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**AFT Sounds Alarm over Private Equity, Urges Trustees with \$3 Trillion
under Management to Examine Investments**

***Report Published with Americans for Financial Reform Education Fund
Exposes Mediocre Returns, Risks to Retirees***

WASHINGTON—The American Federation of Teachers is advising its pension trustees with more than \$3 trillion under management to review their private equity investments after [a new report](#) exposed the diminished returns and structural risks associated with the industry.

“Retirement security is front of mind for hundreds of millions of Americans, including virtually all of our members, but private equity is all too often a detour into uncertainty,” said AFT President Randi Weingarten. “This report exposes how the industry has failed to match its rhetoric with reality and has instead introduced countless investment risks we should be trying to eliminate.

“Pension trustees have the power to engage with private equity managers and demand accountability, on behalf of the tens of millions of public employees hoping to retire with dignity and grace.”

With state budgets reeling in the wake of the 2008 financial crisis and now the coronavirus pandemic, fund managers and institutional investors flocked to private equity in a quest to maximize returns. In fact, net of fees, PE returns as a whole mirror traditional stocks and bonds—and contain significant additional risks.

[“Lifting the Curtain on Private Equity: A Guide For Institutional Investors and Policymakers,”](#) co-published today with the Americans for Financial Reform Education Fund, shines a light on opaque fees, dubious business practices, and the farcical situation in which public pensions are invested in private equity funds that profit through the privatization of the public services those employees work for.

The report gives fiduciaries and policymakers a road map to increase the transparency of private equity practices. The AFT Trustee Council, which helps educate and support trustees that oversee the retirement security of 1.7 million AFT members and their families, will now review the report.

Sen. Elizabeth Warren (D-MA), a sponsor of the Stop Wall Street Looting Act, which would increase private equity transparency, among other reforms, championed the findings: “Everyone should be able to build financial security and retire with dignity—yet harmful private equity practices are putting tens of millions of public employees at risk. This report confirms exactly why we need greater transparency and reforms to rein in the private equity industry, protect investors and hold predatory firms accountable.”

In the decade following the financial crisis, pension funds’ allocations to the alternative investment asset class that includes private equity doubled. But a trove of recent scholarship suggests that private equity might not be the deal investors were expecting.

The direct risks include extremely high fees, a lack of transparency, discrimination toward smaller investors, illiquidity, and the waiving of fiduciary duty by investment managers.

Indirect risks include reputational risks associated with the impact of destructive private equity practices on workers, consumers, the environment and local communities. Further risks include private equity’s agenda of privatization, tax avoidance and the increased economic inequality created by private equity practices. Taken together, these pose significant threats to state and local budgets, which in turn impact public sector employment and pension funds.

Lisa Donner, executive director of Americans for Financial Reform Education Fund, said: “This report lays out the significant risks that private equity investments present to pension funds and other institutional investors, along with important evidence that, contrary to inflated claims, their average net-of-fees performance in recent years has been about the same as the public equities markets.

“This industry's many abuses—of investors, workers, customers, patients and communities—are reason enough for thorough reform,” Donner said. “But it's increasingly clear that private equity is not delivering especially good returns for current and future retirees or any other investor.”

The AFT brings an extensive track record of providing trustees with information and recommendations to the new private equity report and expects many pension funds to take action. In 2015, the AFT and the Roosevelt Institute released “[All That Glitters Is Not Gold: An Analysis of U.S. Public Pension Investments in Hedge Funds](#),” which found that hedge funds failed to deliver any significant benefits to the 11 pension funds studied, and they were responsible for \$8 billion in lost investment revenue.

In the ensuing years, numerous pension funds named in the report—including the New York City Employees' Retirement System, the Ohio Public Employees Retirement System, and the retirement funds of New Jersey and Rhode Island—voted to divest from or make significant changes to their hedge fund portfolios.

This latest report finds fiduciaries can take steps to increase transparency in private equity practices and performance by developing appropriate benchmarks, requiring PE firms to disclose information related to portfolio companies and investment targets so they can assess any adverse consequences for stakeholders, and adopting investment policies that require private equity firms to refrain from eliminating public sector jobs and privatizing public assets as part of their business model.

Policymakers can take steps to curb the worst abuses of the industry, including requiring private equity firms to share responsibility for liabilities of companies under their control and end private equity firm immunity for violations of law by portfolio companies. They could require private equity firms to prioritize worker pay and worker retention in the bankruptcy process, require them to retain risks related to debt arrangement to disincentivize the use of bankruptcy, and ensure that private equity firms are held accountable when they charge pension funds improper or illegal fees and expenses.

Policymakers could further require private equity firms to disclose all fees and returns to provide investors with a comprehensive picture of investment performance, require them to disclose results from SEC compliance exams, ban dividends for two years after a portfolio company is acquired, and limit monitoring and transaction fees to disincentivize asset stripping and encourage value-generating management and investment instead.

The AFT is a strong supporter of the Stop Wall Street Looting Act, sponsored by Sen. Warren and Rep. Pramila Jayapal and introduced in 2019. Included in that bill are [provisions](#) that would dramatically improve the transparency of private equity investments, which would allow pension funds to make better decisions on behalf of retirees and evaluate the industry's inflated claims.

The report [is available here](#).

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The AFT represents 1.7 million pre-K through 12th-grade teachers; paraprofessionals and other school-related personnel; higher education faculty and professional staff; federal, state and local government employees; nurses and healthcare workers; and early childhood educators.