

# Private equity delivers the strongest returns for retirees across America

AMERICAN  
INVESTMENT  
COUNCIL

2021 Public Pension Study



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“A long-term commitment and investment in the private equity asset class has enhanced our ability to deliver on our mission of providing retirement security to Missouri’s educators and education employees after a full career of service. Private equity, within the Missouri PSRS/PEERS investment portfolio, has produced net-of-fees returns significantly greater than the returns achievable in publicly traded stocks over all time periods.”

**CRAIG HUSTING,**  
CHIEF INVESTMENT OFFICER,  
PUBLIC SCHOOL & EDUCATION EMPLOYEE  
RETIREMENT SYSTEMS OF MISSOURI

## A MESSAGE FROM AIC PRESIDENT & CEO DREW MALONEY

July 2021



As we near the end of the COVID-19 pandemic and hopefully turn the corner towards a bright summer, Americans are incredibly grateful for the hard work and resilience of our public servants. From emergency response personnel to schoolteachers, essential members of our communities stepped up when we needed them most.

After a year as unusual and uncertain as 2020, it is important for all of us to recognize these individuals and the work they do, day and night, to keep our communities safe and prosperous. Supporting public pension funds is one of the most significant ways we can show our gratitude. At their essence, public pensions represent a promise to take care of the people who take care of us.

In order to offer retirement security for our essential public sector workers, these funds must consistently generate strong investment returns. Almost all of them turn to private equity for help. Since 2012, the American Investment Council has examined the investments and returns of America's largest public pension funds. Private equity investments delivered a median annualized return of 12.3 percent over the previous 10 years — a greater return than any other asset class.

Pension funds partner with private equity not only for the superior returns but also to diversify their portfolio. With private markets increasing role in capital formation, it is important that pension funds have access to those investments and private equity is one of those avenues.

For the second year in a row, the Illinois State Board of Investment had the best performing private equity portfolio, earning a 16.10 percent annualized return for public servants in the Land of Lincoln, net of fees. The West Virginia Investment Management Board, Teachers Retirement Association of Minnesota, and Massachusetts' Pension Reserves Investment Trust earned spots two through four, respectively, all delivering returns above 15 percent, net of fees.

Private equity delivered for millions of Americans last year, keeping businesses open and employees on payroll during a historic public health and economic crisis. Private equity-backed companies rapidly shifted production to personal protective equipment and other essential medical items at the start of the pandemic and played a role in every step of the vaccine development and distribution process.

The positive impact of private equity can be felt in every state and community across America. Private equity firms are providing critical capital and expertise to grow businesses and support jobs, all while generating impressive returns to help public sector workers enjoy a more secure retirement.

A handwritten signature in blue ink that reads "Drew Maloney". The signature is fluid and cursive, with a large, stylized "D" and "M".

**Drew Maloney**  
President & CEO,  
American Investment Council

# Executive summary

For the past seven years, the American Investment Council has produced an annual public pension study examining the investments and returns of America's largest public pension funds.

EACH YEAR, OUR STUDY HAS FOUND THAT

Private equity is the best returning asset class in a public pension portfolio, outperforming all other asset classes.

12.3%

In 2020, private equity continued to provide strong return on investment, with a median annualized return of 12.3 percent over a 10-year period.

85%

Our study found that 85 percent of the public pensions in our sample had some exposure to private equity.

9%

On a dollar weighted basis private equity makes up 9 percent of public pension portfolios.

34 million

The study analyzed 178 U.S public pension funds which represent nearly 34 million public sector workers and retirees.

16.10%

The pension with the best performing private equity portfolio is Illinois State Board of Investment which had a 10-year annualized return of 16.10 percent as of June 30, 2020.



# Private equity: A critical ingredient to investment success

## Top 10 public pension funds by private equity returns

ANNUALIZED 10-YEAR PRIVATE EQUITY RETURNS

	Members	Return
1. <b>Illinois State Board of Investment</b>	165,201	<b>16.10%</b>
2. <b>West Virginia Investment Management Board</b>	N/A	<b>16.06%</b>
3. <b>Teachers Retirement Association of Minnesota</b>	204,683	<b>15.90%</b>
4. <b>Massachusetts Pension Reserves Investment Trust</b>	300,000	<b>15.03%</b>
4. <b>Ohio School Employees Retirement System</b>	243,084	<b>15.03%</b>
6. <b>Public School and Education Employee Retirement Systems of Missouri</b>	284,251	<b>14.70%</b>
7. <b>Iowa Public Employees' Retirement System</b>	375,340	<b>14.65%</b>
8. <b>State of Michigan Retirement System</b>	530,000	<b>14.40%</b>
9. <b>Stanislaus County Employees Retirement Association</b>	10,167	<b>14.30%</b>
10. <b>Philadelphia Board of Pensions and Retirement</b>	66,328	<b>14.10%</b>

## Top 10 public pension funds by dollars invested in private equity

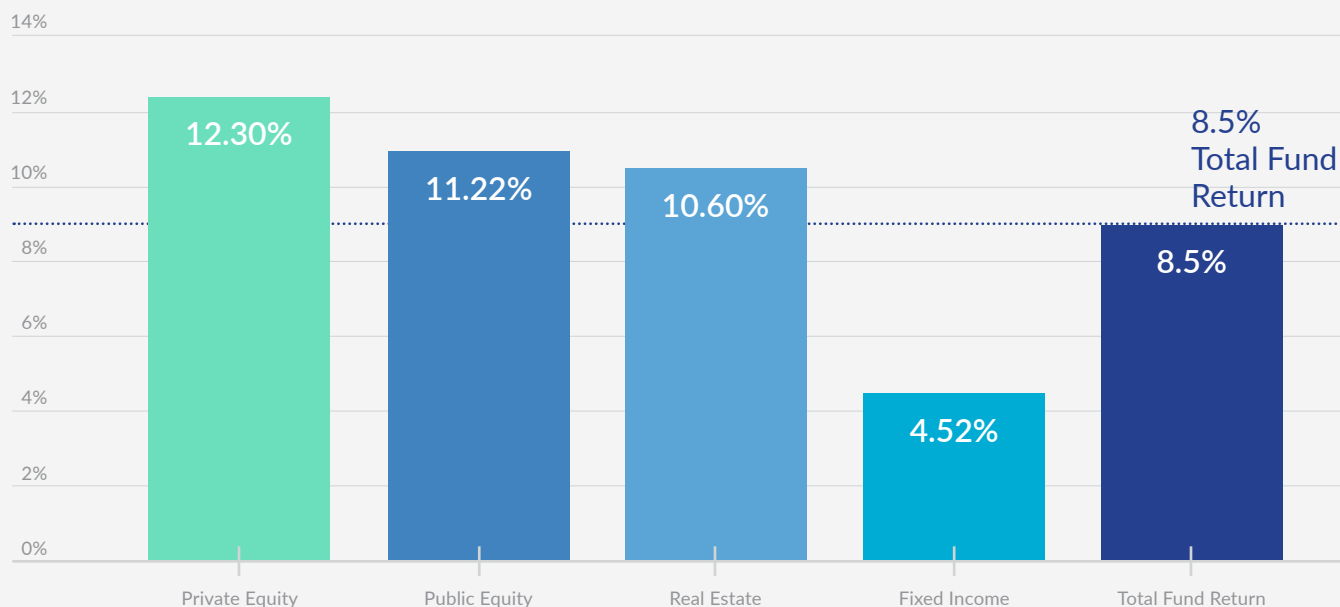
ANNUALIZED 10-YEAR PRIVATE EQUITY RETURNS

	Members	Private Equity Investment (Bil.)
1. <b>California Public Employees' Retirement System</b>	2,056,438	<b>\$26.50</b>
2. <b>Teacher Retirement System of Texas</b>	1,682,708	<b>\$23.93</b>
3. <b>California State Teachers' Retirement System</b>	976,045	<b>\$23.54</b>
4. <b>Washington State Investment Board</b>	603,864	<b>\$23.45</b>
5. <b>New York State Common Retirement Fund</b>	1,160,743	<b>\$20.31</b>
6. <b>Oregon Public Employees Retirement System</b>	378,829	<b>\$18.48</b>
7. <b>State of Michigan Retirement Systems</b>	530,000	<b>\$13.78</b>
8. <b>New York City Public Pension Funds</b>	596,681	<b>\$12.85</b>
9. <b>The Florida Retirement System</b>	2,600,000	<b>\$11.62</b>
10. <b>Ohio Public Employees Retirement System</b>	1,361,356	<b>\$9.94</b>

# Private equity delivers **robust returns for public pension beneficiaries**

## Private equity investments outperform other asset classes

BASED ON 10-YEAR MEDIAN ANNUALIZED RETURNS



A median  
annualized return  
of 12.30 percent





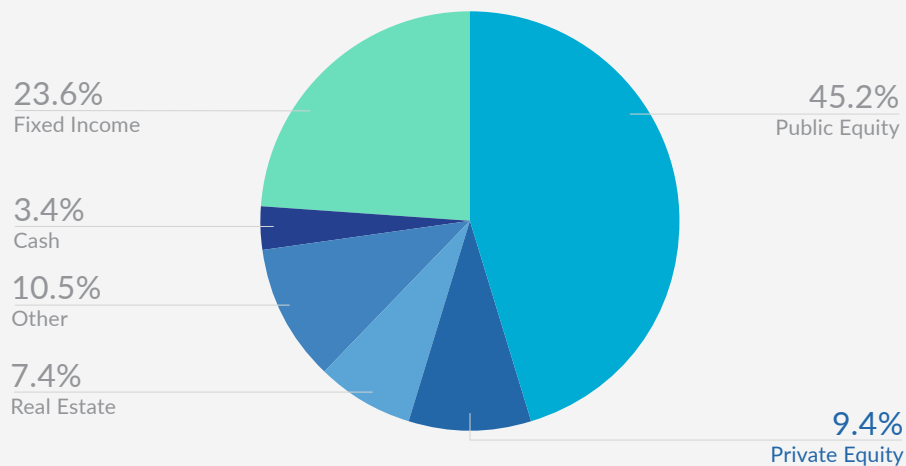
# Pension fund **asset allocation**

9% of the assets  
in pension funds  
are invested  
in private equity



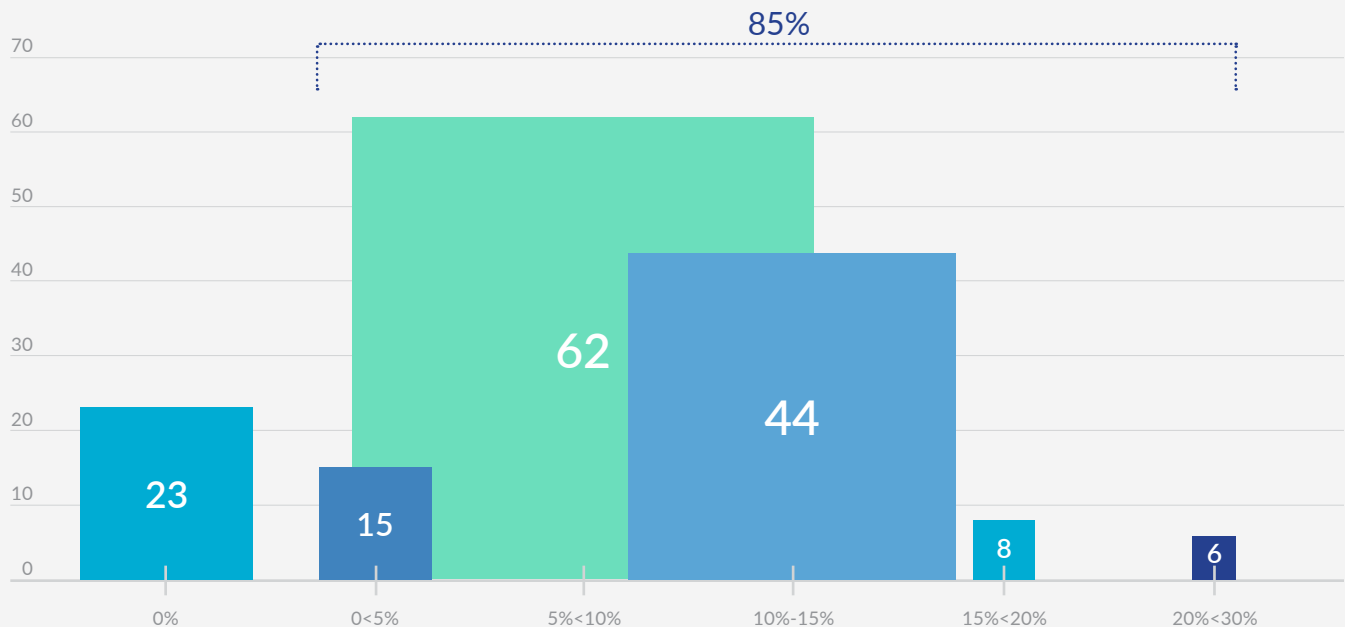


## U.S. Public pension funds invest 9% of their portfolios in private equity, on a dollar-weighted basis



## 85% of public pension funds in the study have some exposure to private equity

NUMBER OF PENSIONS BY PRIVATE EQUITY ALLOCATION



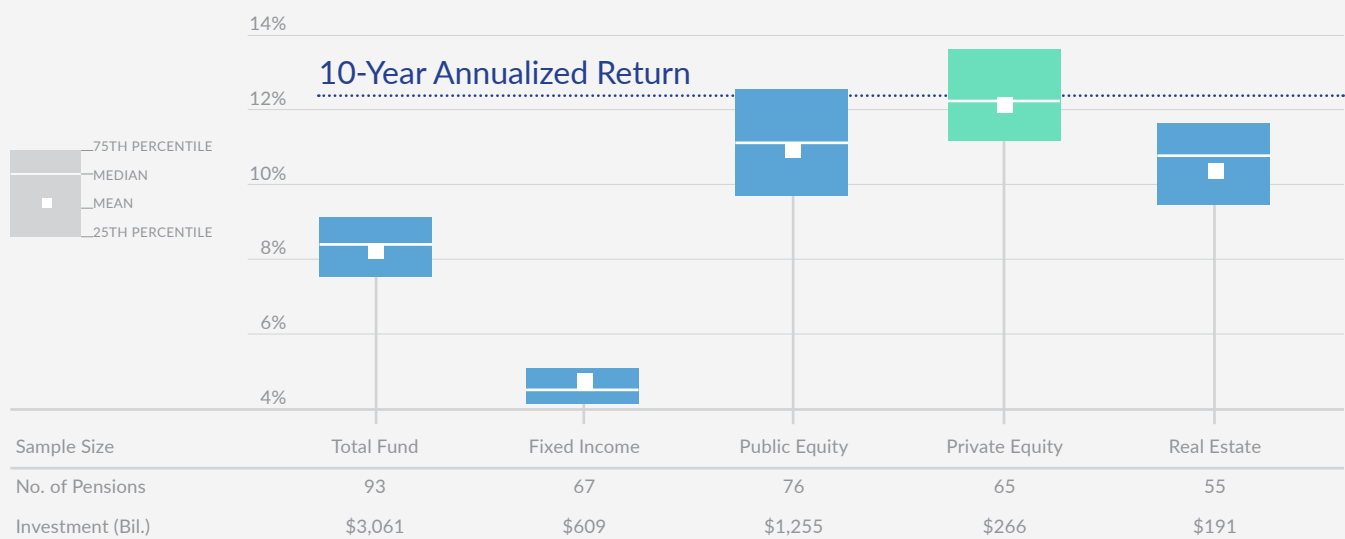
# Private equity compared to other asset classes

Private equity returns  
in the 25th percentile  
exceed the median  
public equity return





## Top 25th percentile private equity return exceeds the median public equity return





# Private equity partnerships at work

Private equity employs over 11.7 million American workers, generated over \$1.4 T in GDP, and paid over \$218 billion in taxes in 2020

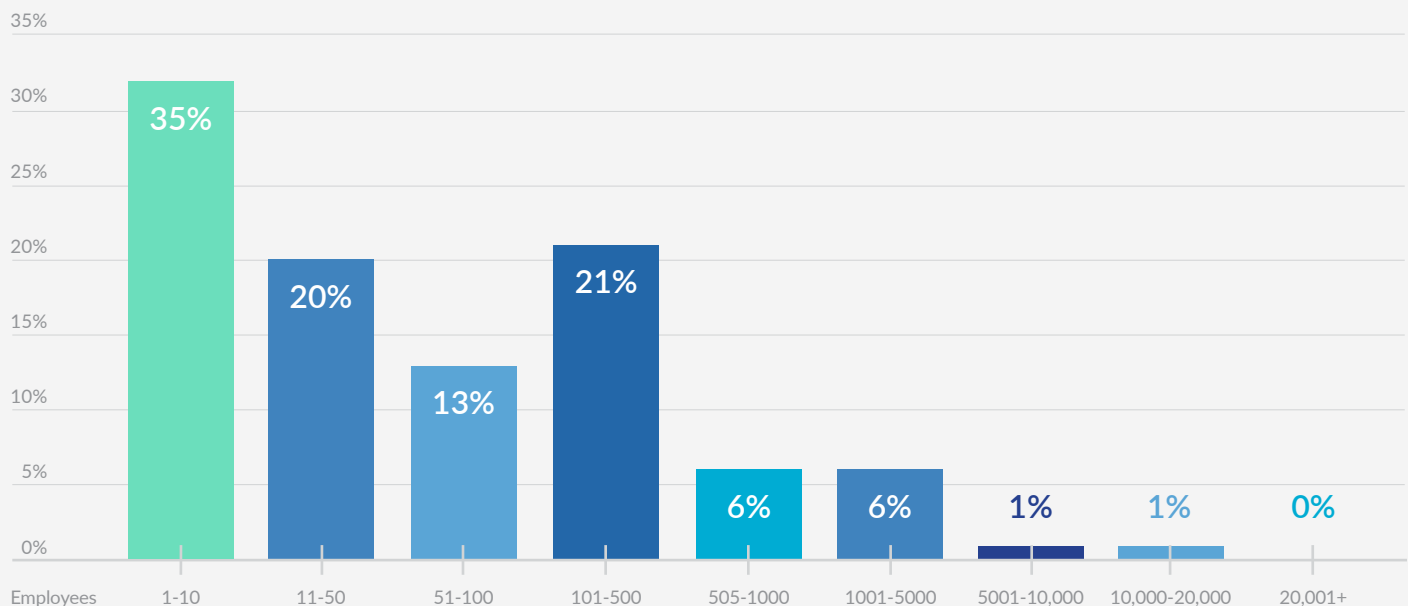
“ISBI is proud to be named as the top performing pension fund for private equity in AIC’s Public Pension Study for the second year running. ISBI seeks to thoughtfully control fees while achieving the best performance for our 165,000+ beneficiaries. We will continue to work towards strong private equity returns in the years ahead, while continuing to push the envelope on diversity and inclusion in the industry.”

**JOHARA FARHADIEH**

EXECUTIVE DIRECTOR & CHIEF INVESTMENT OFFICER  
ILLINOIS STATE BOARD OF INVESTMENT

## Private equity invests in small businesses

SHARE OF TOTAL INVESTMENT BY NUMBER OF EMPLOYEES OF FIRM





“We are fortunate to have a very talented and dedicated staff at the MN State Board of Investment. The public school educators, retirees, and taxpayers all share in the success of the SBI private equity program.”

**JAY STOFFEL,**  
EXECUTIVE DIRECTOR,  
MINNESOTA TEACHERS RETIREMENT ASSOCIATION

“Mass PRIM’s private equity portfolio continues to perform extremely well over the long term. That performance directly benefits our member plans and beneficiaries, who rely on PRIM for strong returns and careful management of risk. Since AIC began this study in 2012, Mass PRIM has consistently ranked in the top five. We partner with the industry’s top investment managers, which allows us to gain exposure to companies that have excellent long-term potential.”

**MICHAEL G. TROTSKY, CFA**  
EXECUTIVE DIRECTOR AND CHIEF INVESTMENT OFFICER,  
MASS PRIM



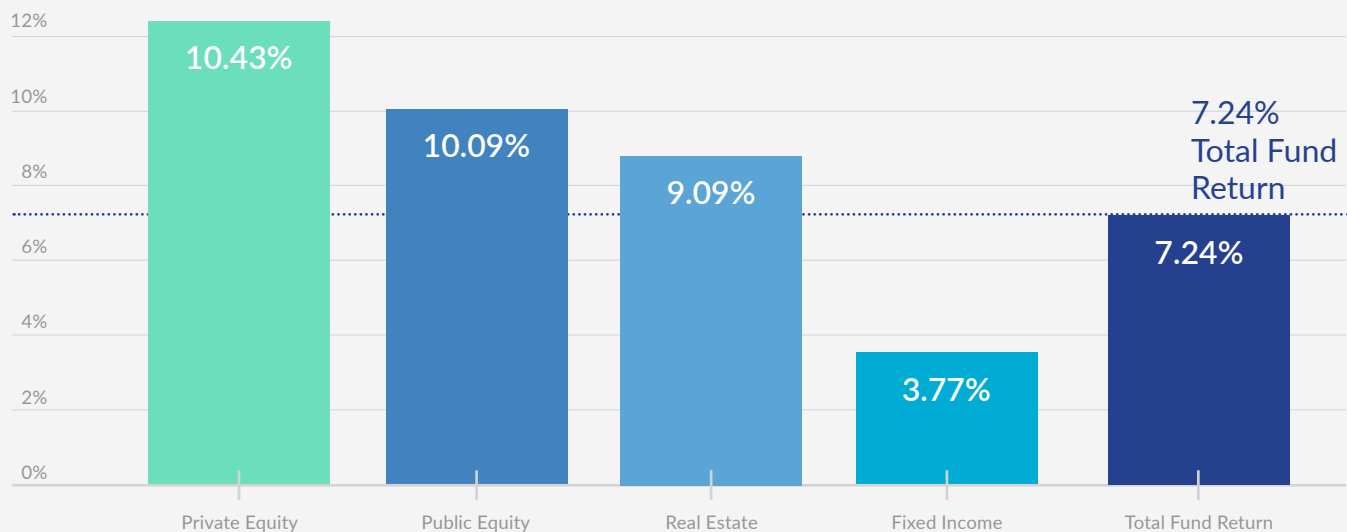
“When Private Equity investors do their homework, they earn the greatest opportunities to exceed the returns of the market in general.”

**JIM HERRINGTON,**  
PRIVATE EQUITY INVESTMENT OFFICER,  
WEST VIRGINIA INVESTMENT  
MANAGEMENT BOARD

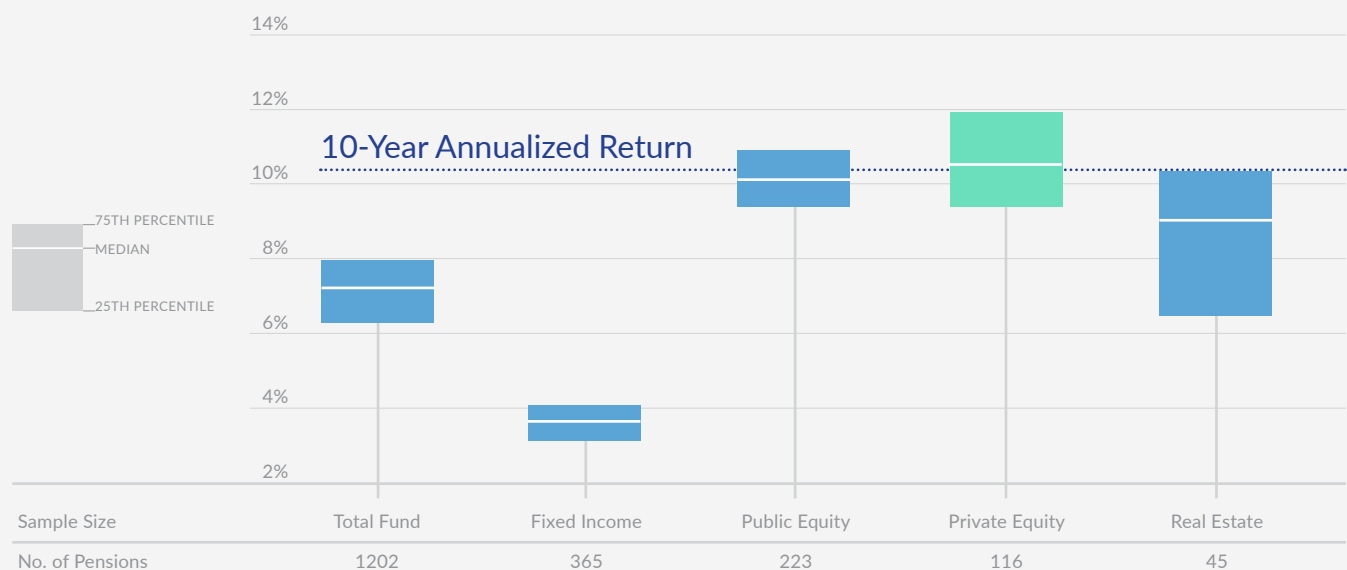
# Data on endowments and foundations

## Private equity returns of endowments and foundations exceeds the returns of other asset classes

BASED ON MEDIAN 10-YEAR ANNUALIZED RETURNS



## Public equity 75th percentile return barely beats the private equity median







### NOTES ON THE STUDY

This study conducted by the American Investment Council examines the private equity investments of 178 U.S. public pension funds. The information was collected from publicly available comprehensive annual financial reports and direct communication with public pension funds, when necessary.

The reporting date for data used in this study ranges from December 31, 2019 to December 31, 2020, with most dates as of June 30, 2020. When data as of June 30, 2020 were unavailable, information from the most recent available financial report at the time of analysis was used. All returns are net of fees and carry.

The analysis of pension fund investment returns is based on available 10-year return data as of June 30, 2020, except where noted. Pension funds typically report returns for private equity and other illiquid assets net of management fees and carry, while marketable securities can be reported net or gross of fees. Not all pension funds report 10-year returns or returns for each asset class. Asset classes may be defined slightly differently, depending on the pension fund.

The breakdown of invested capital by pension funds is determined by summing the total dollars invested in each asset class for all 178 public pension funds and calculating the percentage by asset class.



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### **About the private equity industry and the American Investment Council**

Private equity backed companies employ approximately 11.7 million U.S. workers. Since 2015, private equity firms have invested over \$3.8 trillion dollars in more than 30,000 American companies. In 2020, over 86% of current private equity investments were in small businesses.

The American Investment Council (AIC) is the leading advocacy and resource organization established to develop and provide information about the private investment industry and its contributions to the long-term growth of the U.S. economy and the retirement security of American workers. Member firms of the AIC consist of the country's leading private equity, private credit, and growth capital firms united by their successful partnerships with limited partners and American businesses.

More information about the AIC can be found at  
**[www.investmentcouncil.org](https://www.investmentcouncil.org).**