Management fees are specified in contracts between private equity funds and the investors in these funds. But these are not the only fees that PE firms charge. They typically claim 20% of any profit the PE fund realizes on its investments as a bonus or performance fee. This performance fee—so-called "carried interest" taxed at half the rate of ordinary income—is generally not reported to investors. Private equity funds simply report returns net of these performance fees. But these fees cut deeply into the returns earned by pension funds and other private equity investors—and workers, retirees, and taxpayers have a right to know how large these payments are.

Private Equity: The Impact

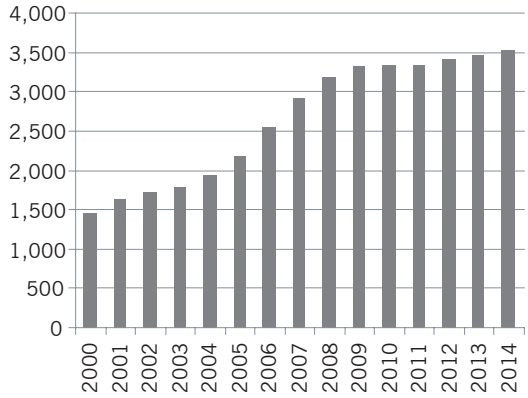
Between 2000 and 2014, U.S. private equity firms invested $5.2 trillion in 32,200 leveraged buyouts that affected some 11.3 million workers in U.S. companies—considerably more than the number of workers who are currently union members. Over that period, the number of active PE firms globally grew from under 1,500 to over 3,500—a 143% rise (see graph). And, while PE investments fell sharply during the Great Recession, they have since largely recovered their pre-crisis levels. Currently, there are 3,883 U.S. private equity firms and 12,992 PE-owned companies headquartered in the United States.

In our book, *Private Equity at Work: How Wall Street Manages Main Street*, we explain how private equity firms have become such an important force in the economy and why regulators need to rein in their activities. That is because they are investors that actively manage the companies they buy, but are treated as passive investors and not held accountable for their actions. Before a company is ever purchased, the general partners of the PE fund (who make all decisions for the fund) develop a plan for how much debt can be leveraged on the company, how the company's cash flow will be used to service the debt, and how the PE firm will exit the company at a profit within a five-year window. They oversee company operations; make decisions that affect workers jobs, pay, and pensions—and then walk away. While law treats PE funds as investors, they behave as managers and employers in the companies they own.

Sometimes private equity does perform as advertised—providing access to management expertise and financial resources that help small companies grow and improve their competitiveness. Small companies have relatively few assets that can be mortgaged, but many opportunities for operational improvements in information technology, accounting, management, and distribution systems. Most PE investments, however, are in larger companies that already have modern management systems in place and also have substantial assets that can be mortgaged. Here, private equity firms use debt and financial engineering strategies to extract wealth from healthy companies, and workers, managers, and suppliers often pay the price. Job destruction outweighs job creation.

Private equity affects the lives of Americans in many ways—as workers, retirees, consumers, renters, and community members. Despite the fact that private equity ownership often leads to job and wage loss for workers, pension funds ("workers' capital") account for fully 35% of all investments in PE funds. Most workers do not know that their retirement savings are invested in these funds and may be putting other companies and their workers at risk. And despite the hype, these investments often don't yield the high returns for retirement funds that private equity firms promise. Moreover, since the Great Recession, private equity and hedge funds have bought up more than 100,000 troubled mortgages and are renting them back to people who lost their homes. In October 2015 alone, Blackstone bought up 1000 rental units in New York City as well as the City's iconic rent-controlled Stuyvesant Town-Peter Cooper Village—making the PE firm one of the city's largest landlords.

Active Private Equity Firms, Globally, 2000-2014



Note: A firm is defined as "active" if it has either raised a fund in the prior five years *or* completed a deal in the prior three.