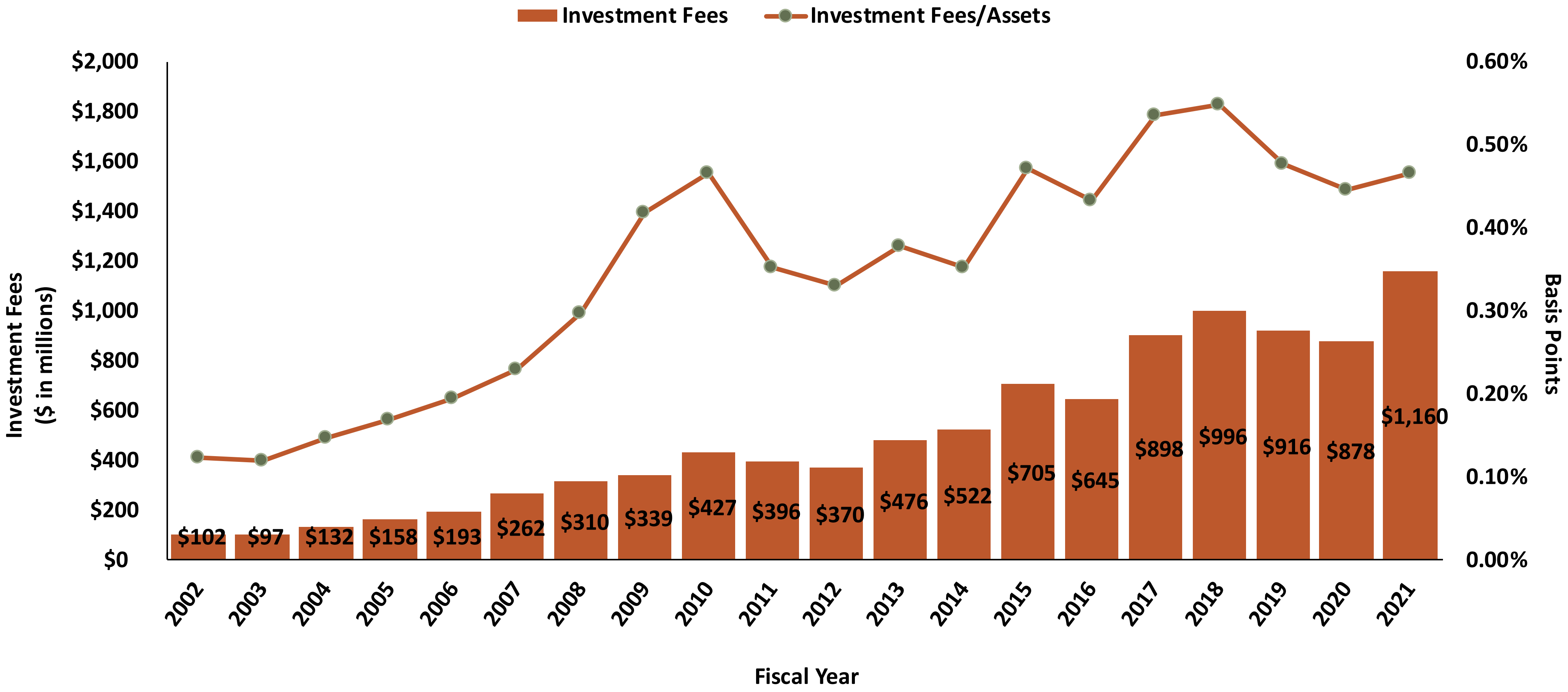
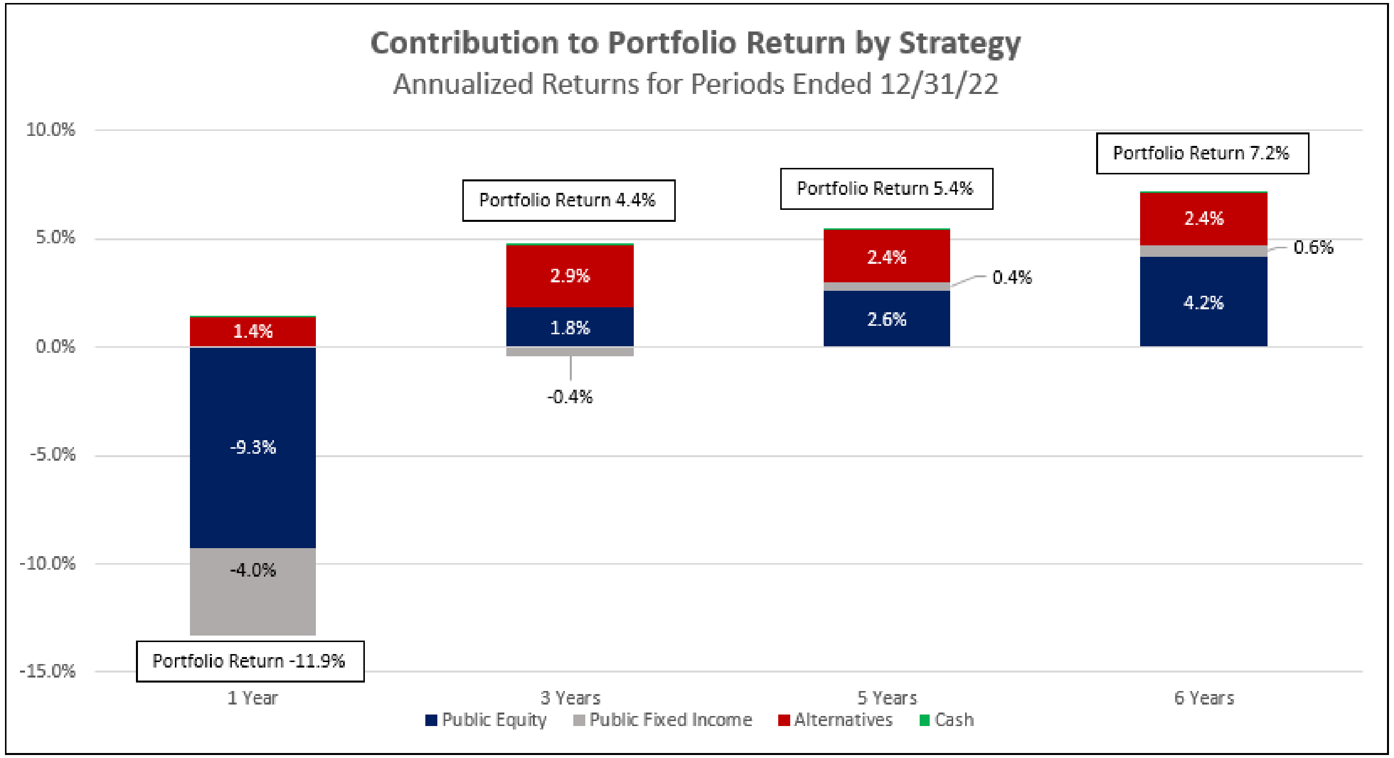
OFFICE OF THE NEW YORK CITY
COMPTROLLER

Explanation of Historical Investment Fees

20 Years of Historical Investment Fees as a Basis Point of Total Market Value of Assets

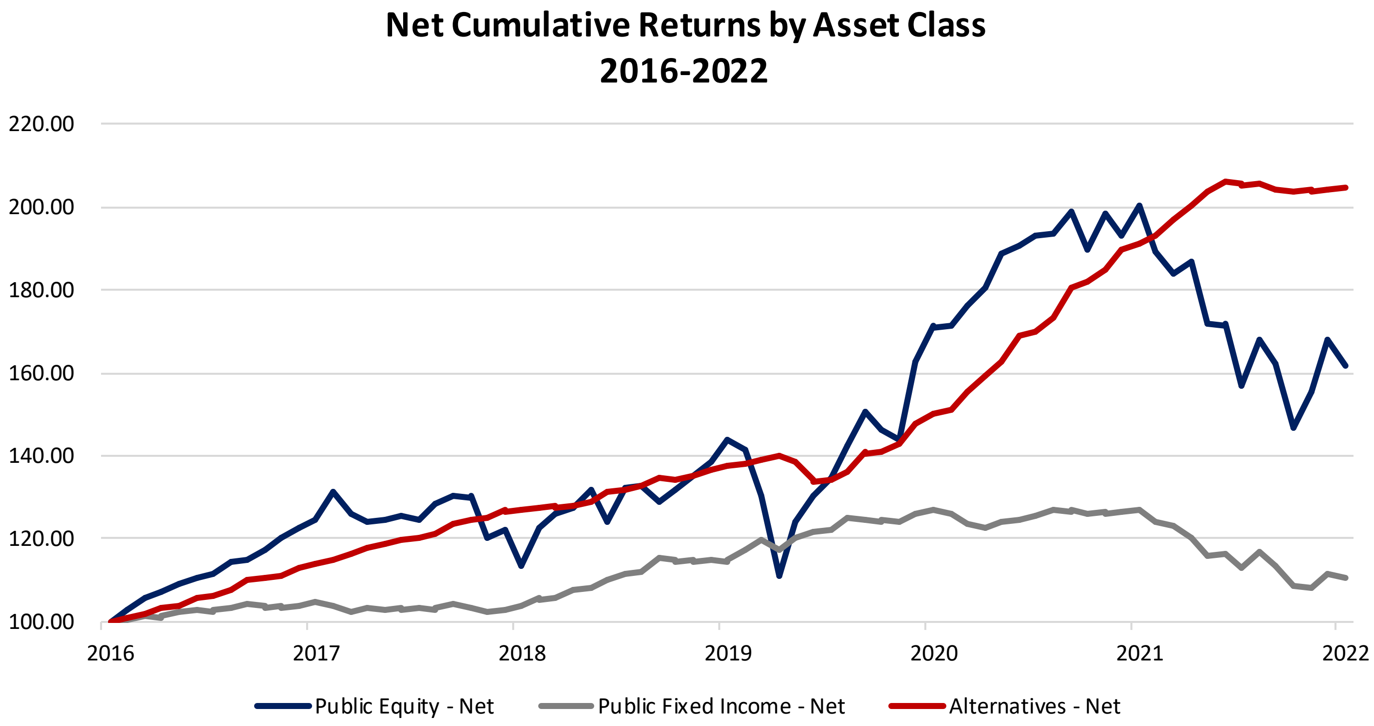


Alternative investments consistently contributed positive returns to the portfolios even as public markets traded significantly lower in 2022.



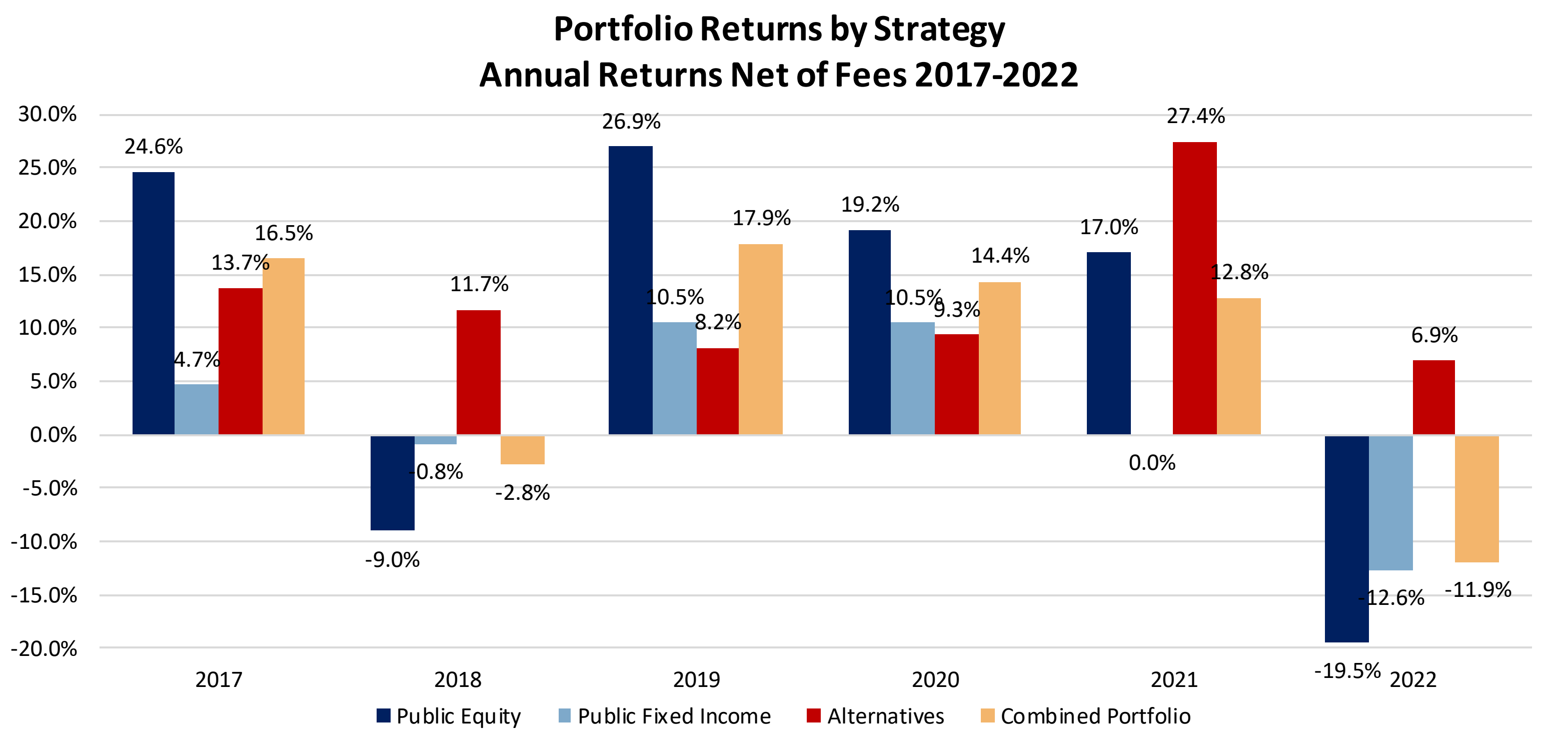
Note: Annual time weighted, portfolio accounting returns net of fees for all systems combined shown above. Alternative Investments include Private Equity, Real Assets, Opportunistic Fixed Income and Hedge Funds.

Despite the higher fee load, alternative investments outperformed public investments over the period.



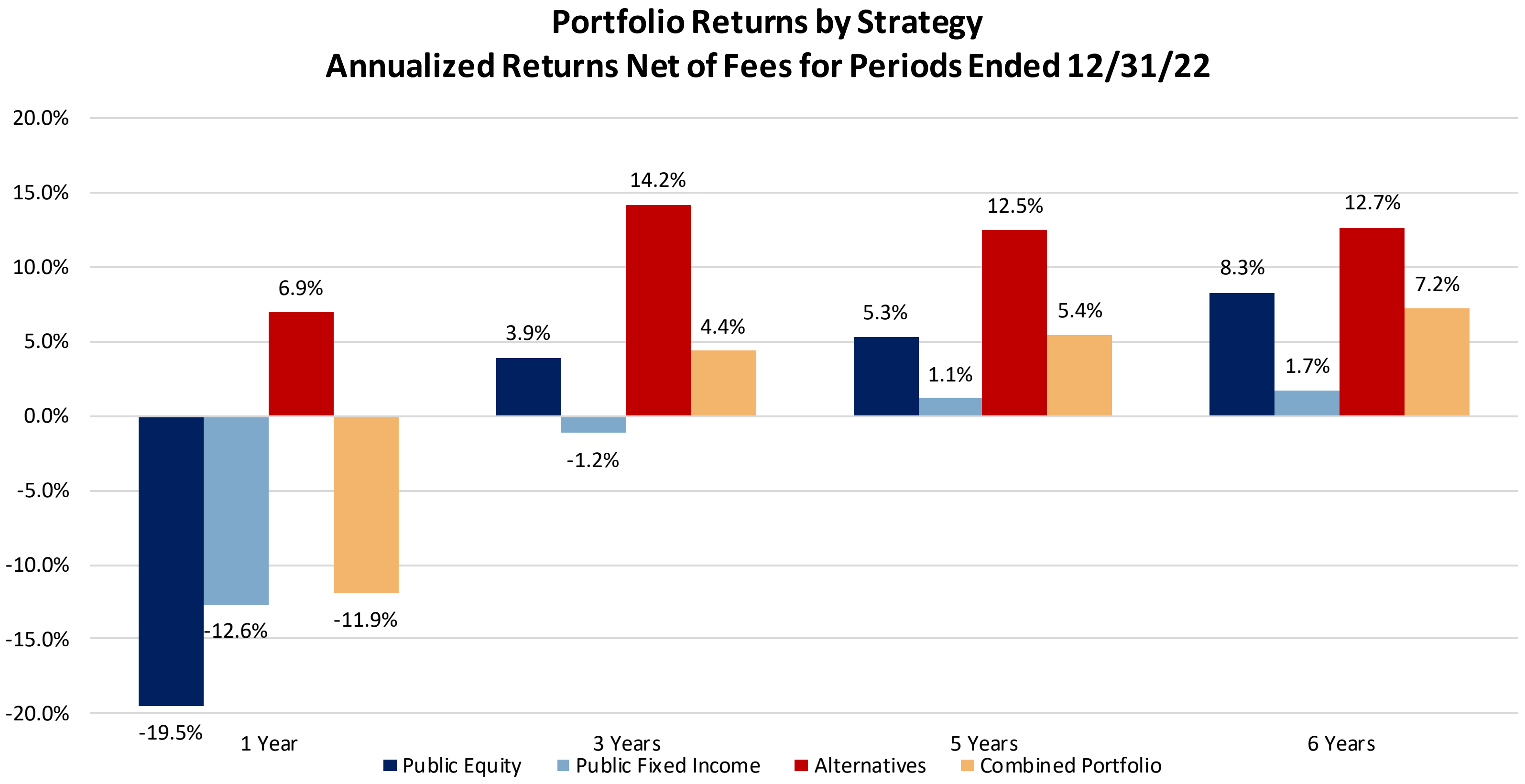
Note: Portfolio accounting returns net of fees for all systems combined shown above. Alternative Investments include Private Equity, Real Assets, Opportunistic Fixed Income and Hedge Funds.

Public Markets Investments outperformed Alternative Investments during some years in the observation period, however…



Note: Portfolio accounting returns net of fees for all systems combined shown above. Alternative Investments include Private Equity, Real Assets, Opportunistic Fixed Income and Hedge Funds.

Alternative Investments showed more consistent growth and outperformed Public Markets Investments over the observation period.



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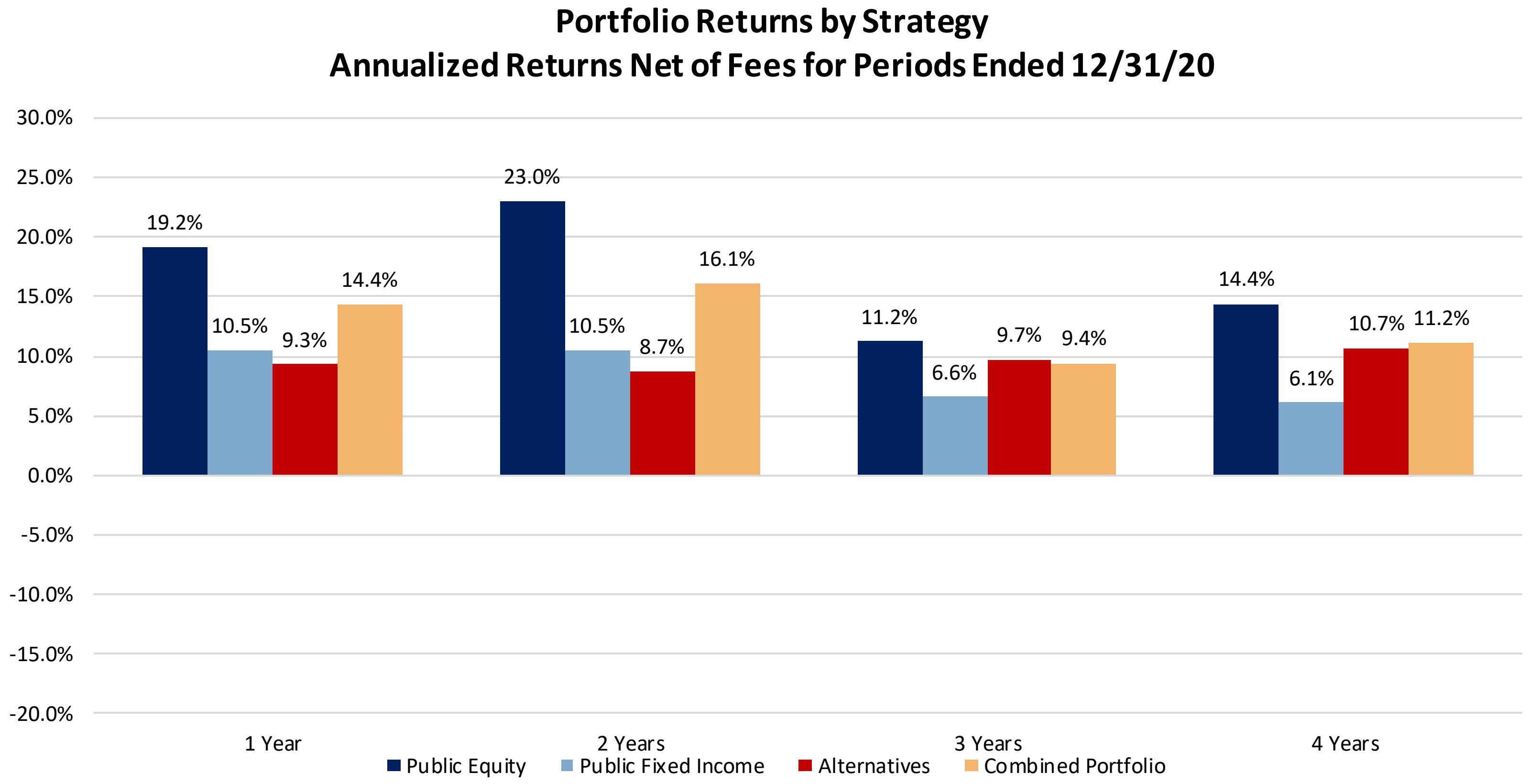
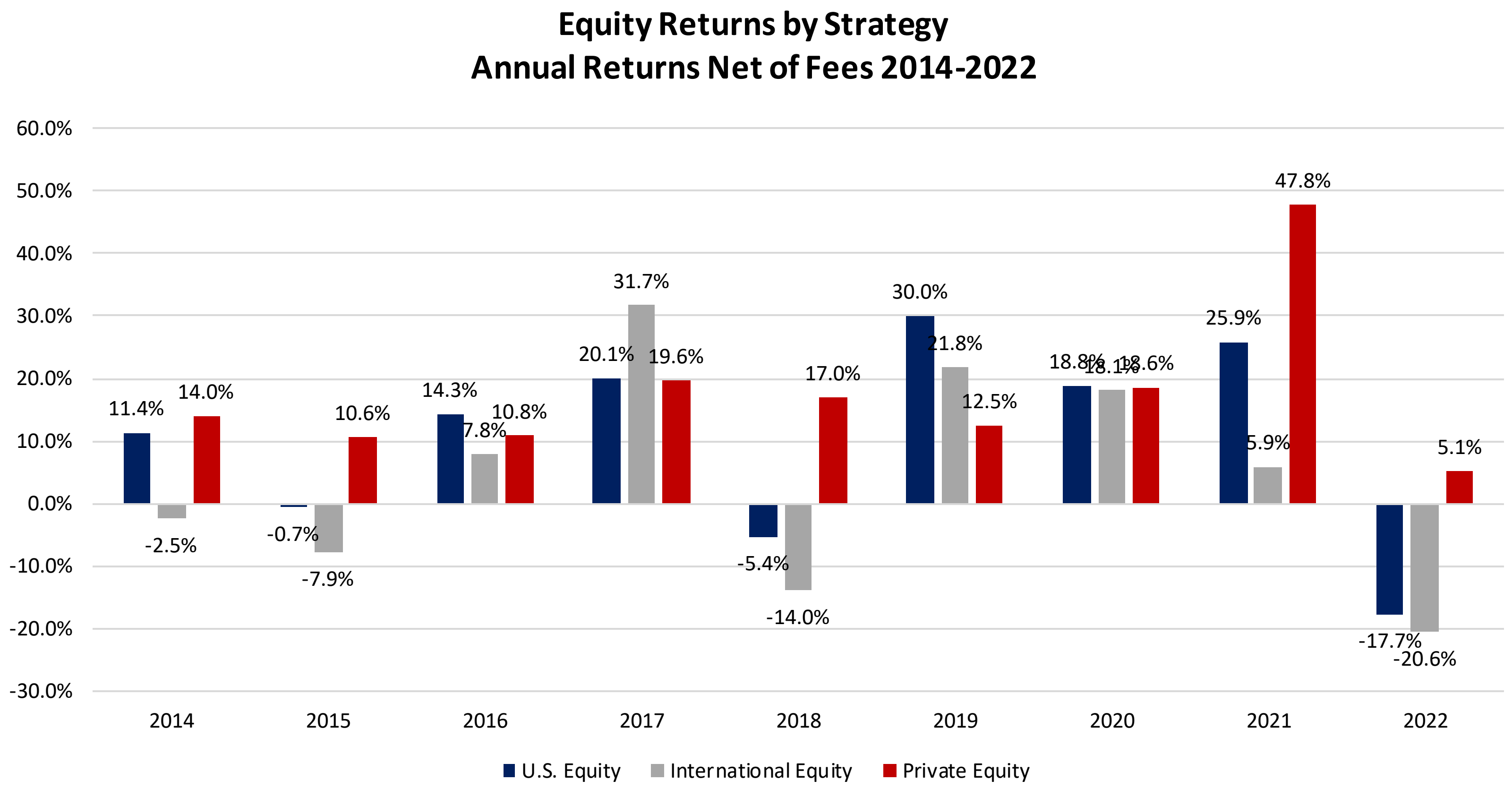
In the 4 years excluding 2021 & 2022, Alternatives showed positive returns, but underperformed public equities.



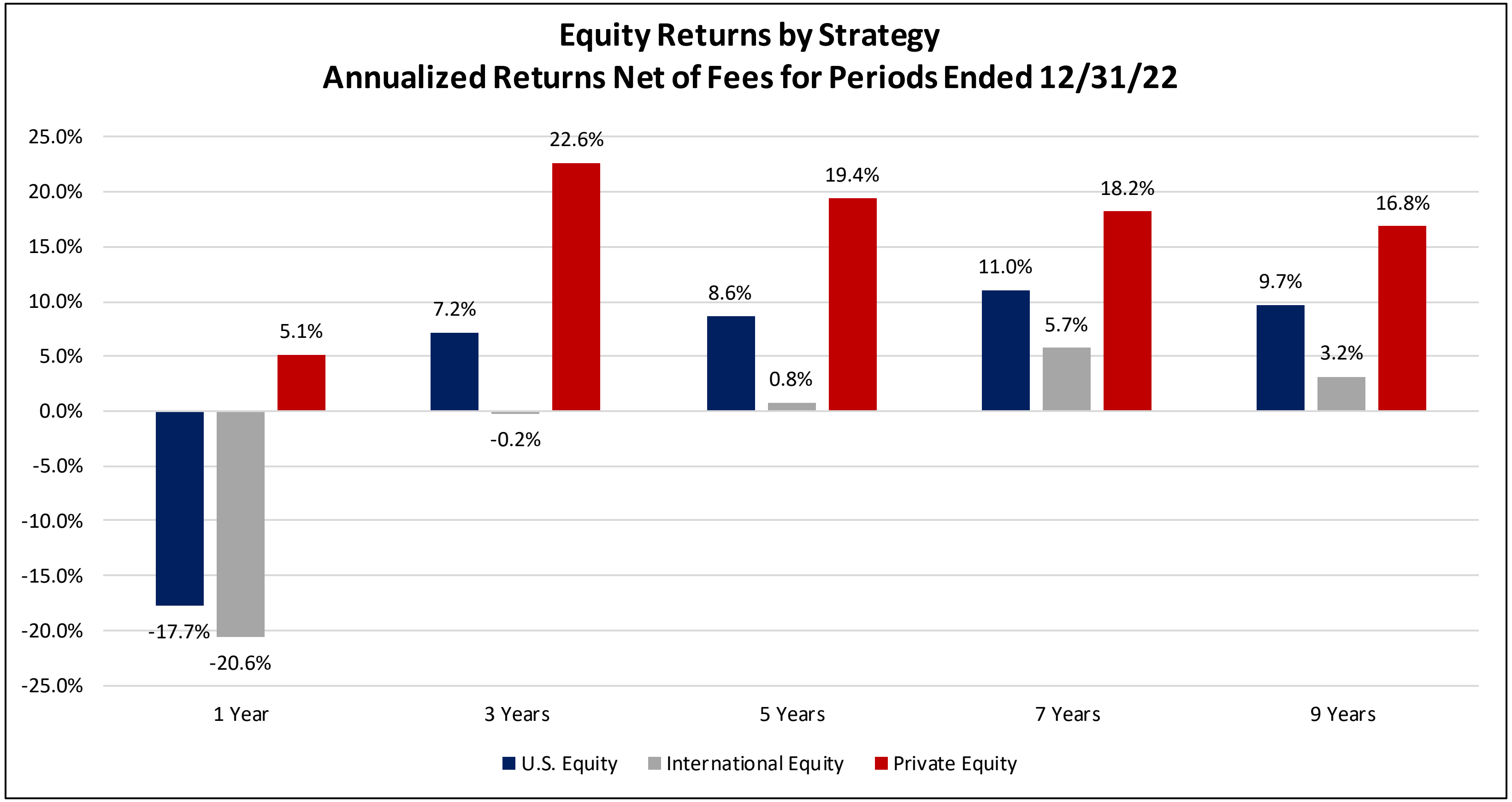
Note: Portfolio accounting returns net of fees for all systems combined shown above. Alternative Investments include Private Equity, Real Assets, Opportunistic Fixed Income and Hedge Funds.

One observes similar trends when comparing Public Equity investments with Private Equity investments. Public markets may outperform during some years, but…



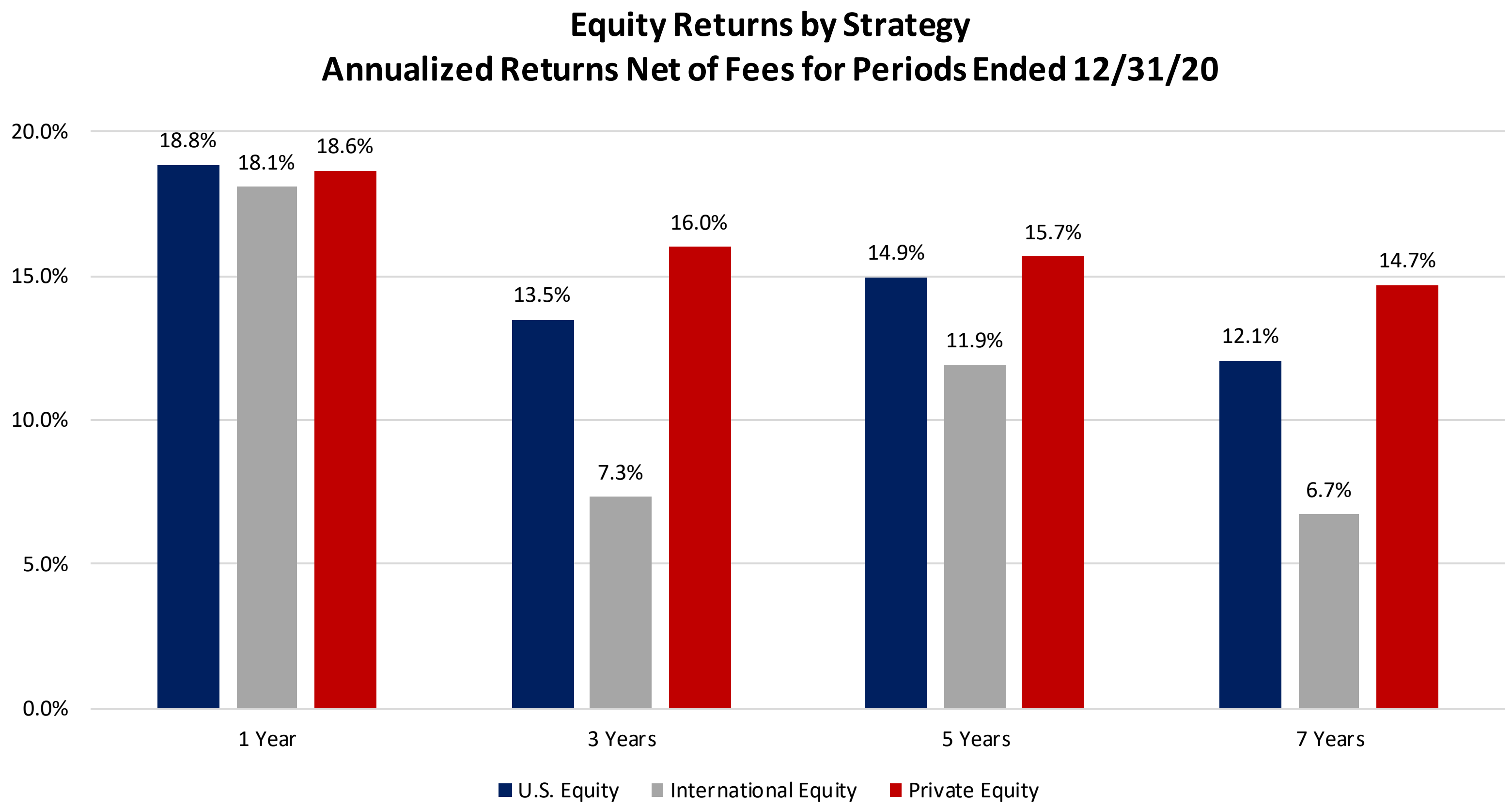
Note: Portfolio accounting returns net of fees for all systems combined shown above.

Over the long run, Private Equity tends to outperform.



Note: Portfolio accounting returns net of fees for all systems combined shown above.

The case holds true when excluding returns for 2021 & 2022



Note: Portfolio accounting returns net of fees for all systems combined shown above.

Private Market Investment Costs

The two primary costs of investing in a private market fund include:

- **Management Fees**:
  - Paid on a regular (ie, annual) basis to the manager through capital calls
  - Paid to the manager for sourcing, monitoring, and exiting investments

- **Carried Interest***:
  - Paid only when investments are exited
  - Paid on a share of the profits generated by successful investments

Private Markets Investment Costs: Example of a Distribution Waterfall and How Carried Interest is Paid

High Level: Investment assumptions and gross return metrics

Portfolio consists of a single investment held for 4 years
Initial Cost: $100, Sold after 4 years for $250

Gross TVPI = 2.5x; Gross IRR = 25.7%

Cash Flow Type	Year 1	Year 2	Year 3	Year 4
Investment	$ (100.00)			
Mgmt Fees	$ (1.50)	$ (1.50)	$ (1.50)	$ (1.50)
Divestment				$ 250.00

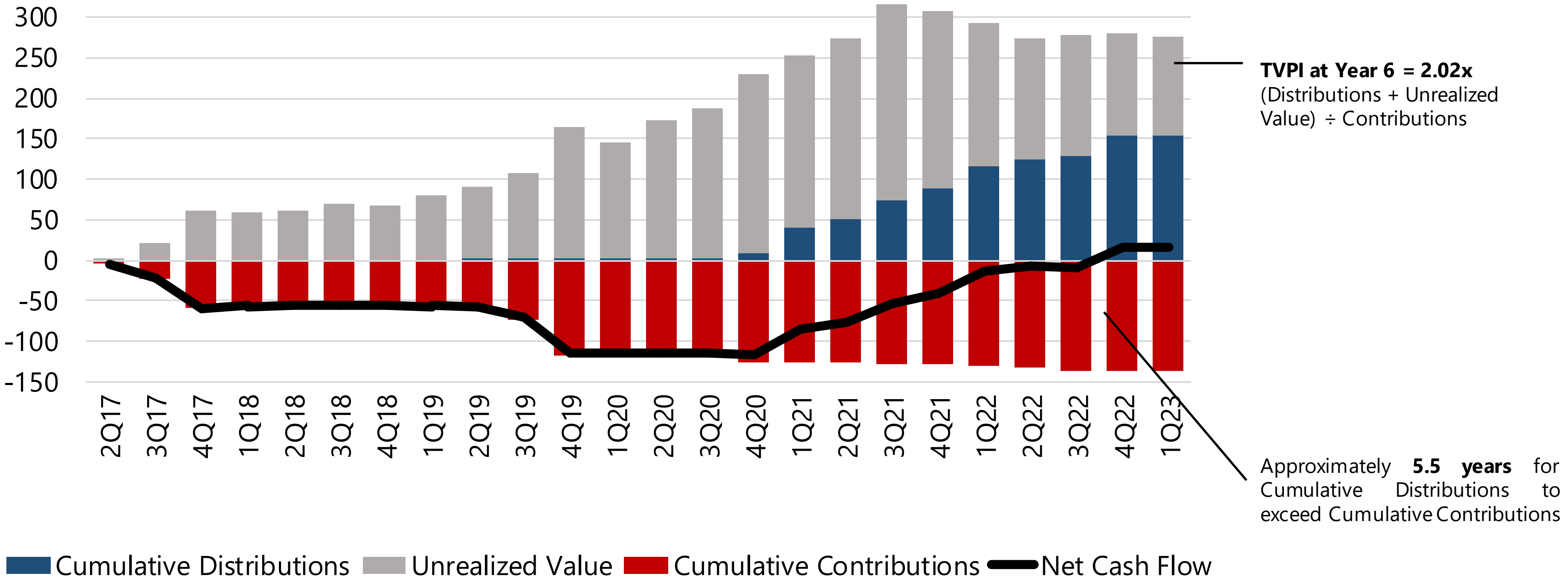
Considering costs: How the sale proceeds are allocated*

Payment Priority	Amount to LP	Amount to GP	Total
Return of Invested Capital	$ 100.00		$ 100.00
Return of Management Fees	6.00		6.00
Return of Preferred Return to Investor	36.05		36.05
Catch-Up Payment to GP		9.01	9.01
Split of Remaining Profits (80% LP / 20% GP)	77.95	20.99	98.94
Total Received from Sale Proceeds	$ 220.00	$ 30.00	$ 250.00
Total Received from Investment Profits	$ 120.00	$ 30.00	$ 150.00
Share of Investment Profits	80.0%	20.0%	

Net TVPI = 2.21x; Net IRR = 20.6%

* Assumes standard 150bp management fee and 20% GP carried interest. The systems' prevailing management fee of 130bp and 17.5% GP carried interest would yield 2.25x Net TVPI and 21.2% Net IRR in this example.

Example PE Performance Characteristics



A fund begins by calling capital (contributions) for investments and fees. Over time, the unrealized value of the investments increases. Eventually, as investments are exited, the fund returns distributions to investors. On average, it may take 5-7 years for total distributions to exceed total contributions.

How the Systems Reduces Fees Paid to PE Managers

The systems are long-term investors of scale in alternative investments.

- BAM negotiates the best possible economic terms for the systems' private market investments. Often that includes taking advantage of incentive discounts on management fees based on commitment size or by participating in an early fund closing. BAM seeks to participate in those incentives, as well as negotiate further concessions where possible.

- For example, in Private Equity, BAM has negotiated co-investment side car vehicles that invest alongside a private equity fund on a no management fee, no carried interest basis. This has had a meaningful impact on the overall blended management fees and carried interest that the systems pay.
  - For example: $500 million commitment to a new PE fund, where $375 million is committed to the main fund (at a 1.5% management fee and 20% carried interest) and $125 million is committed to a no-fee, no-carry co-investment side car, the blended economics result in a management fee of 1.125% and a carried interest rate of 15%.

- Based on the diversified mix of strategies in the portfolio and the preferred economic terms that BAM has negotiated on behalf of the systems, the current portfolio weighted average management fee is 1.30% and the weighted average carried interest is 16.9%. This is meaningfully below the typical industry average of 1.50%-2.00% for management fees and 20% for carried interest.