July 29, 2024

Senator Martin Heinrich
Chairman of the Senate Joint Economic Committee
G-01 Dirksen Senate Office Building
Washington, DC 20510

Dear Chairman Heinrich and members of the Committee,

While we welcome the opportunity to engage with and educate the committee on the benefits of private equity investments to businesses and workers nationwide, we were disappointed to see the Joint Economic Committee (JEC) engage in a one-sided attack on the private equity industry. The JEC was created to offer balanced, well-informed views so policymakers can better understand the economy and pass common-sense legislation. Advancing one-sided views discredits the organization and threatens to limit productive private equity investments that benefit millions of public pension beneficiaries nationwide.

As the nation's largest advocacy organization dedicated to providing information about the private investments industry and its contributions to long-term growth and the U.S. economy, the American Investment Council welcomes this opportunity to set the record straight.

In 2022, the private equity industry employed 12 million people who earned a collective $1 trillion in wages and benefits. The average employee of U.S. private equity firms and private equity-backed companies earned $80,000 in wages and benefits, equating to roughly $41 per hour for a full-time worker—well-above the national average wage. Contrary to the notion that they are all behemoths, 85% of businesses funded by private equity had fewer than 500 employees in 2022. As a result of the private equity industry's success, 88% of U.S. public pension funds, serving 34 million public sector workers and retirees, have enjoyed returns that far exceed those of other asset classes. In fact, the Public Employees' Retirement of New Mexico's private equity portfolio delivered a 10-year annualized return of 17.35 percent. This helps to secure the retirement of New Mexico's police, firefighters as well as other state employees.

Private Equity Investments Support Workers, Small Businesses, and Public Pensions

Private equity investments benefit public pension beneficiaries, businesses, workers, and communities. Private equity firms partner with public pension funds to buy companies, improve their performance, create jobs and add long-term value. Businesses receiving private equity investment benefit from access to capital, mentorship and expertise that help companies hire new employees, improve their operations, and grow. Workers benefit from stronger companies that are committed to growth and well-paying stable jobs. And communities across the country are bolstered by private equity investment that helps build sustainable companies and jobs.

Private equity invests in and grows businesses over the long-term, typically partnering with businesses for five to seven years. Claims that private equity profits from "cutting jobs", "stripping" companies, and through financial engineering are false and do not survive scrutiny. The JEC cited a study they claimed showed job losses at private equity-backed companies. However, the report failed to mention that the authors of the same study found that employment rises 13% at private buyouts, which make up the vast majority of private equity-backed deals. A pair of recent studies have found that private equity drives growth through investing capital and providing managerial expertise to businesses, not raising prices on consumers or through "financial engineering."

While it is impossible for every private equity investment to work out, the vast majority of private equity investments are successful. The committee failed to mention that many beloved national brands have benefited from private equity. These range from well-known restaurant brands like Buffalo Wild Wings and the Cheesecake Factory to major global companies like Hilton and Dunkin, and include popular brands like Spanx and Hello Sunshine. Claims that private equity profits from bankrupting companies and overleveraging them with debt are flat out false. A study by the Kellogg School of Management at Northwestern University found that "*companies backed by private equity firms were more resilient in the face of the financial crisis compared to their counterparts*."

Research from Duke University has shown that private equity firms do not overleverage their portfolio companies. In fact, private equity investments can help companies achieve higher returns on capital and benefit from lower interest rates than similarly situated companies without private equity-backing. The bankruptcy study cited by the committee only looks at public to private deals, which represent a small subset of private equity investments. These businesses typically underperform on the public markets and are in need of significant changes to increase performance. Over the past decade there have been less than 1000 take private deals compared to over 60,000 private equity investments.

The JEC cites the Private Equity Stakeholder Project's "Stake Risk Index." But independent research has found numerous methodological flaws with their research. Specifically, "*PESP's State Risk Index contains conspicuous data omissions, significant inconsistencies in data sampling that may introduce mathematical errors, and is built on data uncorrelated to economic outcomes for citizens. Stakeholders, decisionmakers, and media should be aware of these deficiencies before drawing any sort of conclusions from this purported Index.*" Recently, the Private Equity Stakeholder Project has also said, "PESP does not believe that private equity firms are the primary drivers of the failures of the US health system...."

It is also critical for the JEC to recognize the benefit of private equity investments' returns to pension plans. Nearly 90 percent of public pension funds nationwide invest in private equity. More than 34 million public servants, including local teachers, first responders and dedicated public servants collect these returns in their pensions when they retire. Pensions are a for dedicated public servant who gives back to their communities. Strong private equity returns ensure that tens of millions of dedicated public servants can depend on a well-funded pension to support their well-deserved retirement.

Empowering Workers and Supporting Well-Paying Jobs

Private equity supports American workers by providing strong wages, professional development opportunities, safe work environments, and investments in underrepresented talent. Private equity-backed workers make more than $80,000 in annual wages and benefits, exceeding the national average. Private equity firms are on the forefront of offering workers a stake in their own companies, giving them the chance to build long-term wealth for themselves, their families, and their communities.

Multiple AIC members have partnered with Ownership Works, a nonprofit initiative that builds employee wealth by expanding shared employee ownership of companies, enabling employees to directly benefit from the company's success . Since its founding in 2021, Ownership Works has impacted nearly

112,000 employees nationwide, generating over $130 million in payouts to low- and moderate-income workers.

Earlier this year, 60 Minutes featured a story about KKR portfolio company C.H.I. Overhead Doors (C.H.I.) after it became part of an ownership program that made all 800 of C.H.I.'s employees partial owners of the company. Employees received a payout on equity that averaged $175,000 on top of their regular salary, as well as approximately $9,000 in dividends since 2015.

In May, Blackstone announced it would grant ownership stakes to most employees at its portfolio companies, which would apply to all new Blackstone investments going forward. This initiative will kick off by granting ownership to roughly 18,000 employees of Copeland, a manufacturer that builds commercial heating and cooling systems. In 2021, Blackstone announced that it had reached its milestone of hiring more than 100,000 veterans, veteran spouses and caregivers have been hired across its portfolio companies

New Mountain Capital, a New York-based investment firm, estimates that it has created over $1.3 billion of value for employees at portfolio companies sold since 2018. Leonard Green & Partners had over 7,500 portfolio-company employees participate in profit-sharing or similar distributions in 2021 alone, and over $1 billion was shared with workers outside the executive suite.

Private Equity's Limited but Important Role in Health Care

America's health care system has tremendous challenges – but the private equity industry is not the source of these. Instead, our investments are helping to improve care across America and fund lifesaving innovation. Private equity investments have funded research into deadly diseases like Alzheimer's and Parkinson's, expanded and renovated facilities, modernized medical records and health care data, and made other needed investments.

There are more than 25 million private companies in the United States - and less than 20,000 are owned by private equity. Only 12 million workers are employed at these companies, while there are currently more than 167 million workers in the U.S. workforce.

Private equity has invested nearly $1 trillion into U.S. health care since 2006. This may sound like a large amount, but the U.S. spent nearly $3 trillion on health care in 2006 alone. Health spending has increased every year since to more than $4.3 trillion in 2021. Critics also claim that private equity has consolidated hospitals and physician practices. But even critics of private equity acknowledge that private equity invests in just 8% of all private hospitals in the United States. A new report from Pitchbook found that private equity owns less than 4% of providers by revenue, and those investments are declining.

Private equity is also a convenient scapegoat for issues in nursing homes. In 2022, the Government Accountability Office reported that private equity backs less than 5% of nursing homes across the country. In fact, a study from the University of California, Los Angeles and Duke University found that private equity-owned nursing homes fared far better during COVID-19.

The unfounded attacks extend beyond health care. The industry is regularly blamed for rising home prices. However, private equity invests in or owns less than 2% of single-family home rental properties nationally.

Helping Rural Patients Access Much Needed Medical Care

More than 130 rural hospitals have closed nationwide from 2010 to 2021, and in 2023, 65% of rural areas experienced a shortage of primary care physicians.

Private equity has invested $15 billion in more than 250 urgent care clinics as of 2020. These investments in urgent care centers help get rural patients the care they need over shorter distances while also not overwhelming the limited number of hospitals in these areas. Physician retirements are often a key reason clinics shut down, ending their ability to employ support staff and treat longstanding patients. However, with private equity investment, many clinics do not close and are sometimes folded into larger, private equity-backed practices that can expand access to different regions while simultaneously improving efficiencies and reducing operating costs.

Private equity investments help specialized clinics open new locations, hire more doctors and staff, and make healthcare services available to more patients in historically underserved communities. These specialized clinics treat specific needs, like orthopedics, radiology, dermatology, ophthalmology, and gynecology, as well as mental and behavioral health services.

Thanks to private equity investment, MedExpress was able to open new urgent care locations in rural Appalachia, where hospital closures had become more common. According to a study from West Virginia University, new MedExpress clinics were "associated with fewer short-term admissions to hospitals, fewer inpatient days, fewer emergency room visits, and a reduction in outpatient visits at hospitals."

Financing Life-Saving and Low-Cost Treatments for Patients

On average, it takes 10-15 years and more than $2.6 billion to develop and bring new medicines to the market. Patients nationwide suffer from nearly 7,000 rare diseases, but only 5 percent of those have an available treatment due to these delays and barriers. In fact, only 12 percent of the molecules that enter clinical trials ever receive Food and Drug Administration (FDA) approval.

Private equity helps finance drug manufacturers, especially over-the-counter and generic drug makers, that provide low-cost options to patients. Private equity firms also help pharmaceutical companies expand and become more efficient, introducing new technologies and resources that lead to better innovations at a timely rate. Over the past ten years, private equity has invested more than $123 billion in pharmaceutical manufacturers. These investments have enabled the development of treatments for several life-threatening conditions, such as Leukemia, Alzheimer's, Parkinson's, heart disease, HIV, and breast cancer, and for several debilitating conditions, including rheumatoid arthritis, diabetes, and ulcerative colitis.

Anthos Therapeutics launched in 2019 thanks to private equity investments with the express goal of creating new therapies for patients suffering from high-risk cardiovascular issues. Anthos recently announced that they had developed a new drug that could significantly reduce the risk of blood clots, providing a safer alternative for the 12.1 million Americans expected to suffer from atrial fibrillation by 2030.

In 2018, Pfizer announced it would shut down drug development for early- and mid-stage neuroscience drug development, citing expensive and time-consuming research costs. However, private equity firm Bain Capital stepped up to partner with Pfizer by forming a new company, Cerevel Therapeutics, to continue developing treatments. Bain invested $350 million in the new company, while Pfizer provided several key researchers and science officers. According to CNBC, "Its lead programs include a medicine for the symptoms of Parkinson's disease that is likely to enter late-stage clinical testing next year, and one for epilepsy that is ready to start mid-stage studies. Other compounds target Alzheimer's disease, schizophrenia, and addiction."

Giving Doctors and Nurses the Resources to Treat Patients

Most doctors and nurses enter the medical profession because they want to care for patients. But in 2023, the average physician spent 15 hours per week on paperwork alone. Providers backed by private equity can also count on support in administrative tasks like burdensome paperwork and insurance claims negotiations. Private equity-backed hospitals notably employ a higher ratio of doctors, nurses, and pharmacists compared to their non-private equity-backed counterparts, according to research from Indiana and Georgetown Universities. The same study found that the proportion of wages paid to core workers increases at hospitals supported by private equity and that, "PE-acquired hospitals have better survival prospects" for patients.

Researchers at Duke University found that private equity-backed hospitals saw greater declines in both in-hospital mortality and 30-day mortality among heart attack patients compared to non-private equity-backed hospitals. A 2021 study from researchers at the McDonough School of Business and the Indiana School of Business shows private equity-backed hospitals have "better survival prospects and operating profitability."

In 2021, the Medicare Payment Advisory Commission (MedPAC) released a report, originally requested by the Chairman of the House Ways and Means Committee, examining the role private equity investments play in the health care sector. MedPAC reported to Congress that "rapid changes in the health care market have created an environment of uncertainty and higher expenses for independent practices. Private equity investment offers these practices 'shelter from the storm" by providing them with access to capital and expertise in financial management, operations and practice acquisition."

Proposed Legislation Would Limit Capital to Small Businesses and Kill Jobs

The Committee concluded by claiming that, "Congressional Democrats are taking on private equity's harmful practices." In reality, their proposed "solutions" would be disastrous for the U.S. economy. Raising taxes on productive private equity investments is bad policy. A recent study from Professor Charles Swenson of the University of Southern California Marshall School of Business found that a proposed 98 percent tax increase on carried interest capital gains would result in millions of lost jobs, billions in lost tax revenue, and would limit returns for U.S. public pension funds. Simply put, when the government takes more money, there is less to invest.

Similarly in 2019, the U.S. Chamber of Commerce released a report showing that Senator Elizabeth Warren's (D-MA) *Stop Wall Street Looting Act* would have grave economic consequences and, "result in the loss of 6.2 million to 24.3 million jobs across the country, while reducing both government tax receipts and the investment returns of public pension funds and other investors."

American Workers and Businesses Need More Private Investment

Although private equity is not large enough to influence any sector, its investment dollars are critical to American innovation and growth – especially for small businesses on main streets across the country. American companies, in health care and other economic sectors, need more investment from all sources. Private equity and private credit can provide the needed capital. Instead of using private equity as a convenient bogeyman, the committee should encourage American investment and further drive innovation.

We welcome the opportunity to work with the committee and discuss productive ways to ensure that small businesses, health care companies, and workers can benefit from productive private equity investments in New Mexico and nationwide.

Sincerely,

Drew Maloney

Drew Maloney, President and CEO of The American Investment Council