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Capital Pool

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Capital Pool features exclusive reporting and commentary on what's driving LP decision-making, with senior funds columnist Jessica Hamlin.

(Alexander Spatari/Getty Images)

In a routine performance update to the board of trustees last week, Steven Meier, the chief investment officer of New York City's $280 billion pension fund system, pulled up a shocking slide.

The New York City Employees Retirement System—the second-largest of NYCRS' five pensions—has approximately $8.6 billion invested in PE funds. The slide showed that over the past 10 years, that strategy has underperformed the Russell 3000 by 300 basis points.

"Steve, just real quick, I mean that's a pretty amazing figure right there," said Bryan Berge, the chair of NYCERS' board of trustees and the chief pension administrator for the mayor's office.

For Berge, the 300 basis point figure mired in red revived the age-old question: Does PE's illiquidity premium—the idea that locking up capital in illiquid funds will lead to greater returns than if that same capital had gone into the stock market—really exist?

"We have this benchmark because it's supposed to represent a liquidity premium for our money being locked up, and we're not getting it. We've never gotten it," Berge said.

If PE investments aren't outperforming the public markets, is the opportunity cost really worth it? This question has been the subject of industry debate for years.

On an individual basis, whether a PE portfolio outperforms the public market depends, in part, on its investor. In New York, for example, PE returns across the city's pension plans ranged between 4.3% to 5.4% in FY 2024, compared to its largest peers, Calpers and Calstrs, which reported PE returns of 10.9% and 8.6%, respectively.

In May, the NYC pension system finalized a $5 billion sale of its PE portfolio as part of a "strategic realignment." In the board presentation last week, Meier said that the PE team has made a number of new investments, including co-investments, to compensate for poor performance in the portfolio.

He also attributed the PE portfolio's underperformance relative to the public markets, in part, to a strong run for the public markets.

"It's easier for public equity markets to outperform private equity markets. They're more volatile; they're obviously measured and weighed every day through closing stock prices, or intra-day, for that matter. Versus the more backward-looking quarterly reviews for private equity."

On a broader basis, PitchBook's Benchmarks reports show how many private market strategies regularly outperform public market comparables.

Still, depressed exits, limited distributions to LPs and fundraising challenges over the past few years have many investors reevaluating the role of PE in their portfolios.

At NYCERS, at least, Meier is optimistic about the asset class's longer-term performance, a bullishness reflected in his push in recent years to increase the pension's PE allocation and ramp up its co-investment program. On co-investments, LPs typically don't pay management fees or share in the fund's profit.

"I do think we'll look back and say, 'private equity: was it really worth it or not?'" Meier said in the meeting. "The trick is to pick the right managers, and then, perhaps as importantly or slightly less importantly, make sure you have the right fee structure in place."

IN LP NEWS

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Washington's $1.5B: The Washington State Investment Board is making $1.5 billion in commitments to private market funds this year, according to board-approved annual investment plans. Allocations include a $600 million investment in TPG Partners X and a $300 million commitment in an opportunities fund out of Sixth Street.

UTIMCO boosts privates: UTIMCO boosted its allocation to private market investments and lowered its real estate target for FY 2026, at a meeting of the board of directors Thursday.

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Capital Pool is written by Jessica Hamlin and edited by Heather West.

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