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## **WSJ: Pension Funds Join in Fee Pushback.**

Tired of paying large sums to invest in private-equity funds, a group of small and midsize pension plans has banded together to successfully bargain for lower fees.

The deal is a sign of how some investors are trying to reclaim power from money managers and the first time such a consortium has won major concessions.

Led by Girard Miller, chief investment officer of the \$11 billion Orange County Employees Retirement System, six state and county pension funds have reached a tentative agreement to endorse the hiring of Pantheon Ventures, a New York firm, to invest between \$300 million and \$1 billion a year in various private-equity funds over the next few years.

The group expects to pay management fees of between 0.26% and 0.55% of the money it invests, depending on how much is placed in funds. That compares with management fees that can be as much as 1% of committed capital to invest with a “fund of funds” like Pantheon. Such firms allocate money to private-equity funds on behalf of investors.

The prospective fees are as much as 50% lower than Orange County and other smaller pension funds have been paying to access private-equity funds, according to the Orange County fund. It estimates that its savings could amount to \$5 million annually. The pension funds also will avoid common fees like those based on Pantheon’s performance or on money that has been pledged but not yet invested.

“The winning bid had lower fees” than the group had expected and provides access to more kinds of funds than anticipated, said Donald Pierce, chief investment officer of the \$7.6 billion San Bernardino County Employees’ Retirement Association, a member of the group.

The terms with Pantheon have to be approved by the boards of each pension fund. Orange County’s trustees approved the deal on Wednesday.

“We are tremendously excited,” said Kevin Albert, a Pantheon managing director. “We are looking forward to getting to work.”

Pension funds have moved into private equity and hedge funds to address shortfalls and deal with a rocky stock market. Despite recent gains from stockholdings, many plans remain underfunded and are looking at fee cuts to help close the gap.

Historically, huge pension funds, such as the \$284 billion California Public Employees’ Retirement System, or Calpers, have won concessions from private-equity and hedge-fund firms. But small and midsize pension plans wielded little bargaining power.

“This is really the first time” a coalition like this has been successful, said David Fann, chief executive of alternative investment adviser TorreyCove Capital Partners, which advises public pension funds.

The new group will still pay sizable fees. Pantheon allocates cash to private-equity funds that charge

their own layers of fees, and the pension group isn't getting any breaks on those, which can include a fee of as much as 20% of the fund's gains.

The Orange County system began a process in December to try to unite public pension funds, including several of California's smaller systems, and solicit bids from firms.

"We've tried to catapult the little guys onto the high-level playing field with the goliath pension plans," Mr. Miller said.

Mr. Miller, 63 years old, a former chief operating officer at mutual-fund company Janus Capital Group who spent years as a consultant to state and municipal governments, is the latest specialist in California to pressure private-equity firms to lower fees. Réal Desrochers, the head of private-equity investing for Calpers, has told buyout funds to cut fees if they want cash from the pension fund. Other big funds also have received fee discounts.

There likely is more attention paid to Mr. Miller than to most other pension leaders. In 1994, Orange County filed for bankruptcy protection with roughly \$2 billion of obligations, the largest municipal bankruptcy at the time. And, lately, Mr. Miller has become something of an evangelist for the cause of lower fees and is a frequent speaker around the country on the topic.

"We sure as heck don't need to layer another" set of fees on top of those charged by private-equity funds, he said.

Mr. Miller said he may encourage similar consortia to push fees lower for real-estate and hedge-fund investments. The existing group also may expand to include more funds from around the country.

"The process requires perseverance and lots of cat-herding," Mr. Miller said. "There are many voices and many decision makers who are each the center of their own universe."

It isn't clear how many similar groups can be developed, however.

"It's going to take a lot of energy since the marketing push is from the buyer and not the seller," said Mr. Fann, of TorreyCove Capital Partners. "The challenge will be to make sure everybody finds common ground."

By

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