Hidden Fees in Private Equity Footnotes

INVESTING
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How much do private equity investors pay to the firms overseeing their portfolios?

You might think such a question would be a no-brainer. But in the supersecret world of private equity, it is anything but. That's why John Chiang, the treasurer of California, recently called for legislation requiring full transparency in the reporting of fees charged by private equity firms.

In an Oct. 12 letter to the California Public Employees' Retirement System and California State Teachers' Retirement System, Mr. Chiang urged both organizations to help him devise legislation to solve the problem of investors who "pay excessive fees to private equity firms and do not have sufficient visibility into the nature and amount of those fees."

You might think this issue has little to do with the rest of us. But tens of millions of people have entrusted their retirement to pension funds and other big firms with substantial stakes in private equity investments.

Opacity is a byproduct of the secrecy permeating the $3.9 trillion private equity industry. Giants like Blackstone, TPG and the Carlyle Group have said that disclosing their agreements with investors would reveal trade secrets.

More common knowledge is the "two and 20" that private equity firms typically earn: a 2 percent management fee, based on assets, and 20 percent of any profits generated by the private equity fund.

But private equity firms overseeing the companies they have bought on behalf of their investors impose other charges. These include fees for transactions and legal advice, for monitoring a company's progress while it is in a portfolio, and even for the payment of legal settlements involving private equity executives.

Any fees paid by portfolio companies are essentially fees paid by private equity investors. But complexities in these deals' fee structures help hide the full costs.

The Securities and Exchange Commission has taken up the problem of hidden fees in private equity. On Oct. 7, it settled a case with Blackstone, contending that the firm had not told investors about certain monitoring fees it had been receiving or about discounts on legal fees that the firm received but that investors did not. Without admitting or denying the allegations, Blackstone paid $39 million to settle the matter.

The costs aren't always clear with pension fund investments.

In other instances, costs are hard to spot because they are simply deducted from the proceeds of the sale of a portfolio company. If a cost isn't clearly identified, then an investor is less likely to question it.

Consider a recent independent auditor's report from a 2006 fund operated by Kohlberg Kravis Roberts and Company, or K.K.R. The confidential report contained a schedule of investments, management fees and a lengthy discussion of how the firm values the portfolio companies in the fund.

But only those readers who delved deep into the document's footnotes learned that they were being charged $38.6 million to cover a legal settlement in a 2007 collusion case filed by shareholders of public companies taken private by Bain Capital, Blackstone, K.K.R. and other big private equity firms.

As is typical among private equity deals, K.K.R.'s 2006 fund agreement required its investors to cover the costs of such legal settlements. K.K.R. settled the collusion matter in 2014.

Few beneficiaries of pensions invested in the 2006 fund knew that they were paying toward $38.6 million in settlement costs. These beneficiaries include schoolteachers in California, Kentucky, Louisiana and Texas, and public employees in Idaho, Illinois and Iowa.

This is just the kind of confusion the California treasurer probably wants to clear up. And one expert in the area thinks other states will follow.

"Now that the public has woken up to the fact that this is occurring, I suspect we are going to see a lot more proposals like the California treasurer's," said Michael Flaherman, a former member of the California Public Employees' Retirement System board and a visiting scholar at the University of California, Berkeley.

Wireless Cures For a Headache

TECHNOLOGY
BRIAN X. CHEN

TOM GRILLO; BELOW FROM LEFT, TP-LINK, APPLE, NETGEAR

Bob McConnell set up a new wireless router in his home to get faster Internet speeds. He got the opposite, with his iPad often getting no wireless connection in his bedroom.

"Things would work, and then the next morning they wouldn't work again," said Mr. McConnell, who lives in Kirkland, Wash.

What Mr. McConnell experienced is a situation we call "Wi-Fi headache." The condition is rooted in the networking devices called routers that people install in their homes for Wi-Fi connectivity.

To diagnose and cure Wi-Fi headaches, we teamed up with The Wirecutter, the product recommendations website that put dozens of top-rated routers and devices through hundreds of hours of testing to pick out the best router for most people.

The bottom line: People will see an improvement by upgrading to a router that supports the latest Wi-Fi standards. But they should be wary of buying a cheap router, or spending too much on one that is too complex for their needs.

TEST RESULTS The Wirecutter tested two top-performing routers with six devices, and the results were unmistakable: If your router is at least three years old, there is no reason not to upgrade. A newer router can improve the speed and range for users and typically have upgraded internal components and strong external antennas. Many support the latest Wi-Fi standard — 802.11ac — which has top speeds that are nearly three times faster than the previous standard, 802.11n.

For these tests, The Wirecutter used two routers: its top 802.11ac router recommendation, TP-Link's Archer C7, and an older 802.11n router, Netgear's WNDR3700.

Most devices had 19 percent to 54 percent faster download speeds and shaved 3 to 48 percent off their file-transfer times when paired with the Archer C7 compared with the older 802.11n Netgear router. The devices also did better on the Archer C7's 5 GHz Wi-Fi network than on its 2.4GHz network. In comparison, The Wirecutter could not connect to the Netgear router's 5 GHz Wi-Fi at its long-distance test location.

The Archer C7's exceptional performance on a 5 GHz signal is its strength. Devices often had the same download speeds at long range as short range when connected to the Archer C7's 5 GHz Wi-Fi. But at the longer distance, when switched to the Archer C7's 2.4GHz network, each device's download speeds dropped, sometimes by more than 80 percent.

In summary: For a stronger, faster wireless connection, stay on the router's 5 GHz band. Older routers aren't the best at that; a newer router like TP-Link's Archer C7 is a much better option.

BUYING ADVICE The best router for most people is the Archer C7 ($100). It's a dual-band 802.11ac router, meaning it can run both 2.4GHz and 5 GHz Wi-Fi networks, and it supports the fastest Wi-Fi speeds of every wireless device you can buy. It is faster over longer distances than most routers that cost $150 or more, and it's the best value of the more than two dozen routers The Wirecutter tested in the last two years.

If your house is large, you could install a Wi-Fi extender. Powerline networking, which converts a house's electrical wiring into a wired Internet connection, is another option, but you'll have to check if your home supports it.

Choosing the Right Wi-Fi Router for Your Home

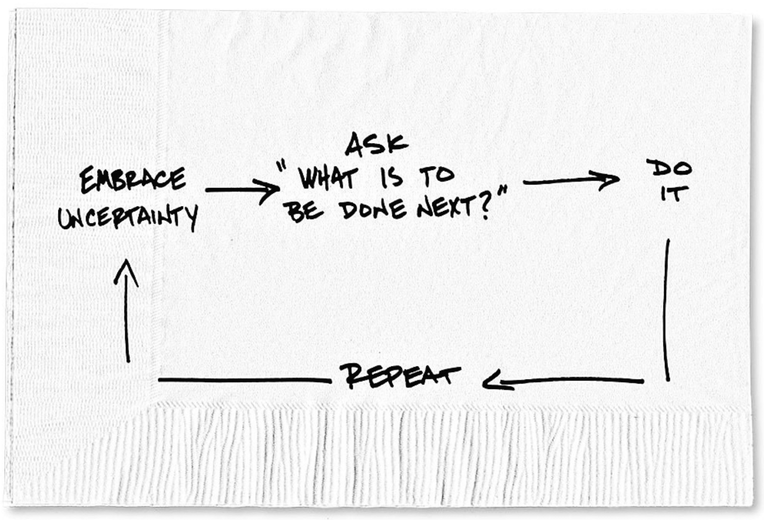
TP-LINK ARCHER C7, $100
The best router for most people. It is a fast dual-speed, 802.11ac router with incredible range. Faster routers exist, but cost much more. It does not have USB 3.0 and other features.

APPLE AIRPORT EXTREME, $199
A great router for households that primarily use Apple devices. AirPort Utility makes setup and management easy on Apple devices. It is not the fastest router and has only three Ethernet LAN ports.

NETGEAR R6400, $150
Best for people who want a router that can be used as a media server or people who want something easier to use than the Archer C7 but is just as fast. Has great long-range performance.

Life Is Fickle. Accept It.

SKETCH GUY
CARL RICHARDS



CARL RICHARDS

Almost 10 years ago, I knew a guy on a financial rocket ship. He had a great house, a successful business and a solid income.

But then things changed. In hindsight, it was clear he had bought too much house and spent too much money. The value of his home dropped. Eventually, it was worth less than what he paid for it. Then his income dropped significantly because his business was tied closely to the local economy.

This story looks like a series of obvious mistakes. Given our history of booms and busts over the last 15 years, you've probably watched some version of this story play out more than once.

Now fast-forward a few years. This guy had a bunch of stuff go well in his life. He has a positive net worth. His relationships are better, and he has taken steps to avoid repeating his mistakes.

I share this story because I am that guy. I have asked myself over and over, "What did I do wrong to deserve the bad experience?" And then more recently, "What did I do right to deserve the good experience?"

Notice how loaded the language is, with the emphasis on whether and when I was deserving.

I realized I could only identify the mistakes I made with the benefit of hindsight. It is easy to make up stories about why certain things happened and then take either the blame or the credit for them. The reality of life is often a bit more nuanced. I have come to the conclusion that, in both cases, I was simply doing the best I could with the knowledge and experience I had at the time.

But when we look back at our stories, we need to be careful. Because, as I told my friend, "I can't define exactly what I did to deserve the bad stuff or to deserve the good stuff."

Based on my past experiences, I reasoned with my friend, "If you fast-forward five years, I could end up homeless or own a private jet, or anything in between."

This friend, who happens to be a life coach, replied, "Yeah, and if you can get yourself to accept that, you'll finally be free."

It took me awhile to understand he was talking about the freedom we feel when we let go of the idea that we "deserve" a specific outcome.

Consider the people who say they believe they can control their future. They tell themselves that if they just plan carefully enough, they can achieve certainty about what will happen. For years, many of us have believed this myth. In reality, life is uncertain.

Right now, I'm working hard on both having goals and accepting that reality. I embrace the uncertainty and say to myself, "Given the goal, and given the uncertainty, what's to be done next?"

I repeat this process over and over. Every once in a while, I stick my head up and say: "I still want to head to that goal. Yes, I'm uncertain I'll get there, but for now, I think that's where I want to go." Then, I put my head back down, figure out what's to be done next and go do it.

For me that's the definition of true freedom.

Handling Student Loans As Payments Come Due

YOUR MONEY
ANN CARRNS

If you graduated from college last spring, it may soon be time to start repaying your student loans.

Borrowers are responsible for making the first payment on time, even if they don't receive a formal statement or payment book from their lender. If you're unsure of the details of your loan, you can check the Education Department's National Student Loan Data System.

Borrowers should also choose a payment plan, said Lauren Asher of the Institute for College Access & Success. If borrowers don't select one, they will automatically be signed up for the standard 10-year repayment plan, which comes with a fixed monthly payment. This is usually the lowest-cost option, but payments are higher. Borrowers who think they will have trouble managing standard payments should consider an alternative repayment option. Borrowers can go to the Education Department's online student loan estimator and have the system calculate the lowest payment for which they qualify.

If tracking multiple payments is confusing, one option is consolidating the loans — but consider the pros and cons carefully. Never consolidate federal loans into a private loan, the institute's Project on Student Debt says. You may lose important federal protections. The Student Loan Borrower Assistance program can help borrowers weigh the trade-offs involved.

Q & A

¶ Can I get a discount if I make automatic loan payments?
If you have your monthly payment electronically debited from your bank account, you may receive a discounted interest rate on your federal loans, and on some private loans, too. Automatic deductions can also help you avoid late payments. Just make sure your balance is sufficient to cover the payments, to avoid overdraft fees.

¶ I'm going to graduate school. Do I have to start repaying my undergraduate loans?
You can request an in-school deferment, which lets you postpone payment on your undergraduate loans. But interest on some loans may accrue while you're in school, increasing your total debt.

¶ Can I change my repayment plan after I start making payments?
Yes. If your initial payment plan isn't working for you, you can select another one, according to the Education Department.