From: <u>Valentina Dabos</u>
To: <u>Yona Makowski</u>

Subject: AFT report highlights risks for private equity investors, encourages adoption of labor standards

**Date:** Wednesday, August 14, 2024 12:53:18 PM

Dear Yona,

Washington State Investment Board is an investor in private equity.

The American Federation of Teachers (AFT), a union representing 1.8 million workers in education, healthcare, and public services, recently released a report, <u>Managing Labor Risks in Private Equity</u>, which calls on investors to press private equity firms to do better for the employees of the companies they own and argues that doing so will lead to better investment returns.

<u>NBC News</u> stated that the report "focuses on troubling labor practices at companies owned by some of the country's largest private-equity firms. The report cites mass layoffs, forced labor, child labor, and anti-union activities, and it says such practices pose a financial risk for pensioners whose retirement savings fuel private-equity operations."

Investors are increasingly looking to policy solutions to mitigate some of the human capital risks in private equity. <u>The Financial Times</u> recently noted that:

"US pension funds have recently put money managers on notice over labour standards among their portfolio companies. The strike wave, as well as recent child and migrant labour scandals, have underscored the threat that worker exploitation can pose to returns — particularly in private markets, where recent illegal labour practices have been in the spotlight."

In April, the New York State Common Retirement Fund introduced a set of comprehensive labor standards in its <u>Responsible Workforce Management Policy and Principles</u> for its private equity investments. The policy is intended to mitigate risks associated with labor disputes and violations and is a significant step toward enhancing labor conditions in private equity-owned companies.

The California Public Employees Retirement System (CalPERS), the largest public pension fund in the United States with \$500 billion in assets, has also taken significant steps to address labor practices across its full portfolio, by incorporating Labor Principles. These amendments reflect a commitment to upholding fundamental labor rights and improving workforce conditions across CalPERS investments to protect the fund against risks associated with labor disputes.

New Private Markets wrote that "The steps taken by CalPERS, the New York

City pensions and NYSCRF stand out because portfolio-level labour practices are no longer just one section of an extensive due diligence questionnaire. They amount to formal, public declarations from some of the largest and most influential LPs that the private equity industry must be scrupulous and vigilant on labor practices."

Investors in private equity seeking to mitigate adverse impacts on workers, financial risks, and reputational damage should consider adopting specific labor standards. These standards should include non-interference in worker organizing, fair wages, reasonable working hours, paid leave, non-discrimination, safe working conditions, and protections in the event of layoffs.

PESP created a comparison of existing Private Equity Labor Policies.

We hope to meet to discuss how Washington State Investment Board could enhance its policy with specific labor standards across your private equity portfolio. I have included my contact information below.

Sincerely,

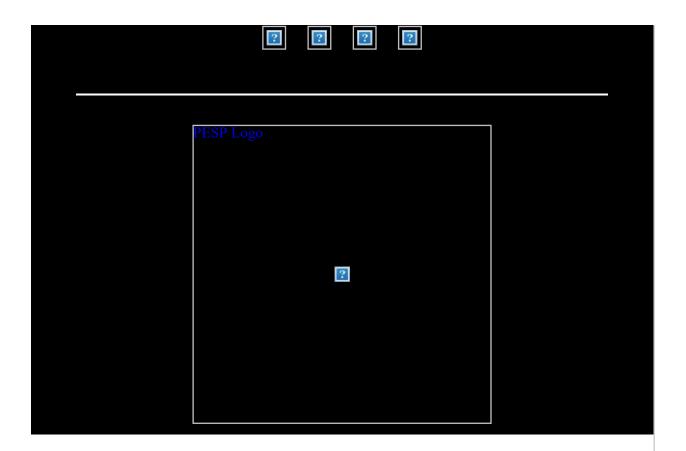
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