Jack Ehnes
Chief Executive Officer

CALSTRS
HOW WILL YOU SPEND YOUR FUTURE?

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September 6, 2016

The Honorable Nancy Pelosi
House Democratic Leader
H-204 The Capitol
Washington, DC 20515

The Honorable Paul D. Ryan
Speaker of the House of Representatives
1233 Longworth HOB
Washington, D.C. 20515

Dear Leader Pelosi and Speaker Ryan:

As the CEO of CalSTRS, I am writing again to share our concerns about H.R. 5424, the Investment Advisers Modernization Act of 2016, which was reported out of the House Financial Services Committee and may be scheduled for consideration by the full House in the near future.

CalSTRS was established over 100 years ago to provide retirement benefits for California's public school teachers and is the largest educator-only pension fund in the world. The CalSTRS portfolio is currently valued at approximately $193 billion, which we carefully invest, as patient capital with a long-term investment horizon, to meet the retirement needs of over 900,000 plan participants and their families. [1]

We continue to have serious concerns with H.R. 5424, the Investment Advisers Modernization Act of 2016. This current legislation amends the Investment Advisers Act of 1940 to purportedly "modernize" certain requirements related to private equity advisors. In actuality, this proposed legislation would roll back important investor protections provided to funds, in terms of transparency and oversight by the Securities and Exchange Commission (SEC). Public pension funds such as CalSTRS, representing 900,000 California public school teachers, have significant portions of our funds invested in private equity investments and support the current law with respect to registration of these advisers and SEC examinations of these funds.

The current law, stemming from Dodd Frank, provides transparency in the form of registration and certain reporting from these private equity advisers. H.R. 5424 removes this transparency and instead undermines investor protection and trust. As recent as August 23, 2016, the SEC announced that private equity advisers affiliated with Apollo Global Management agreed to pay a $52.7 million settlement for certain fees, a loan agreement, and failing to supervise a partner who charged personal expenses to the funds. The Apollo enforcement action is not an isolated case as stated by the, Director

[1] California State Teachers' Retirement System Current Investment Portfolio as of July 31, 2016. http://www.calstrs.com/current-investment-portfolio and At-a-Glance http://www.calstrs.com/glance

of SEC Enforcement, Andrew Ceresney, "A common theme in our recent enforcement actions against private equity firms is their failure to properly disclose fees and conflicts of interest to fund investors."[2]

Lastly, the information provided by these required disclosures has helped to expedite the elimination of certain types of fund adviser fees that we regard as inappropriate, such as monitoring fees charged by certain private fund advisers. Accordingly, I would strongly urge you and your colleagues to oppose this legislation and not rollback these important transparency and reporting requirements which provide critical investor protection provided to CalSTRS and other public pension funds.

We call upon you to oppose this bill when it comes before the full House for a vote. Thank you for your consideration.

Sincerely,

Jack Ehnes
Chief Executive Officer

cc: Honorable Jeb Hensarling, Chairman, House Financial Services Committee
Honorable Maxine Waters, Ranking Member, House Financial Services Committee

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[2] https://www.sec.gov/news/pressrelease/2016-165.html