 billion in fees.

Private-equity and hedge-fund investments represent 8.1 percent of the five funds' asset allocations, according to the Comptroller's Office.

Quite a Comedown

The announcement came as Mr. Stringer announced the funds' 3.4-percent return in the fiscal year that ended in June. While that resulted in a $2.4-billion increase in assets, it fell below index-fund yields and was particularly disappointing after the fiscal 2014 gains and a 12.1-percent yield the year before that.

John McKay, a spokesman for the Comptroller's Office, discounted criticism that the Oct. 8 news release, which came out more than two months later in the year than last year's announcement, was muted because of lower performance than in those years. Instead, he said, the office released final numbers instead of the estimates it previously issued at the end of the fiscal year June 30. The office will also report quarterly and annual net returns when pension managers' fees are factored in. With those, the rate of return was 3.1 percent last year.

"While market returns were modest in fiscal 2015, we have confidence that our portfolio is well-positioned to maximize our ability to deliver our assumed rate of return over time," Mr. Evans said in a statement. "Moving forward, we will continue to find ways to improve our operations, attract and retain the best talent and grow these pension funds on behalf of our members, retirees and their beneficiaries."