
# Global Unions
# Committee on Workers' Capital

## Research Report:

*Helping Workers' Capital Work Harder:*
*A report on global Economically Targeted Investments (ETIs)*


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# Table of Contents

# Acronyms

| | |
|---|---|
| **ABP** | *Pension fund for employers and employees in service of the Dutch government and the educational sector* |
| **ACTU** | Australian Confederation of Trade Unions |
| **AFL-CIO** | American Federation of Labor and Congress of Industrial Organizations |
| **BEE** | Black Economic Empowerment |
| **BEECom** | Black Economic Empowerment Commission (SA) |
| **BIT** | Building Investment Trust (AFL-CIO) |
| **BNDES** | *Banco Nacional de Desenvolvimento Econômico* / Brazilian Development Bank |
| **BTPS** | British Telecom Pension Scheme |
| **CalPERS** | California Public Employees Retirement System |
| **CDP** | Carbon Disclosure Project |
| **CGF** | Community Growth Funds (SA) |
| **CPF** | Community Property Fund (SA) |
| **CIA** | *Caisse de Prevoyance du Personnel Enseignant de I'Instruction Publique et des Fonctionnaires de l'Administration du Canton de Genève* / Pension fund & insurance company for public school teachers and public service employees for the Canton of Geneva (Switzerland) |
| **CLC** | Canadian Labour Congress |
| **Comanco** | Community Growth Management Company (SA) |
| **CORFO** | Chilean Economic Development Agency (Chile) |
| **COSATU** | Confederation of South African Trade Unions |
| **CPF** | Community Property Fund (SA) |
| **CtW** | Change to Win (US) |
| **CWC** | Global Unions Committee on Workers' Capital |
| **DB** | Defined benefit (pension system) |
| **DC** | Defined contribution (pension system) |
| **DLA** | KwaZulu-Natal Department of Land Affairs (SA) |
| **DOL** | United States Department of Labor |
| **ERISA** | Employee Retirement Income Security Act (US) |
| **ESG** | Environment, Social, Governance |
| **ESOP** | Employee Stock Ownership Program |
| **ETIs** | Economically-Targeted Investments |
| **FINEP** | *Financiadora de estudos e projetos* / The Brazilian Innovation Agency (Brazil) |
| **FTQ** | *Fédération des travailleurs et travailleuses du Québec* / Quebec Federation of Labour (Canada) |
| **GDP** | Gross domestic product |
| **GEPF** | Government Employees Pension Fund (SA) |
| **HI** | Housing International Inc. |
| **HIP** | Heartland Industrial Partners |
| **HIT** | Housing Investment Trust (AFL-CIO) |
| **HPE** | Hermes Private Equity |
| **IFS** | Industry Fund Service (Australia) |
| **IPO** | Initial Public Offering |

| | |
|---|---|
| **ISH** | Industry Super Holdings Pty Ltd (Australia) |
| **KKR** | Kohlberg Kravis Roberts & Co. |
| **KNZ** | KwaZulu-Natal, state in South Africa |
| **LSIFs** | Labour Sponsored Investment Funds |
| **MEPT** | Multi-Employer Property Trust (US) |
| **MIF** | Inter-American Development Bank's Multilateral Investment Fund |
| **Mifis** | Micro-finance institutions |
| **Nurcha** | National Urban Reconstruction & Construction Housing Agency (SA) |
| **NYCERS** | New York City Employee Retirement System (US) |
| **OECD** | Organization for Economic Co-operation and Development |
| **OMERS** | Ontario Municipal Employees Retirement System (OMERS) |
| **OMIGSA** | Old Mutual Investment Group (SA) |
| **PAIDF** | Pan-Africa Infrastructure Development Fund (SA) |
| **PE** | Private equity |
| **PGGM** | Asset management cooperative of PFZW, the Dutch pension fund for healthcare workers and social workers (formerly also PGGM) |
| **PH** | Pacific Hydro (Australia) |
| **PIC** | Public Investment Company (SA) |
| **PIPE** | Private investment in public enterprises |
| **IEA** | International Energy Association |
| **PRI** | Principle for Responsible Investment |
| **PyME** | *Pequena y mediana empresa* / Spanish acronym for small and medium enterprises (SMEs) |
| **REIBG** | Real Estate Investment Banking Group (US) |
| **RI** | Responsible investment |
| **SA** | South Africa |
| **SMEs** | Small and Medium Enterprises |
| **SRI** | Social Responsible Investments/investing |
| **TIAA-CREF** | Teachers Insurance and Annuity Association, College Retirement Equity Fund (US) |
| **TUAC** | Trade Union Advisory Council to the OECD |
| **UK** | United Kingdom |
| **ULLICO** | Union Labor Life Insurance Company (US) |
| **UNEP FI** | United Nations Environment Program Finance Initiative |
| **UNI** | Union Network International |
| **UNPRI** | *see PRI* |
| **WEF** | World Economic Forum |
| **WIPHOLD** | Women Investment Portfolio Holdings (SA) |
| **WOF** | Working Opportunity Fund (Canada) |

# Executive Summary

The purpose of this report is to illustrate, through case studies and investment fund profiles, how the responsible investment (RI) of workers' capital assets, such as union-sponsored pension funds, can be used to generate specific social, economic and environmental benefits along with the necessary financial returns. Investments made with these sorts of benefits in mind are known as economically targeted investments (ETIs).

Specific examples in the report demonstrate the ability of ETIs to generate the following types of "collateral benefits":

- Increased the availability of affordable housing;
- Development of small and medium enterprises (SMEs)
- Revitalization of inner cities;
- Rural economic development;
- Growth of underserved markets including emerging and developing country markets;
- Growth in non-traditional industries such as renewable energy.

This report argues that ETIs undertaken within the guiding ethos of RI allow union-sponsored pension funds to truly serve beneficiaries and their communities over the long run. Moreover, it demonstrates that ETIs offer union-sponsored pension funds an opportunity join the responsible capital movement and sustain a triple bottom line without foregoing portfolio diversification.

This report includes case studies from around the globe of labour-led ETI initiatives.

It also provides, in Chapter 6, preliminary advice for trustees who wish to learn more about this investment field. Trustees are advised to read up on alternative investments, to consider arguments again responsible investment (RI), to assess their current portfolio, to understand their current portfolio rationale, to learn to read alternative investment reports, to consider reporting cycles and incorporating worker friendly policies, and most important, are urged to initiate a multi-stakeholder conversation on the topic of ETIs.

The report concludes by looking to the future and to what has been called the *third wave of responsible investment*. This third wave strategy combines real estate, private equity (PE) and other ETI strategies to launch regional redevelopment efforts. It argues for the creation of an *international solidarity capital network* of responsible funds that cross borders to build worker-friendly, sustainable marketplaces. It suggests that capital stewards explore opportunities such as co-investing, cross-border investing, North-South partnerships, government partnerships and green projects.

# *Helping Workers' Capital Work Harder: a report on global Economically-Targeted Investments (ETIs)*

## A Research Project for the Global Unions Committee on Workers' Capital (CWC)*

## 1. Introduction

The purpose of this report is to illustrate, through case studies and investment fund profiles, how the responsible investment (RI) of workers' capital assets, such as union-sponsored **pension funds**, can be used to generate specific social, economic and environmental benefits along with the necessary financial returns. This **asset targeting**† approach is referred to as **economically targeted investments** (ETIs). It is also known as alternative investment, socially-targeted investment or undercapitalized market investment.

These types of investments have historical roots reaching back to ancient religious societies. In more recent times, John Wesley, the 18th century English religious reformer, was a strong advocate of actions akin to what is today known as socially responsible investing (SRI). The most well-known example of SRI in recent times is the global divestment campaign carried out to pressure the South African government to end apartheid.[1]

This report provides examples of ETIs undertaken by union-sponsored pension funds, within the private capital market or through capital funds. *See Figure 1.*

The following criteria were important in identifying suitable case studies:

- *Regional representation* to include examples from different market sizes and geographical regions and capture a diversity of approaches internationally;
- *Diversity of investment approaches* including **private equity** (PE), **venture capital**, real estate equity, debt financing, credit guarantees and mortgage-backed securities;
- *Range of* ***collateral benefits*** to reflect a variety of social, economic and environmental benefits (affordable housing, venture capital to small businesses

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* This report is authored by Thomas Croft, Director of the Heartland Labor/Capital Network, housed at the Steel Valley Authority (SVA), a regional development group in the Pittsburgh area that is affiliated with the United Steelworkers (USW). This report does not represent the views of anyone but the author.

† Entries in **bold** are terms included in the Glossary at the end of the report.

and non-traditional industries, local economic development, and capital for 'underserved' markets);
- *Degree of Innovation* to highlight new and innovative forms of asset targeting such as microfinance or other emerging market financing vehicles.

The report profiles initiatives in different markets and geographical regions in order to gain an international perspective on ETIs. The case studies presented in this report are divided geographically into three categories:[2]

1) Canada and the United States;
2) The Global South; and
3) Europe and Australia.

What did we find? Union-led and union funded ETIs are creating positive and significant impacts on the lives of workers, retirees and their communities. These initiatives are:

- Creating new and renovated living spaces (especially affordable and workforce housing) and workplaces, along with both commercial and community projects (hotels, hospitals, clinics, churches and commercial spaces);
- Saving or creating hundreds of thousands of livable wage jobs, many of them permanent;
- Supporting co-ops and SMEs and providing micro-finance to revitalize urban and rural communities and economies;
- Developing renewable energy sources and efficient transportation systems, along with the supply chains and power projects linked to those systems;
- Retaining and modernizing other strategic industries;
- Providing green infrastructure, products and services for a sustainable future.

The report will examines forms of "irresponsible" pension investments: investments that were made in many of the instruments underlying the systemic risk apparent today and that resulted, in many cases, in economic pain and instability. The report does so to provide a backdrop to the constructive alternatives that exist, some of which are profiled here. In Chapters 3, the report presents necessary background on workers' capital, its leadership potential and the RI movement. Chapter 4 presents ETIs by investment type. Chapter 5 is dedicated to case studies of ETIs undertaken by union-sponsored pension funds. Chapters 6 and 7 provide trustees with suggested actions steps and ideas for the future of ETIs.

Unless otherwise indicated, the sources for this report include, primarily, surveys to fund principals and managers, subsequent personal and phone conversations, general reports, documents, and email exchanges, and information gleaned from pension and investment fund websites, annual and quarterly reports, previous Heartland Network reports, Heartland and other workers' capital conferences and meetings, and similar citations. Likewise, information on portfolio investments is derived from direct communications with firm/project principals, and firm/project reports and websites and other such publicly available material.

A good segment of the work for this report also contributed to the author's new book (pending publication by Cosimo), *Up from Wall Street: The Responsible Investment Alternative*. Another important source was Hebb, Tessa, et al. (2001). *Working Capital: The Power of Labor's Capital*.[3] Additional contributions were obtained from the Shareholder Association for Research and Education (SHARE) and the Global Unions Committee on Workers' Capital (CWC).

**Figure 1. Sponsoring Pensions and ETI Funds profiled in this report**

| Canada and the U.S. | Type of Fund/Project |
|---|---|
| AFL-CIO Investment Trust Corporation: HIT & BIT (US) | Real Estate/Fixed Income |
| Union Labor Life Insurance Company: J for Jobs (US) | Private Placement/Real Estate |
| Concert Properties (Canada) | Real Estate |
| *Fédération des travailleurs et travailleuses du Québec*: *Fonds de solidarité* (Canada) | Private/Venture Capital |
| KPS Special Situation Funds (US) | Private Equity |
| Boilermakers & Blacksmiths National Pension Fund: Boilermakers' Co-Generation & Infrastructure Fund (US) | Special Infrastructure Fund |
| CalPERS : Alternative Investment Management Program & California Initiative (US) | Broad ETI Focus on Energy |
| Le Technopôle Angus (Canada) | Real Estate/Multi-use Project |

| The Global South | Type of Fund/Project |
|---|---|
| Public Investment Corporation (SA) | Broad ETIs: Venture Capital, Private Equity, Real Estate, etc. |
| PIC: Isibaya Fund (SA) | Private Equity, Infrastructure, Empowerment Transaction |
| Futuregrowth Asset Management (SA) | Real Estate and Infrastructure |
| PIC & Futuregrowth: Community Property Fund (SA) | Real Estate |
| Old Mutual Investment Group: Community Growth Funds (SA) | Corporate Engagement |

| Europe and Australia | Type of Fund/Project |
|---|---|
| Hermes (UK) | Real Estate |
| *Caisse de Prévoyance du Personnel Enseignant de l'Instruction Publique et des Fonctionnaires de l'Administration du Canton de Genève* (CIA) (Switzerland) | Broad ETI Investments in Real Estate |
| *Stichting Pensioenfonds ABP* (Netherlands) | Clean energy & microfinance |
| Industry Fund Services (Australia) | Private Equity |

## 1.1 The New Capitalists[4]

By the Fall of 2008, after struggling through a year of severe disruptions and less than a decade after the last recession and a plague of corporate scandals, many of the world's financial institutions crashed. Sadly, many countries are fighting a new recessionary tide.[5] While wealthy privateers are once again bailed out, working families have endured one speculative bubble after another. Their retirement systems have been overly exposed to excessive systemic risk[6] due to a trend toward short-term investment strategies, as the business-led Conference Board, in particular, has warned.[7] The last global financial melt-down resulted in widespread pension fund losses. Will this one, as well?

On September 19, 2008, the Secretariat of the Trade Union Advisory Committee to the OECD (TUAC), issued a strong warning on the massive bail-outs of financial institutions:

> "The light regulatory approach that has prevailed in the past decade has nurtured a culture of excessive leveraging among financial institutions. This was favoured by the lightly regulated entities such as hedge funds and private equity, but also by main street investment banking groups which are not subject to the same prudential rules than deposit banks. The toxic effect of leveraging was amplified by the financial 'innovation' of the originate-and-distribute model of securitization of debt: bad debt was traded under the guise of 'structured products'."[8]

What has happened? What were these lightly regulated entities? And how is it that so many institutions were investing workers' retirement savings in speculative dead-ends?[9]

In the last few years, a fleet of very large **buyout funds** and **hedge funds** took the financial world by storm, acquiring, in the process, long-established, highly-regarded corporations. Excessively leveraged, their conquests included prominent corporations that traditionally prioritized long-term value and good labor relations. Then, in too many cases, the mega-investors began "stripping and flipping" these firms. Too often, the result was job losses, disruption of labor collectivity and other undesirable impacts on people and communities.

During this same period, large blue-chip financial institutions and hedge funds gambled hundreds of billions of dollars on the housing bubble, purchasing insolvent mortgage-backed securities, obscure derivatives and other exotic vehicles that re-packaged sub-prime loans. These bets were tranched and re-sold so many times that financial experts admit they don't understand the depth of the financial crisis. These trends, sometimes called "financial engineering", and other times "the financialization of the economy," are condemned by the Global Unions.[10]

A major wave of de-leveraging is now underway. Many of the blue-chips have failed or had runs on the bank. Many of "the New Masters of the Universe"[11] — as those

managing immense financial clout came to be called — watched as their funds imploded or face liquidity problems, jeopardizing savings and retirement funds.

Hedge funds, structured products and offshore entities behind many of the investment houses, once thought to be the profit engines, have instead brought rapid losses. The cheap and hefty credit behind the mega-buy-out funds began drying up due to the resulting instability of some of the world's leading banks and financial houses. As of early Fall 2008, hedge fund managers were walking away from their funds and the **leveraged buyout (LBO)** kings like KKR and Blackstone were looking to initial public offerings (IPOs) to bring in new investors or just choosing to sit by the wayside.[12]

The toll of these fallen or re-grouping dominos has been high: Merrill Lynch, Lehman Brothers, HBOS, Bear Sterns, IndyMAC, Peloton Partners, Pentagon Capital Management, Ospraie, Northern Rock, Amaranth, Société Générale, AQR, Zwirn, Sowood, Cheyne and Carlyle Group to name a few.

But there is a larger panorama that must be understood. Global corporate ownership in many countries is shifting with major ramifications for workers and unions. Economists and historians have written that in much of the world owner-managers and small shareowners characterized an earlier capitalist era. Then came "managerial capitalism" — companies owned by a broader base of stockholders, and managed separately by agents. More recently, starting in the 1970s, large institutional funds — read pension funds — came on the scene to the extent that they began "owning the economy as a whole".[13]

Today, global corporate ownership is entering a fourth stage and it is materializing rapidly: the growth of the LBO. Large PE and hedge funds have been buying large, long-established corporations — both public and private. In recent years, acquisitions by PE and hedge funds have included the Chrysler Corporation, Danish Telecom, RyanAir, Hilton Hotels, Eircom, Toys "R" Us, the Hertz Corporation, MGM, Manor Care, SunGard, Equity Office Properties, HCA, Alliance Boots, TXU, Cognis, PanAmSat, Debenhams, Burger King, Findus, Hudsons Bay Company and many others.

In the wrong hands, the results of PE LBOs may be harmful to employment. The World Economic Forum's (WEF) 2008 report on PE, which was controversial in the overly positive spin that accompanied the report's release, actually showed a negative effect of PE LBO transactions on employment. The report stated:

"We can say with confidence that the net impact on existing establishments is negative and substantial."[14]

Further to that, in 2008, UNI General Secretary Phillip Jennings said the following of PE investments:

> "We are here to warn pension funds to proceed with the utmost caution — this is not a normal investment."[15]

As for hedge funds, which are secretive and overly-leveraged, one critic reportedly called them "a compensation scheme masquerading as an asset class" (a quote sometimes attributed to value investor Warren Buffett).[16]

Whether or not the pace of LBOs will continue is unknown. It may slow down due to the widening fallout from the 2007-2008 credit melt-down. Nonetheless, these new corporate owners have already become some of the largest employers — KKR is the second largest employer in the US, according to many analysts. The impact of these mega-funds on countries around the world is growing. Ironically, the buyers — PE and hedge funds — are often utilizing capital from union-sponsored pension funds to secure these deals.

Indeed, too many union-sponsored pension funds invested in these complex, fast-moving, hot-money arenas without adequate due diligence — including an examination of fiduciary responsibility — or sensible prohibitions towards the implications of mega-funds transforming public entities and public firms into private ones, or a thought to the implications of obscene speculation in real estate.

The trustees of trillions of dollars in union-sponsored pension funds meant to care for working people need to consider the long-term interests of their beneficiaries. These interests include those of the beneficiaries' communities. Not all PE deals have positive implications for the long-term interests of working people.

It must be recognized that union-sponsored pension funds invariably turn to alternative pension investments (a classification that includes mega funds) to diversify their **asset allocation** portfolio, which is often heavily weighted in stocks and bonds. But not all **alternative investments** are alike, particularly when it comes to PE and real estate.

## 1.2 Responsible Capital: Making the case for the triple bottom line

There is a better way. Through alternative investments, union-sponsored pension funds can join the responsible capital movement and sustain a triple bottom line without foregoing portfolio diversification. ETIs undertaken within the guiding ethos of RI allow union-sponsored pension funds to truly serve beneficiaries and their communities over the long run.

Ample advice exists on RI whether it comes to real estate or other PE vehicles.

For example, regarding RI in real estate:

> "Responsible property investment encompasses many things:
> - The development of markets and public/private partnerships around the provision of affordable and workforce housing;
> - The increasing popularity of green buildings and transit-oriented development;

- The creation of innovative projects that find value in brownfield redevelopment, urban infill, urban revitalization, and land conservation; and,
- Engagement with property funds and managers on social and environmental practices." [17]

With regards to PE:

> "Responsible private equity funds invest in companies that treat their workers well, leading to higher performance firms and better jobs for working people. Responsible funds also consider environmental impacts, benefits, products and processes. Investing across the so-called "triple"-bottom line—considering environmental, social and governance impacts (ESG), after ensuring risk-adjusted rates of return--carries the potential for creating significant value that otherwise would not exist."[18]

What about managers of such funds?

> "Managers of responsible funds make decisions using more information than available to most investors. They take into account the quality of labor relations, the impact on environmental quality and sustainability, and effect on communities as clues to potential risk and profit. They aim to earn large and sustainable returns by considering factors other investors are missing from ordinary analysis."[19]

In December, 2007, the Global Unions approved a statement on responsible approaches to the stewardship of workers' capital that calls on investors to take into account the broader social and environmental consequences of their investment decisions.

> "In particular, the Global Unions urge trustees and institutional investors to embrace this responsible approach to investment decision-making as promoted by initiatives such as the Principles for Responsible Investment."[20]

The Principles for Responsible Investment (PRI),[21] launched by the United Nations Environment Program Finance Initiative (UNEP FI), is inspiring investors around the globe to think more long-term.[22] Pension funds, labor unions, foundations, corporations and financial institutions are among the adherents, with over $20 trillion in combined assets.

As described by the UNPRI, RI takes into account the impact of business activities on social issues, the wider society and the natural environment, both today and in the future.

> "Responsible investment—understood as the incorporation of environmental, social and governance analysis into investment decision-making—is a growing discipline that offers opportunities for long-term value creation both for investors and society as a whole."[23]

There is no question that these principles should also be applied to pension investment in the private sphere.

### 1.3 Caveats

While the smartest investors can make the activities in this report look easy, there is a relatively higher degree of risk associated with ETIs and trustees must not lose sight of their fiduciary duties and potential conflicts of interest. Not every nation has developed as yet clear pension fund guidelines for ETIs. There are some court decisions that appear to block any investment that does not solely maximize return.

This report focuses primarily on successful funds and initiatives, but union-sponsored pension funds have also succumbed to failure, self-dealing and conflicts-of-interest (especially in earlier times prior to more rigorous due diligence and standards-setting). Severe cautions also apply to that dark fleet of higher-risk and overly-leveraged hedge and buy-out funds, but the general investment field is risky enough.

In the case of everyday private investments in venture capital or PE, economic conditions change and firms and industries once profitable can lose money quickly. Real estate developments can over-estimate local market demands. Both fields can be mismanaged. There is less transparency in the privately-held arena, so the opportunities for fraud are greater.

Finally, as pension experts note, there are considerable institutional barriers to pension-funded ETIs, including poor and inconsistent legal frameworks. With proper policy frameworks, legal grounding, extensive due diligence and professional management, prudent, ethical and therefore *responsible* ETIs can be made in firms and projects that yield both collateral benefits for workers and their communities and excellent rates of return.

# 2. Workers' Capital, Capital Stewardship and RI

## 2.1 What is Workers' Capital?

Workers' capital refers primarily to the assets accumulated in collectively funded schemes in order to provide workers with financial security in their retirement. Pension funds are therefore, by definition, the deferred wages of workers.

Combined workers' capital assets are valued at $17 trillion globally in 2006.[24] These assets include workers' retirement savings, union-sponsored pension funds and other investment vehicles for those retirement funds, as well as funds held directly by trade unions.

In a 2007 survey of the eleven largest workplace pensions systems (using 2006 data), it was calculated that pension assets grew over the last decade at a compound annual rate of 7.5%. The survey, providing some similar data to OECD statistics, pegged overall retirement savings at $24.2 trillion, 58% of the total being defined benefit (DB) assets and defined contribution (DC) assets the balance. [25]

According to this same report, on average, global pension funds hold their assets as follows: 60% equities, 26% bonds and 14% other assets (around half in cash, half in alternative assets). The report also calculated that, in 2006, pension funds were increasing their investments in bonds and alternative investments, due to overall improved funding positions and other considerations.[26]

There is increasing recognition by the trade unions globally that the investment of workers' capital should reflect the intrinsic interests of workers, not only by bringing competitive financial returns, but also by contributing to the long-term vitality of economies, social standards, societies and environments. Alternative investments can do that and that is where the worlds of workers' capital and ETIs meet.

## 2.2 Role of Workers' Capital in Financial Markets

Union-sponsored pension funds are investing all around the world, part of the giant pools of private capital and institutional investments flowing through global markets. Union-sponsored pension funds own a large share of corporate stocks and therefore can drive markets. In many countries, allocations of union-sponsored pension funds to alternative investment classes, including venture and private capital and real estate, provide a lion's share of private investment in those categories. In other countries, union-sponsored pension funds have been understandably cautious.

The trade union movement is well aware that market failures may result in **capital gaps** that have significant negative impacts on specific sectors of the economy, employment, workers' rights communities and geographical regions. These market

failures result in a systemic lack of access to capital by not only micro-enterprises, isolated regions, inner-cities and labor-intensive sectors but also among ethnic minorities, the unemployed and women.

Trade unions, however, are also increasingly aware that the capital gaps created by these market failures can also yield significant investment opportunities. In fact, the recognition by trade unions that long-term financial returns and social, economic and environmental benefits are not necessarily mutually exclusive is an important source of institutional knowledge allowing trade unions to more accurately assess investment risks and opportunities.

## 2.3 Capital Stewardship

The sheer size of workers' capital globally — and therefore the role these funds can play in influencing investment at an international level — opens the door for leadership from union-sponsored pension funds in the area of capital stewardship and active ownership.

Capital stewardship refers to the actions taken by union-sponsored pension fund trustees and others to use workers' retirement savings to achieve the twin goals of the best possible risk-adjusted rate of return on investments and the interests, broadly defined, of plan participants and beneficiaries.[27] Active ownership means engaging with companies on issues of importance. (In Section 3.1 the intrinsic relationship with ETIs becomes clear.)

Approaches to capital stewardship being promoted at present within the labor movement can be categorized into three distinct categories: 1) negative or positive **asset screening**; 2) **asset managing**; and 3) asset targeting.

ETI falls within this third category — asset targeting — as it seeks to address unwanted capital gaps and directs investment so as to generate socially desirable benefits as well as competitive financial returns. Asset targeting approaches include investments that expand employment opportunities in a particular geographical region, increase the availability of affordable housing, strengthen capital infrastructure, revitalize urban neighborhoods, help rural economies, develop SMEs or support green industries.

Internationally, the global labor movement supports the mobilization of government resources and domestic savings for the purposes of investment in sustainable development and poverty reduction, with special attention to also protecting core labor standards.[28] There are important linkages between the goals of responsible investing and the investment of workers savings that must be considered to ensure that these investments truly reflect the interests of workers globally.

# 3. Economically Targeted Investments (ETIs)

## 3.1 What are Economically-Targeted Investments?

As stated in the introduction, economically targeted investments (ETIs) are responsible investments that make use of workers' capital assets, such as union-sponsored pension funds, to generate specific social, economic and environmental benefits along with the necessary financial returns.

To be considered an ETI, an investment must have three characteristics:

- The investment aims to provide a competitive risk-adjusted rate of return;
- The investment targets a capital gap or opportunity resulting from a market failure; and
- It is associated with a social, economic or environmental benefit.

### 3.1.1 Rate of return

According to pension expert Jayne Zanglein, collateral benefits obtained through ETIs include "expanded employment opportunities, increased housing availability, improved social service facilities, and strengthened infrastructure"[29] and furthermore, ETIs "create new jobs, provide capital to replace loan funds no longer rolling through the bank pipelines, provide startup businesses with access to capital, finance low-cost housing and improve the infrastructure of the nation, all without sacrificing a return on investments or otherwise jeopardizing the pensions of future retirees."[30]

As we will later describe, ETIs can take varied forms. Typical ETIs might include investments in venture capital, PE, real estate, fixed income, infrastructure and/or credit enhancement. The next chapter will explain these investment types.

The first duty of a pension trustee is to oversee the prudent investment of plan assets, solely in the interests of plan participants and beneficiaries. In crafting their particular fund's investment strategy, pension trustees must make workers' retirement security their first priority and they must never jeopardize investment returns in order to promote non-financial goals. But part of a prudent investment strategy is asset allocation and a plan for diversifying investments.

A critical component of modern portfolio theory and financial planning, asset allocation is the strategy whereby an investor distributes investments over various investment classes (e.g., stocks, bonds, etc.). In addition, as part of a prudent and responsible allocation formula, union-sponsored pension funds can make investments in alternative investment classes, to diversify beyond public equities, bonds and cash equivalents.

Trustees and pension principals have an interest in exploring these asset classes in ways that advance the interests of beneficiaries more broadly and that do not harm

the interests of beneficiaries and their communities. In other words, trustees and pension principals should explore the opportunities presented by ETIs.

### 3.1.2 Capital gaps

ETIs fill identified capital gaps in alternative asset classes like real estate, venture capital, and private debt placement. ETI policies allow union-sponsored pension funds to promote positive economic development by investing a portion of their portfolios in real estate projects and privately-held companies that have trouble getting access to capital. ETIs can also target under-capitalized regions.

### 3.1.3 Associated benefits

Union-sponsored pension funds that invest in ETIs, whether directly or indirectly, gain a measure of influence over the employment and labor relations and environmental practices of investee businesses and projects. Trustees can target companies and construction projects that:

- Provide job security;
- Adopt responsible contractor policies;
- Adopt high-performance workplace practices;
- Follow responsible environmental standards;
- Treat workers with respect and that provide for neutrality in labor relations.

When investors look to this "high road" investment framework, rather than investing in lowest-cost or anti-union firms, they are following a worker-friendly investment policy. Investing in these types of worker-friendly firms generates stable profits through increased labor and management productivity or higher levels of employee participation, including worker ownership. It also allows investors to monitor and manage the potential risk and liabilities that arise from firms or projects that pollute or contribute to global warming.

## 3.2 US Legal Guidelines for ETIs

This section will rely on the relevant US legal framework, as the investment approach is consistent with the fiduciary duties of trustees from other countries.[31]

ETIs have been defined by the US Department of Labor (DOL) as "investments selected for the economic benefits they create apart from their investment return to the employee benefit plan."[32]

DOL's Interpretive Bulletin 94-1 clarified that a pension plan may choose an investment which has collateral benefits if the investment has a risk-adjusted market rate of return which is equal to or superior to alternative investments. The DOL has consistently construed the Employee Retirement Income Security Act's (ERISA) requirement that a fiduciary act "solely in the interest of," and "for the exclusive purpose of providing benefits to participants and their beneficiaries" as "prohibiting

a fiduciary from subordinating the interests of participants and beneficiaries in their retirement income to unrelated objectives."[33]

However, the DOL's bulletin on ETIs states that a fiduciary may invest plan assets in an ETI "if the ETI has an expected rate of return that is commensurate to rates of return of alternative investments with similar risk characteristics that are available to the plan, and if the ETI is otherwise an appropriate investment for the plan in terms of such factors as diversification and the investment policy of the plan."[34]

According to another DOL report, prudent investments exist in an inefficient market and remain unfunded due to information gaps and high administrative costs of consummating and monitoring deals.[35] In the words of the report:

> "To the extent that capital markets are judged to be tradition-bound, rigid or incapable of funding all 'worthy' investments, making funds available from the pension investment pool is seen as addressing capital gaps that would otherwise impede local economic development." [36]

The report stated further:

> "The added costs of acquiring the information needed to make the investment sound must be incorporated in the required rate of return. If the investment can bear these added costs, the ETI strategy may produce additional economic activity in this region. If it isn't able to bear the added costs, the pension fund must: (1) forego the investment, (2) find a third party willing to subsidize some or all of these extra costs, or (3) accept a lower [but still prudent] net return." [37]

## 3.3 ETIs in Practice

Today, ETIs are encouraged in varied ways. Many countries encourage responsible pension investments in the "real economy"— for example, in local companies, in SMEs, and in affordable housing — and some national governments have encouraged infrastructure projects and other investment initiatives that promote the public good by providing financial incentives to reduce the risk of those investments. In many cases, union-sponsored pension fund trustees have designed pension investment policies that promote the use of ETIs within their pension fund.

Union-sponsored pension funds around the globe are investing in a broad range of ETI strategies.[38] Many existing ETI investment vehicles, including those mentioned in this report, serve as models for pension trustees looking to develop well-rounded and prudent ETI policies.

ETIs have been utilized broadly in the US, where surveys found that 18 of the 20 largest public pension funds participated in ETIs, dedicating from 0.5% to 8.4% of assets to these initiatives. In 2003, the California Public Employees Retirement System (CalPERS) reported that approximately $17.2bn of its assets, though not

technically in-state ETIs, are "invested or committed for investment in California". A study of US state teachers' funds determined that twenty-two states have ETI language favoring in-state investments.[39]

# 4. Types of Economically Targeted Investments

This report categorizes ETIs under the following two headings: Real Estate and Businesses Investments and Geographic and Industry Sector, each divided into sub-categories.

## 4.1 Investments in Real Estate and Businesses

### 4.1.1 Real Estate and Fixed Income

**See associated profiles: 5.1.1, 5.1.3, 5.2.1, 5.2.2 & 5.3.1**

The use of ETIs to achieve financial returns and collateral benefits has most often been applied to real estate. Building trades pension trusts have long invested in real estate projects that create housing and jobs for union members and other members of society.

Real estate investment vehicles can include **pooled funds** that make equity and debt investments, **mortgage vehicles** (mortgage-backed securities) and **fixed-income funds**. Fixed income funds are a debt-based real estate product investing in affordable housing. Trusts can invest in credit enhancements products, also, whereby a union-sponsored pension fund will loan its credit rating to a municipality or state agency for a fee.

Real estate ETIs can fill capital gaps in areas such as low-income housing that would not otherwise be funded. Moreover, funding partnerships can be forged with governments and other investors to secure guarantees and to lessen risk.

In the real estate market, investors finance, purchase and develop land or property. **Property development** refers to the financing and undertaking of construction of new stock of real estate or and **property re-development** to improvements, upgrades and expansions to existing stock. Properties and development transactions can be either residential (i.e. owner-occupied or rental housing) or non-residential (i.e. commercial, industrial or retail sites).[40] Investors and lenders also loan money to residential and commercial borrowers who finance and develop their own properties.

Pension trustees who are new to ETIs may wish to start their fund's ETI programs by investing in well-established pooled real estate funds or property-related fixed-income projects. These programs are liquid, easy to evaluate, and offer competitive returns. Many of the funds cited in this report, as well as others, invest in real estate, including Futuregrowth Asset Management, PIC, the AFL-CIO's HIT and BIT, Concert Properties and Hermes.

### 4.1.2 Direct Real Estate Investments

Many union-sponsored pension funds invest directly in real estate, meaning that they purchase the property directly rather than through a pooled fund. They require an

investment manager (in-house or external) with a great deal of time and expertise. Direct investments are more time-consuming, administratively costly and in general more risky. Direct real estate investments may also expose a fund to decreased liquidity and limited diversification. However, direct investments offer more control, flexibility, and high potential returns than passive investments.

### 4.1.3 Private Equity

**See associated profiles: 5.1.5, 5.2.1 & 5.3.4**

An increasing number of union-sponsored pension funds are making ETI investments in the field of Private Equity (PE), which involve *investments in smaller, non-public companies*. Union-sponsored pension funds are attracted to this class of alternative assets due to the potential multiple benefits: good investment returns and good jobs. PE funds typically have a measure of control in the management of the companies in which they invest, and often bring in new management teams that focus on operating the company more efficiently.

PE funds can include venture capital funds, **private capital** funds, and **buyout and turnaround** funds (including **special situation funds**).[41] Pension funds also source investment partnerships that provide debt financing and variations of debt, including **senior term debt** and **subordinated debt**.

PE funds profiled in this report include IFM (Australia), KPS (US) and Public Investment Corporation (PIC, SA).

### 4.1.4 Private Placements

**See associated profiles: 5.1.2**

Union-sponsored pension funds also invest in **private placements**. Private placements are stock or bond issues sold by a corporation directly to an investor without registration under securities regulations; thus, they can be riskier investments. Besides union-sponsored pension funds, private placements are generally made by insurance companies, trusts and PE funds.

The Union Labor Life's J for Jobs Fund profiled in this report is an example of private placements.

### 4.1.5 Small and medium-sized enterprises

**See associated profiles: 5.1.4 & 5.2.4**

Many private capital funds target small and medium-sized enterprises (SMEs), given their importance in economic growth, social cohesion, employment and local development. SMEs account for over 95% of enterprises and 60% to 70% of employment, and generate a large share of new jobs in OECD economies.[42] SMEs therefore drive research and development, technological innovation and new

products. Despite their size, these firms can be part of an important supply chain or strategic to the economy. They are particularly important to emerging countries, and can help reduce poverty.

Some banking experts fear that many of the traditional problems facing SMEs — lack of financing, difficulties in exploiting technology, constrained managerial capabilities and low productivity among others — become more acute in a globalized environment.

Quebec's *Fonds de solidarité*, among others, focuses on SMEs.

As many of SMEs in Latin American and other developing markets lack the capacity and the necessary resources with which to carry out R&D activities, there are sub-hemispheric initiatives to increase the sources of ETIs to this field, including the FIDE in Chile which is profiled in this report.

### 4.1.6 Worker-Ownership and Empowerment Transactions

**See associated profiles: 5.1.5 & 5.2.2**

In the US, Employee Stock Ownership Programs (ESOPs) — an ownership structure provided for under US law that provides tax advantages to worker-owners (and, on a varied basis, in some other countries) — and *Sub-chapter S ESOPs* (in reference to a provision in US tax law that further reduces tax liability) have unique potential as ETIs.

In the US, some worker-friendly funds have undertaken buy-outs and then employed an ESOP as an exit strategy, meaning that in the end, workers have obtained partial ownership in a now economically viable company. Such is the case with KPS, profiled here. (On the other hand, under *Sub-chapter S ESOPs*, capital can be used as a strategy to convert companies to a special employee ownership status, a tactic that has been used by The Yucaipa Companies (not profiled here)).

In South Africa (SA), Brazil and other emerging economies, there have been a series of ownership transition initiatives to share the ownership of in-country corporations (sometimes owned by foreign interests) with historically-disadvantaged citizens. These initiatives are known as **empowerment transactions**. South African investors have actively pursued **Black Economic Empowerment** (BEE), meant to increase black ownership and control of targeted companies (See Section 5.2.1).

Union-sponsored pension funds, utilized by PE firms, have sometimes provided the capital to enable these transactions by backing or partnering with indigenously-owned firms to purchase a portion or all of the target company's stock, yielding partial to full control.

## 4.2 Investments Targeting Places and Industry Sectors

### 4.2.1 Sectoral Targeting: Clean-tech and Green Building Investments

**See associated profiles: 5.3.1 & 5.3.4**

The green movement and the push for clean energy technologies is a growing industry that union-sponsored pension funds can benefit from. The International Energy Agency (IEA) estimates that $44bn was spent on new renewable and distributed energy technologies in 2005. As the world diversifies its energy sources from fossil fuels, the level of investments in new energy technologies is expected to quadruple to $167bn by 2015.

Increasingly, union-sponsored pension funds are not only demanding that investments comply with global climate change agreements and avoid negative environmental impacts but are also exploring innovative opportunities in clean technology and green building. Inasmuch, union-sponsored pension funds from around the world – Netherlands, Denmark, UK, Canada and Australia - are making major investments in this field.[43]

Clean energy and green sector initiatives profiled here include the Industry Fund Service (IFS, Australia) and Hermes (UK).

### 4.2.2 Geographic Targeting

**See associated profiles: 5.1.1, 5.1.3, 5.1.4, 5.2.1, 5.2.1.2 & 5.3.1**

One of the more common ETI approaches employed by union-sponsored pension funds is to commit some proportion of investments to initiatives within the geographic boundaries of a political entity, such as a nation or a province or state. Geographic targeting also often falls under an urban/rural dichotomy. *See below.*

While this report is mainly focused on private-side investments, some union-sponsored pension funds — through PE — also invest in-country or in-state in public corporations whose headquarters are located in that jurisdiction (potentially as part of an "empowerment transactions" strategy).

In SA, PIC has also helped lead the capitalization of Pan-Africa infrastructure fund, designed to serve the capital needs of Southern African countries. By pooling investments, a number of investors can build a more scalable framework to geographic targeting.

#### 4.2.2.1 Urban Revitalization

ETIs in urban areas undertaken by large institutional investors, particular union-sponsored pension funds, have the potential to revitalize communities and create decent jobs, unionized workplaces and affordable housing. For instance, brownfield redevelopment can lead to inner city urban revitalization. Once an urban area becomes revitalized, businesses will grow or return, which leads to job creation.

They can also have positive environmental impacts, according to urban pension investment author Tessa Hebb.

Union-sponsored pension funds can use a range of ETI strategies in urban areas: brownfield redevelopment, venture and private capital investments to generate good jobs, affordable housing and other commercial improvements and opportunities. Urban investment strategies have been developed in large urban areas such as London, New York City and Johannesburg.[44] Examples herein include PIC, Concert, HIT-BIT and Hermes.

**4.2.2.2** Rural Economic Development

Investments in rural areas can positively impact the local economy and build needed infrastructure and housing and generate industries and therefore employment. In emerging markets, rural areas suffer more emphatically from under-capitalization, often the result of colonialism. The degree of rural de-capitalization — that is, is the region is growing and exporting along with the national economy, or at least trading within its region, or only barely surviving? — will determine the types and extent of suitable ETI strategies. However, even in the more mature economies, venture capital tends to congregate in higher growth areas (such as the Pacific and Atlantic coasts in the US); therefore, regional investment strategies in otherwise mature economies have been used in North America, for example, in Appalachia in the US and in parts of northern and eastern Canada.

An example of a targeted rural investment strategy profiled in this report is that of PIC (SA), which has targeted the Western Cape and townships in other isolated parts of the country and Quebec's *Fonds de solidarité*.

### 4.2.3 Infrastructure and Project Financing

**See associated profiles: 5.1.6.1, 5.3.3, 5.3.4**

An alternative financing strategy that is growing in both mature and emerging economies alike is infrastructure financing. Types of infrastructure include traditional transport infrastructure with user fees, such as roads, rail and airports; regulated infrastructure, such as water, energy and gas distribution (with a regulated service contract and an availability fee); and social infrastructure, such as schools and hospitals (where governments pay an availability fee over a 20-30 year term).[45]

Pension-funded vehicles such as the Futuregrowth Fund and the PIC (both in SA) have gone farther defining infrastructure to include churches, health clinics and other institutions that are part of the social fabric of a community.

Infrastructure has historically been financed by municipal bonds, which often yielded favorable tax treatment. The most prudent approach to this class is to invest in safe and sound infrastructure bond investment vehicles. More recently, infrastructure funds have been organized as equity-type funds. (It is important to note, however, that these sorts of financing arrangements raise valid concerns, not the least of which is that workers' pensions may be used to replace the legitimate role of governments

or lured into risky privatization schemes. Many public-private-partnerships have also been criticized due to the lack of appropriate fiduciary oversight and due to anti-unionization drives that resulted from the projects.)

Principals interested in infrastructure investment can explore responsible contractor, anti-privatization, opt-out and other provisions to protect their investment and the interests of their members. According to Tessa Hebb:

> "Several public sector pension funds have also adopted Privatization Policies as part of their investment management. [This type of] policy strongly discourages private equity managers from investing in a company or its affiliates, if any have 'converted or replaced existing public jobs in schools, public authorities or prisons with institutions staffed by private sector employees, including units such as mailrooms, and food, waste collection, health care, and security guard services'."[46,47]

Alternatively, SA's Futuregrowth Fund applies a social impact test to its infrastructure and project investments to ensure a triple bottom-line.

Finally, there is a unique opportunity for union-sponsored pension funds to explore energy and transit-related project financings, particularly, for instance, renewable energy projects (windmill and solar project construction, etc.) where financing plans can be structured to ensure expedited labor-outcomes — construction and operating jobs —and a shorter timeline for investment exits.

Examples in this paper include the Industry Fund Service in Australia, the Boilermakers' Co-Generation Fund in the US, and ABP's Ampere Fund in the Netherlands.

### 4.2.4 Micro-Finance and Development Finance

**See associated profiles: 5.3.3**

Microfinance institutions cover a wide range of investment activities, including community lending, micro-loans and community equity investments. While many community loan and equity funds have historically accepted a lower-rate of return, the development finance arena has begun to field larger funds that seek more standard risk-adjusted returns. These funds are investing equity whereas the field has traditionally been primarily debt-based. Furthermore, secondary markets are beginning to emerge in microfinance.[48] Nonetheless, risks need to be understood, as security collateralization can be more difficult

Microfinance investments have grown rapidly around the world, especially in emerging markets. But even in more mature markets, these investments are increasing in scale. As noted in such diverse organs as the *Financial Times* and *Social Funds*, the United Nations declaration of 2005 as International Year of Micro-credit focused attention on a wide range of financial services to micro-enterprises across the world.

> "Although interest in this type of investor is mostly coming from private investors, institutions are now more willing to include that asset class in their portfolios. A good example of this is the Dutch pension fund ABP which recently announced an investment of €5m in micro-credits."[49]

The example profiled here is that of the ABP from the Netherlands.

# 5. Highlighted Funds & Case Studies

## 5.1 US & Canada

Union-sponsored pension funds in the US have been exploring alternative investments since the mid-1960s, when the AFL-CIO Housing Investment Trust (HIT) was first established. At the same time pensions belonging to the construction trades began to systematically create low- and middle-income housing and increase the jobs available to construction union members.[50]

In Canada, alternative pension investments began in the 1980s when a number of Labour-Sponsored Investment Funds (LSIFs) were launched, capitalized by tax credit savings programs at the provincial and federal levels. The original impetus for the funds came in the middle of a severe economic downturn in Quebec experienced in 1982-83.

US union pension also began supporting the capitalization of worker-friendly PE and venture funds in the 1990s.

Today, large-scale ETIs are made by union-sponsored pension funds in cities (ex. NYCERS, New York City), states (ex. CalPERS, California) and provinces (ex. OMERS, Ontario). Union-sponsored pension funds, encouraged by the AFL-CIO and Change-to-Win (CtW) in the US and by the Canadian Labour Congress (CLC) in Canada, have worked to initiate worker-friendly policies, though Canadian efforts have lagged behind.

The following are a few of the most notable examples.

### 5.1.1 AFL-CIO Investment Trust Corporation: Housing Investment Trust (HIT) & Building Investment Trust (BIT), Washington, DC, USA // Focus on real estate and fixed income

- **Fund Manager:** HIT is internally managed while BIT is externally managed by Mercantile Real Estate Advisors
- **Boards Governance:** Significant representation from both labor and business/financial leaders
- **Capital Partners:** Primarily US unions and public pension plans
- **Location**: Head office Washington, DC.
- **Geographic focus**: primarily invests in the US
- **Assets Under Management (2007):** $7.3bn
- **Websites:** www.aflcio-hit.com / www.aflcio-bit.com

The AFL-CIO has established two major real estate trusts: the Housing Investment Trust (HIT) and the Building Investment Trust (BIT). According to the Trusts, these funds have made commitments of $8.3bn since their inception, and have a total present value of $13.7bn. The Trust claims that HIT has, in recent years, met or bested its benchmark; BIT has outperformed its benchmark since inception.

HIT is a fixed-income fund specializing in mortgage-backed securities insured or guaranteed by the US federal government or government-sponsored enterprises, including the partnerships proposed to help rebuild the Gulf of Mexico area (destroyed by Hurricane Katrina in 2005) which will leverage $1bn in investments (see case study below), and earlier large scale projects in New York City after 9/11. Since inception it has made commitments of over $5bn in projects valued at an estimated $6.6bn. HIT estimates that its projects have created 50,000 union jobs over its lifetime, in the process financing more 80,000 units of housing nationwide.

BIT is a $2.6bn pooled real estate fund serving over 150 union-related pension fund beneficiaries. Since its inception in 1988, BIT has helped finance over 158 projects, with a total commitment of $3.5bn across the US, yielding over 10,000 multi-family housing units and quality commercial real estate. The investment strategy is to earn income and realize capital appreciation from investments in equity interests in real estate and mortgage loans, including construction and participating mortgage loans, consistent with protecting participants' capital. BIT estimates its projects have created 7,800 jobs.

**HIT-BIT Case Study: Gulf Coast Revitalization Program**[51]

The AFL-CIO Gulf Coast Revitalization Program is a multi-faceted commitment to rebuild the US Gulf of Mexico and help the hard-hit residents of the Hurricane Katrina disaster. It targets residents' needs for housing, healthcare and good jobs. The Program breaks new ground by combining construction and permanent jobs strategies in the areas of affordable housing and commercial re-investment with a broad community revitalization campaign, entailing job training, youth services, community organizing and economic development.

HIT-BIT has committed $1bn to the effort and anticipates 6m hours of union construction work:

- **Affordable Housing ($250m):** The project will seek to build or renovate 5,000 to 10,000 housing units in New Orleans and other Gulf Coast communities, leveraging $150m from other public and private sources. Special emphasis will be given to workforce and special needs housing.
- **Health Care and Hospital Facilities ($100m):** In conjunction with other partners, HIT-BIT plans to invest in health care facilities and hospital construction, to reduce a local shortage of health facilities.
- **Homeownership ($250m):** HIT plans to make available home mortgages for union members and public employees and will provide counseling and tools for homeowners facing foreclosure or needing refinancing. In addition, HIT is working on new homeownership programs for low-income families.
- **Economic Development ($100m):** BIT has targeted equity investments for commercial real estate development and revitalization to create jobs and boost local economies.

Unionized workers will produce low-cost manufactured housing at a new panelized housing facility near New Orleans that is operated by Housing International, Inc. (HI), a firm chosen competitively by the AFL-CIO Investment Trust Corporation. The manufactured housing project is expected to lead to a more productive environment to build replacement housing while yielding unionized production jobs. HI has developed a comprehensive green building and advanced materials cluster that will feed the factory, ensuring quality clean and green construction and installations. The plan calls for steel-frame and sustainable building products, products more immune to water, mold and weather. All construction and substantial rehabilitation work performed through the Gulf Coast program will be performed by responsible contractors.

### 5.1.2 Union Labor Life Insurance Company (ULLICO) J for Jobs, Washington, DC, USA // Focus on private placement and real estate

- **Fund Manager:** Real Estate Investment Banking Group (REIBG)
- **Board Governance:** Significant labor representation and business/financial leaders
- **Capital Partners:** Mainly US union-sponsored pension funds
- **Location:** Head office Washington, DC
- **Geographic focus:** US
- **Assets Under Management (2007):** $3.2bn
- **Website:** www.ullico.com

ULLICO was founded by labor unions in 1925 as an affordable and union-owned insurance company for working people. It is a fully unionized provider of multi-line insurance, financial services, and administrative products. Separate Account J, popularly known as "J for Jobs" is a business unit of ULLICO. The J for Jobs account was designed specifically for jointly-managed trust funds to invest in worker-friendly, job-producing construction projects and industries. J for Jobs invests in construction projects built by construction workers affiliated with the union trades.

J for Jobs is an open-ended commingled separate account that invests in high-quality secured mortgages on commercial and residential projects. The portfolio consists primarily of a diversified portfolio of construction and permanent mortgages secured by a variety of properties. Investments are primarily in new construction of extensive renovations.

According to ULLICO, from 1995 to the end of third quarter 2006, J for Jobs had invested $16.1bn in 219 projects, creating a total of 162,000 jobs. Prior to this period, from 1977 onwards, J for Jobs invested $776m in 184 projects, creating 7,936 jobs. Recent investments include hotels, office buildings, condos and apartment buildings, mixed use, retail, and R&D laboratories. ULLICO has also made joint investments with HIT-BIT, complimenting HIT's equity investments with debt. ULLICO claims that in recent years J for Jobs has met if not beaten the Lehman benchmark.

A second fund started by ULLICO, the USA Realty Fund, will buy, develop, own, and operate commercial real estate properties, which will not only be built by unionized workers, but also operated, maintained, and renovated by unionized workers.

**ULLICO Case Study: Newport News Shipyard Double-Hull Project**
**Virginia, USA**

While the ULLICO J for Jobs has primarily invested in real estate, one of ULLICO's most successful developments was the Newport News shipyard construction projects in the 1990s, in which an ancillary fund financed double-hull tankers. The first deal invested in the construction of five environmentally-safe, double-hulled oil tankers at a total cost of $280m. ULLICO's $10m equity stake gave it enough leverage to achieve an agreement that the ships would be constructed in the US at one of the nation's few remaining unionized shipyards. The project provided work for 12,000 steel workers over a 28-month period. In addition, the firms operating the ships agreed to a union pre-hire agreement (allowed under the Jones Act governing maritime trade), which further guaranteed jobs for 150 members of the Seafarers International Union. ULLICO exited the investment, recovering 100% of invested capital plus internal rate of return of 20.4%.[52]

### 5.1.3 Concert Properties, Vancouver, British Columbia, Canada // Focus on real estate

- **Fund Manager:** Concert Properties, Ltd.
- **Board Governance:** Significant labor representation and business/financial leaders
- **Capital Partners:** Canadian union and management pension funds
- **Location:** Head office Vancouver
- **Geographic focus:** Invests in the provinces of British Columbia, Alberta and Ontario
- **Assets Under Management:** CAD$1bn, with shareholder value of CAD$500m
- **Website:** www.concertproperties.com

Concert Properties[53] was started in British Columbia in the 1980s as a pooled construction trust similar to the US real estate trusts. One of the original goals of Concert Properties was to finance the construction of new, affordably-priced rental and other residential properties both in the Greater Vancouver region and in British Columbia in general. Concert became a leading investor in new rental properties, even in market downturns. It also became recognized for employing unionized contractors, benefiting local union members in construction and related sectors.

Concert is a diversified real estate development company involved in a wide array of for-lease and for-sale developments, now encompassing British Columbia, Alberta and Ontario. Concert's real estate activities include industrial and commercial projects, rental apartments, condominiums, resorts, seniors' residences and land development. According to Concert, since 1989 it has completed developments in excess of $1.8bn and in the process:

- Built more than 8,000 rental and condominium homes;
- Developed/acquired over 6.8m sq. ft. of income-producing properties;
- Created more than 15.2m person-hours of on-site union employment; and
- Contributed over CAD$66.1m to affiliated union pension, health and welfare plans.

**Concert Properties Case Study: Collingwood Village, Vancouver**

In 1993 Concert undertook a CAD$200m investment in Collingwood Village, a large urban redevelopment project involving 27.6 acres (11ha) of industrial brownfields in a lower-income neighborhood of the city of Vancouver, BC, Canada. The final project will include 2,800 residential units, of which 15% will be affordable and 20% designed for families with children. Collingwood is a model of community-based planning benefiting local residents who have enjoyed improvements in amenities and services (through a unique cooperative planning process with Concert, the development team and the City of Vancouver).

In addition to the housing units – most of which has been completed – a significant range of community amenities have been provided. These include a 10,000 sq. ft. (930m$^2$) "Neighbourhood House", a 8,000 sq. ft. (745m$^2$) community gymnasium, a childcare facility and an elementary school. In addition 7.4 acres (3ha) were dedicated to public green space, comprising three separate neighbourhood parks.

Another innovation at Collingwood Village and a first in Vancouver was the development of a Community Policing Office, to help address safety needs. Because of the project's proximity to major public transit infrastructure, additional land has been redeveloped for both residential and commercial uses. An estimated 1.7m construction work hours are attributed to Concert's investments, generating CAD$56.7m in wages and benefits.[54]

### 5.1.4 *Fédération des travailleurs et travailleuses du Québec* (FTQ), *Fonds de solidarité* FTQ, Montreal, Quebec, Canada // Focus on venture capital and PE, organized as a Labour-Sponsored Investment Funds (LSIF)

- **Fund Manager:** Internally managed
- **Board Governance:** Significant union membership with business/finance leaders
- **Capital Partners:** Quebec residents through a tax-credit savings program
- **Location:** Head office Montreal
- **Geographic focus:** Invests primarily in the province of Quebec
- **Assets Under Management:** CAD$7.4bn
- **Website:** www.fondsftq.com

During the recession in the early 1980s, leaders of the Quebec Federation of Labour (FTQ) convinced the provincial government that their members' retirement savings could be put to work building the provincial economy. The provincial government enacted tax credit legislation relating to LSIFs which allowed the FTQ to create the *Fonds de solidarité* — a regional investment fund meant to foster supplemental retirement savings and:

- Invest in Quebec-based businesses and provide them with services to further their development and to help create, maintain and protect jobs in the province;
- Promote the economic training of local workers in order to enhance their contribution to Quebec's economic development;
- Stimulate Quebec's economy by making strategic investments benefiting both workers and businesses.

The *Fonds de solidarité* is the largest and oldest worker-friendly PE/venture capital fund in North America. *Fonds de solidarité* and its network have helped create or maintain more than 120,000 jobs and have launched and/or grown over 2,100 companies in all sectors of the economy. As of May 2007, the Fund's overall return was 7.1%. The fund offers a 30% tax credit, yielding up to a one-year CAD$1,500 return on a CAD$5,000 investment.

While assisting in re-investment and revitalization of essential industries, the Fund also provides some of the largest sources of capital for new economy sectors. *Fonds de solidarité* has partnered with *Fondaction*[55] and an environmental NGO to launch a fund dedicated to environmental-related investments: Cycle Capital Management.[56] *Fonds de solidarité* has also, through regional funds, targeted distressed regions of the province. The Fund conducts a social audit of each prospective partner company and provides economic training for investee workers, including how to track firm performance. All companies must accept the workers' right to organize. More than half of the workers in partner firms are unionized.

**_Fonds de solidarité_ Case Study: Glendyne, St. Marc-du-Lac-Long, Quebec**[57]

Glendyne has its operations in St. Marc-du-Lac-Long in the Temiscouata region of Quebec, near the Maine and New-Brunswick boarders. Glendyne produces mainly roofing slate from the largest operational slate quarry in North America. In 1995, *Fonds de solidarité* provided Glendyne with CAD$100,000 in capital and an additional CAD$1.4m in the form of a non-secured loan. In 2005, *Fonds de solidarité* invested another CAD$5m so that Glendyne could acquire a US distributor, and for loan consolidation. According to officials, when *Fonds de solidarité* made its first investment, this enterprise had gone bankrupt after less than a year of operation.

The *Fonds de solidarité* believed in the project's fundamental importance to the region's economic development and felt that with good capitalization there was potential for success. Due to the overall quality of the company's slate, combined with strict quality control, Glendyne penetrated world markets within a decade. Today the return on investment to the *Fonds de solidarité* is 29%.

*Fonds de solidarité* also has representatives on the Board as part of its policy on corporate governance policies.

In 1996, the unemployment rate in Temiscouata was over 20% and the company initially provided only 53 non-unionized jobs. However, due to strong investments in technology since the beginning of the partnership, today there are more than 300 people working for Glendyne and it is now, by far, the largest employer in the region.

With regards to labor relations, in 1998 a FLQ union asked for certification. For the first years the labor relations were strained, leading to a strike in 2001. After that, the parties asked the *Fonds de solidarité* to help them to improve communications. *Fonds de solidarité* set up an economic training program for all the employees and supported the formation of a communication committee involving the union executive and the top management.

The company complies with all environmental legislation and regulations. The modernization and the role of the union have contributed to improved health and safety.

### 5.1.5 KPS Special Situation Funds, New York City, USA // Focus on PE and "special situations"

- **Fund Manager:** Internally managed by KPS Capital Partners LP
- **Board Governance:** Partnership board; KPS has close ties to unions
- **Capital Partners:** Pension and institutional investors, private investors
- **Location:** New York City, USA
- **Geographic focus:** Invests primarily in US, but also in Canada and Europe
- **Assets Under Management:** $1.8bn
- **Website:** www.kpsfund.com

KPS Capital Partners, LP is the manager of the KPS Special Situations Funds, a family of PE funds focused on constructive investing in so-called "special situations". KPS makes controlling equity investments in manufacturing, transportation, and service industries that need to effect immediate and significant change, including turnarounds, bankruptcies, restructurings and corporate divestitures. KPS has created new companies that purchase operating assets out of bankruptcy; it has established stand-alone entities to operate divested assets; and it has recapitalized highly leveraged public and private companies. KPS targets firms with a majority of operations located in the US and Canada, but is also currently investing overseas. KPS claims that Fund I was a "top-decile performer" for a 1999 Vintage Fund. KPS II, a 2003 vintage fund, is on track for similar results.

KPS estimates it has saved or created an estimated 10,000 union jobs, working constructively with most of the major industrial and service unions in the US and Canada. KPS partners with unions and companies to create participatory, communicative and empowered corporate cultures. KPS aims to encourage employee input and involvement in all levels of decision-making. In addition, KPS has exited a number of highly-visible investments by selling all or most of the company's stock to Employee Stock Ownership Plans (ESOPs).

KPS has also made a number of investments with environmental benefits. KPS's investments often entail a restructuring and waste-cutting plan for facilities, leading to the clean-up, modernization and revitalization of older factories. Furthermore, KPS's style of operations encourages participatory management practices, which tend to promote a safer, cleaner work environment. KPS has made significant investments in companies engaged in environment, transportation and energy products and in companies that utilize re-cycled raw materials (steel, paper, etc.).

**KPS Case Study: Blue Heron Paper Company, Oregon City, Oregon, USA**[58]

In May 2000, KPS acquired the newsprint assets of the bankrupt Smurfit-Stone Corporation in Oregon City, Oregon. KPS worked in partnership with senior management, the Steelworkers and the Association of Western Pulp & Paper Workers (AWPPW) to create Blue Heron, saving, in the process hundreds of jobs. Today, Blue Heron Paper Company, with annual revenue of $220m and a production capacity of over 360,000 tons, is one of North America's leading producers of newsprint and other specialty products from a predominantly recycled fiber base. In September 2006, after completing a very successful turnaround of Blue Heron and subsequent re-growth of the company, KPS sold its controlling equity ownership interest to a 100% ESOP. KPS returned more than five times its invested capital in Blue Heron to its investors.

### 5.1.6 Other

#### 5.1.6.1 Boilermakers' Co-Generation and Infrastructure Fund: infrastructure project financing

One of the most sophisticated and successful alternative investment programs initiated by a union pension plan is the Boilermakers' Co-Generation and Infrastructure Fund. The $6.6bn Boilermakers & Blacksmiths National Pension Trust is the sole investor in the Fund. Its current investment is $200m, about 4% of assets, with latitude to go up to 8%.

In the 1990s, managed by the Trust Company of the West (TCW), the Fund used a project finance model to co-invest in the construction of power generation plants that were then leased or sold to independent power producers, industrial companies or the government. TCW typically syndicates the deal, investing alongside major banks, insurance companies and other private investors. By co-investing the Fund adds diversification, reduces risk and demonstrates that the private market regards the project as a good investment (even with union labor covenants).

By the end of the 1990s, the Boilermakers' Fund had invested $450m in 30 projects, achieving a 15% average annual rate of return and generating an estimated 1.4m hours of work for plan participants. Since the trust's benefit formula is based strictly on hours worked, the extra hours represent not just extra wages, but also extra current income to the trust and higher retiree benefits for participants in the future. While a 15% internal rate of return over 12 years would be market-rate for an equity fund, the Boilermakers' Fund takes less risk because it provides just the senior or subordinated debt slice of each project financing.

TCW maintains that as the fund's reputation has grown, so has its ability to put more money to work. Because the Boilermakers pension trust is a national fund, the Fund can target projects that generate hours for members and still achieve geographic diversification.

#### 5.1.6.2 CalPERS: a union-sponsored pension fund with a broad ETI strategy

CalPERS is the US' largest union-sponsored pension fund with assets totaling more than $240bn. CalPERS provides retirement and health benefits to approximately 1.5m State and municipal public employees and their families. CalPERS has long had an alternative investment outlook, put into practice by their Alternative Investment Management (AIM) Program.

In the early 2000s, CalPERS and AIM launched the California Initiative. The initial program targeted urban real estate and PE. CalPERS' AIM Program commenced the second phase of the California Initiative in December 2006 with a $500m commitment to the Golden State Investment Fund. Since the inception, the real estate portion has earned a return rate of 22 percent. In May 2001, CalPERS provided 10 PE firms with $475m to kick start the PE aspect of the program. The program's returns are still maturing.

The program achievements reported in 2007 for the Alternative Investment Management (AIM) Program include:[59]

- Investments in 131 mainly in-state companies, ranging in size from three to over 22,000 employees;
- 7% employment growth at 56 companies that have been in the portfolio since before June 30, 2005, and that provided data in 2005 and 2006;
- Almost 40% of the firms' California employees were residents of low-to-moderate income areas;
- Many companies employed workers who resided in economically disadvantaged areas, and were companies that had female and/or minority management.

The investors targeted traditionally underserved markets, primarily in California, to seize opportunities that had been overlooked. In urban areas, under-funded companies often are strategically located near centrally located businesses and transportation hubs. Furthermore, they can tap into large and diverse labor pools and gain favorable access to real estate, local consumer demand, and government incentives. Underserved rural areas offer inexpensively priced land and office space, available workers, lower living costs, government incentives, and potential for development of technology and infrastructure.

#### **5.1.6.3** Technopôle Angus: an innovative urban investment project with union-sponsored pension fund backing

*Technopôle Angus* is an urban park of companies recently developed in Montreal, Quebec, Canada. The project is the result of the work done by a Community Economic Development Corporation in the city of Montreal in order to revitalize a part of the city and to create jobs for the local community. The project was partly financed by union-sponsored pension funds.

As the Canadian Journal of Urban Research points out, this project shows that a socio-economic movement can have a structuring effect for developing local strategic objectives. The project focused on the sustainable development of a blighted urban setting. Due to the project's innovative strategies, over 840 jobs have been created as of the Fall 2005, through thirty private companies and social economy workplaces. *Technopôle Angus* will ultimately yield about 2,000 jobs and provide space for approximately 100 companies over a 1m sq. ft area (9ha).

One of the most innovative and important aspects of the project is the co-habitation of private companies and social enterprises. To meet the needs of private sector employers and workers located at *Technopôle Angus*, there will be partnerships with off-site social enterprises; alternatively these new social economy organizations will co-locate on the spot. Thus, there will be some very rich and beneficial "virtual" amalgamations. Several social enterprises were established, including *Insertech Angus*, which provides computer assembly training, employing 40 people. As of 2005, 400 young people had received training, with a 90% success rate. *Technopôle Angus* also includes a day-care center for the workers on-site.

**5.1.6.4** Heartland Industrial Partners: PE failure

US and Canadian union-sponsored pension funds invested tens of millions of dollars in Heartland Industrial Partners (HIP), a private capital investment firm that targeted aerospace, industrial, and auto parts companies. The firm's investment strategy of platform investments — that is buy, build, and grow — allowed the firm to become a focal point for industry consolidation. HIP was praised as worker-friendly, even though most of its assets were not union-sponsored pension funds. The firm's holdings included auto parts makers Metaldyne, Collins & Aikman (C&A), and TriMas, and bedding maker Springs Global US.

Unfortunately, Heartland invested in a number of auto supply platform companies just as the US auto sector began suffering a traumatic downturn in production. Founding partner David Stockman, formerly budget director in the Reagan administration, faced federal investigations after investing (and losing) $350m in C&A, a parts maker that subsequently went bankrupt.

## 5.2 Emerging markets: the case of South Africa

Responsible pension investment in South Africa (SA) has meant the redress of historical economic imbalances, improved standards of living for disadvantaged individuals and the provision of economic stimulus to undeveloped regions of the country. Such efforts have focused on empowerment, infrastructure and rural development investments. SRI and ETI efforts have used various strategies including, asset screening, asset managing and asset targeting. Another aspect of investors' agendas is what is known as Black Economic Empowerment (See Section 5.2.1).

Pension funds in SA operate under voluntary disclosure legislation. These measures have evolved into policies that, supported by union-sponsored pension funds, collectively make up the government's transformation agenda. As part of these efforts, the Government Employees Pension Fund (GEPF) committed to "use its massive financial strength (in pension assets, etc) to improve the level of corporate behavior for the benefit of retirement fund members and the economic well-being of South Africa." This includes a priority in encouraging investment in infrastructure. In 2001, 8% of GEPF's investment portfolio was committed to ETIs and "other" investments, including guaranteed products, PE and international investments. Some of the other union pensions have followed suit, urged on by Congress of South African Trade Unions (COSATU).

### 5.2.1 Relevant background on RI and ETIs in SA

Post-apartheid SA has been fertile ground for promoting policies to write historic wrongs. This has lead to SA having institutionalized a very broad definition of RI for use at home, which includes what is known as Black Economic Empowerment (BEE).

For example, in the late 1990s, there was the BEE Commission (BEECom) whose report was subsequently published in 2001 and made suggestions for all sectors of SA's economy.[60]

The BEECom Report recommended, among other things:

> "The Government Employees Pension Fund should invest 10% of the assets in productive investments in areas of national priority over an adjustment period of five to seven years."[61]

The report also touched on the role of trade unions:

> "With considerable influence the trade union movement has over the allocation of the savings made by its members in life assurance and retirement funds, the movement should commit itself to expedite the design of investment guidelines for union trustees."[62]

And furthermore:

> "A concerted effort must be made to launch a union-driven training programme for trustees to encourage responsible, prudent decision-making, that also achieves social objectives."[63]

Post-apartheid governments in SA have also worked hard to right economic discrimination against historically disadvantaged peoples through legislation and explicit policy and have explicitly adopted BEE policies, including South Africa's *Economic Transformation: A Strategy for Broad-Based Black Economic Empowerment*.[64]

In June 2003, stakeholders from government, business, labor, and community participated in a Growth and Development Summit (GDS).[65] The GDS agreement pledged to increase investment, to encourage growth and development. It reads:

> "The constituencies agree to encourage investors, including businesses (local, foreign, public and private), retirement funds, the life assurance industry, government, labour, and community organisations to work towards investing 5% of their investible income in appropriate financial instruments."[66]

To achieve the 5% target, two major types of socially-targeted investments are emphasized:

- Infrastructure investment to boost the physical capital, services, and human capacity that support the economy; infrastructure includes housing, utilities, roads, transport, health clinics and school buildings;
- Productive investments, or the funding of processes that make the economy more productive with a focus on labor-intensive sectors, SMEs and micro-enterprises; and education and skills training.[67]

SA's financial sector furthermore, adopted, as of 2004, a charter to guide their investments and practices, otherwise known as the Financial Sector Charter.[68] The Charter, which has an explicit BEE mandate, set out policies and practices to be implemented in South Africa by the signing parties from 1 January 2004 to 31 December 2014, with a review mandated for 2009 (based on 2008 data). Signatories include the Black Business Council, the Bond Exchange of South Africa, the Banking Council of South Africa, the Foreign Bankers Association of SA and the South African Insurers Association, among others.
The charter includes provisions on human resource development, empowerment financing and retirement funds. The Charter provides a specific definition of ETIs:

> "Targeted Investment means debt financing of, or other form of credit extension to, or equity investment in South African projects in areas where gaps or backlogs in economic development and job creation have not been adequately addressed by financial institutions. It specifically means financing of or investment in:
>
> "…transformational infrastructure projects that support economic development in underdeveloped areas and contribute towards equitable access to economic resources. Such infrastructure projects could be in…
>
> - transport;

- telecommunications;
- water, waste water and solid waste;
- energy;
- social infrastructure such as health, education and correctional services facilities; and
- municipal infrastructure and services.

"…agricultural development involving integrated support for resource-poor farmers, through enabling access to and the sustainable use of resources.

"…low-income housing for households with a stable income…

"…Black SMEs."[69]

Therefore, BEE is a set of policies and practices in post-Apartheid South African that aims to initiate socio-economic process and enable economic transformation for the benefit of all South Africans. BEE initiatives:

- Ensure the broadest ownership of productive assets and resources (by Black South Africans);
- Increase levels of employment in the formal economy;
- Increase household incomes;
- Expand literacy and skills development; and
- Extend basic services to those who do not currently have them.

It is important to note that while Congress of South African Trade Unions (COSATU), the largest South African trade union confederation, generally supports BEE, it publicly objected to a number of the Charter's provisions, including:

- A lack of broader representation on the BEE Advisory Council (comprised only of business people);
- A sense that it favored privatization; and
- A perceived bias toward investing in existing large, urban businesses.

COSATU also argued for a variation of the Charter's language that included an investment strategy balanced with investments in more rural, small and women-owned enterprises, and cooperative and community-owned ventures. COSATU emphasized employment rather than ownership.

### 5.2.2 Public Investment Corporation (PIC), Pretoria, SA // Focus on broad ETIs, including venture capital, PE and real estate

- **Fund Manager:** Generally internally managed, with some external managers and fund partnerships
- **Board Governance:** Primarily business and financial sector members
- **Capital Partners:** Government Employees Pension Fund (GEPF), the SA public sector union, and other pension plans
- **Location**: Head office Pretoria
- **Geographic focus**: Invests in South Africa but there are plans for a Pan-Africa fund
- **Assets Under Management:** R719,8bn
- **Website:** www.pic.gov.za

South Africa's Public Investment Corporation (PIC) was founded in 1911 as an investment entity wholly owned by the South African government. The entity was re-organized under the Public Investment Corporation Act of 2004. GEPF joined other pension funds and institutional investors to jointly invest in PIC. PIC is the largest fund management initiative in South Africa.

PIC seeks to contribute to the country's growth and transformation partly through job creation, BEE and infrastructure development. PIC also engages in shareholder activism on behalf of its investors. The Corporation claims a total return of 18.7% in the period ending March 2007.

PIC's dedicates 3.6% of its portfolio to alternative investments to create jobs and infrastructure, with additional allocations to property investments and affordable and commercial housing. PIC has established a number of specialized investment vehicles to accomplish its stakeholder mission:

- The *Isibaya Fund* (see Section 5.2.2.1), the largest private equity fund in South Africa (according to PIC), manages PE, infrastructure and community investment projects;
- PIC's *property investments division* manages a property portfolio of R8.5bn (as of March 2007) with about one-third directly held in listed and unlisted property portfolios including some of South Africa's premier retail malls, convention centres and hotels. Property management is outsourced to external property management companies. PIC concluded R1.6bn in property-related investments in 2007, and also established the *Community Property Fund* focused on property development.
- PIC has also allocated $250m toward its goal of establishing a $1bn *Pan-Africa Infrastructure Development Fund* (PAIDF); there are close to $625m in commitments so far.

**PIC Case Study: Agri-Nomalanga Project, KwaZulu-Natal**[70]

South Africa (SA) is presently undertaking a transformational land reform program to mainstream historically-disadvantaged peoples and to revitalized specific regions of the country. As part of that, PIC has approved partial funding to the tune of R38.25m for the Agri-Nomalanga project in KwaZulu-Natal (KNZ), the southeastern coastal homeland of the Zulu peoples. The project will help expand the diversified farming activities including: cattle breeding and an abattoir, forestry, production of citrus, berry varieties, vegetables and other crops using both field and hydroponic production. Without compromising the financial viability of the project PIC also structured a complementary housing development for workers, with much needed water, sanitation and electrical infrastructure. PIC also helped package the project for bank financing. Old Mutual is another partner in this project.

The project is a partnership between BEE companies and entrepreneurs and three communities in KZN, beneficiaries of the land restitution process. The project will lease 19 farms to entrepreneurs and communities, providing access to 9,000 ha (22,200 acres) of land, of which 1,500 ha (3,700 acres) is arable land. As part of the land restitution process, the project boasts the strong support from the KZN Department of Land Affairs (DLA), the KZN Department of Agriculture not to mention the local communities. The DLA will possibly replicate the project across the province and the rest of SA, providing further impetus to the land restitution process. According to Isibaya Fund Director Pani Tyalimpi, the socio- economic benefits of the project will be significant, including:

- Increase total shareholding by communities to 80%, by enabling an additional 35% shareholding;
- Mainstream historically-disadvantaged individuals in the agricultural sector, notably black entrepreneurs and land claimants; present beneficiaries include 186 adults and 164 children;
- Empower communities as they are resettled as active shareholders in the farms following successful land claims;
- Ensure long-term economic benefits from the land reform program with an initial creation of 539 jobs;
- Alleviate rural poverty — which adversely affects women and children — in one of South Africa's poverty nodes (Umvoti Magisterial District in KZN);
- Contribute to domestic food security and foreign currency earnings through a small amount of exports;
- Maximize KZN's productive agricultural assets;
- Improve the waning contribution of agriculture to SA's GDP and demonstrate that specialization in agriculture is relevant to the South African economy.

**5.2.2.1** PIC's Isibaya Fund

The Isibaya Fund manages PIC's 3.6% alternative allocation to PE, infrastructure projects and black business endeavors. The Isibaya Fund is the largest PE fund in South Africa, investing between R50m and R300m per transaction. The fund also invests in third-party managed PE funds. The Fund has assets of R30bn and invests across all sectors. As of March 2007, the Fund had completed R274.5m in investments for the year and had approved:

- R1.077bn in PE deals;
- R275m in a fund of funds; and
- R356m in infrastructure;

The Isibaya Fund achieved a return of 36% as at March 2007 and 26% as of March 2006.

The Isibaya Fund seeks to develop partnerships that positively impact rural infrastructure and SMEs and also seeks social returns on its investments. While the Isibaya Fund has been a leader in facilitating BEE transactions, their focus will evidently shift towards a more developmental approach, as the Fund targets capital gaps not yet leveraged by existing investors. Some the investment parameters include:

- Broad participation by BEE companies and management in running a business;
- Long-term commitment and business focus;
- Job creation and maintenance of existing jobs, and skills transfer; and
- Meaningful BEE ownership upon exit by the Isibaya Fund.

**PIC/Isibaya Case Study: Investment in SA's Largest Telecom Company**[71]

In 2005, through the Isibaya Fund, PIC, paid R6.6bn to foreign shareholders to acquire a 15.1% stake in Telkom, the nation's largest telecommunications company.

PIC stepped into the deal at the last moment in order to shore up the Elephant Consortium, a woman-owned group, as the consortium's efforts to purchase the stock had faltered. PIC later restructured the deal and sold 6.7% to the Elephant group.

**PIC/Isibaya Case Study: BEE Investment in Major Mining Operation**[72]

In October, 2004, the PIC, working with investment partners, provided financing to the Savannah Consortium (Savcon), a BEE initiative, to purchase a 29.5% stake in Aquarius Platinum South Africa ("AQPSA").

"The company operates three main mining sites on the Bushveld Complex in South Africa and on the Great Dyke in Zimbabwe…

"Savcon is a broad-based black economic empowerment consortium which includes Chuma, a black economic empowerment investment company whose principal shareholder is the Chuma Foundation, which was created to benefit HDIs in the fields of education and health and social welfare. Included in the shareholding structure of Savcon is also Malibongwe, a woman's NGO whose main objective is to develop and empower rural women by initiating commercially sustainable projects in the communities. Savcon is led by Savannah Resources whose shareholders are four black entrepreneurs with track records in business, finance and senior management.

"Initially Savcon was to purchase a 26% stake but through PIC's involvement, Savcon managed to increase its stake in AQPSA to 29,5% at a competitive price."[73]

The author of the PIC 2006 Annual report predicted that, with the performance to date and the state of the platinum industry, Savcon's investments would yield significant employment and community benefits in the regions where the mines operate.

### 5.2.3 Futuregrowth Asset Management, Capetown, South Africa // Focus on real estate and infrastructure

- **Fund Manager:** Internally managed, with fund partnerships
- **Board Governance:** The firm is structured as a 30% ESOP, the other 70% is owned by Wipcapital, a subsidiary of Women Investment Portfolio Holdings (WIPHOLD); the Board includes a member of WIPHOLD
- **Capital Partners:** Union-sponsored Pension funds and other institutional investors; the Community Property Fund is a joint project with PIC
- **Location**: Head office Capetown
- **Geographic Focus**: Invests primarily in SA; some international
- **Assets Under Management:** R35.9bn
- **Website:** www.futuregrowth.co.za

A specialist asset manager founded five years ago, Futuregrowth has R39.5bn worth of assets under management. Very recently, Wipcapital, the financial services arm of WIPHOLD, an investment company owned by and dedicated to empowering black women, acquired control of the company, making Futuregrowth the largest black owned asset manager in South Africa. Part of the company is owned by its employees.

Futuregrowth's diverse funds include:

- **Infrastructure & Development Bond Fund:** The largest socially responsible debt fund in Africa, it seeks to make investments that facilitate infrastructural, social, environmental and economic development in Southern Africa.
- **Infrastructure & Development Equity Fund:** Similar objectives to the aforementioned fund and also targeting the pension industry. Its long-term return target is CPI+10%.
- **Community Property Fund:** Launched in 1996, it funds the development of retail shopping centers catering to the needs of under-served communities throughout SA. *See Section 5.2.3.1.*

Futuregrowth helped fund the National Urban Reconstruction & Construction Housing Agency (Nurcha). It extended a R45m loan to the guaranteed capital pool. Nurcha has built more than 100,000 houses, worth more than R1.5bn.

**Futuregrowth Case Study: Grace Bible Church**[74]

In 2001, through its Infrastructure Bond Fund, Futuregrowth invested in and led the development of a multi-purpose center in Soweto. The building accommodates 5,000 people and is used for church services, courses in adult education, computer skills and HIV/AIDS awareness.

Initially the members of the church approached banks for an R13m loan to build the centre, having saved R6m, but their request was rejected. That's when Futuregrowth stepped in.

The center, now one of the largest private community centers in Soweto, was expanded in 2008. Futuregrowth participated in a new R30m sports and educational facility that was built on a 13 000$m^2$ site that sits next to the original main church auditorium. Futuregrowth partnered with the National Urban Reconstruction and Housing Agency (Nurcha) to finance the project.

**5.2.3.1** PIC's & Futuregrowth's Community Property Fund

PIC (See Section 5.2.2) and Futuregrowth Asset Management (See Section 5.2.3) created a partnership fund in excess of R1bn focused on property developments in rural and urban townships across SA. After merging their development property assets, the joint venture will manage Futuregrowth's Community Property Fund (CPF). The company will be 60% owned by the PIC and 40% by Futuregrowth. CPF has grown significantly since the joint venture was established.

The view of management is that CPF was becoming a core building block in SRI portfolios due to its inherent liquidity and sustainable, long-term real returns, said to be ideal for union-sponsored pension funds. Recent performance of the fund compares favorably with the listed property sector. The fund's year-on-year performance to the end of 2007 was 28.7%.

CPF is currently invested in 17 retail properties spread across "second economy" urban and rural localities, including eight provinces in Mafikeng, Kanyamazane, Thulamahashe and Mkhuhlu. These highly populated communities suffer from severe unemployment and the new retail developments create both employment and entrepreneurial opportunities. A portion of the rental area is dedicated to local retailers who trade either as small or franchise operators. Wayne van der Vent of Futuregrowth has pointed out that the construction projects result in the hiring of mainly local labor and local sub-contractors, and that many of the workers often receive certified training in building trades and business and literacy skills.

The CPF's goal is to bring economies of scale that will accelerate the growth of the retail property sector in "second economy" localities. Fund representatives say that in some of the rural areas there has been no development and few employment opportunities, if any, exist. This will give union-sponsored pension fund clients an opportunity to participate in the development of the "second economy" and thereby contribute to national socio-economic transformation. The Fund claims that in its retail developments, local labor is primarily sourced during the building phase and in the provision of security, cleaning and maintenance services as well as centre management once projects are completed.

The CPF counts as its impacts:

- Development of 138,547m$^2$ of gross rentable retail area in rural areas, secondary towns and traditional townships;
- Retail services to 7m people, over 15% of the population;
- Direct employment for 3,750 people, and indirect benefits to 16,250 people;
- Development of local entrepreneurs.

**Community Property Fund Case Study: KaNyamazane Shopping Centre**[75]

The CPF invested in the KaNyamazane Shopping Centre in the township of KaNyamazane. It was the town's first major shopping complex.

"The lives of thousands of people living in KaNyamazane will change with the opening of an R80 million shopping centre by the Futuregrowth Community Property Fund (FCPF).

"It is the first of several developments to be built by the fund in Mpumalanga in the coming year. KaNyamazane Shopping Centre, owned by the FCPF and built by New Africa Developments, recently opened its doors for business, bringing high-street shops at the big four banks to the heart of the under-serviced community.

"Mr Wayne van der Vent of Futuregrowth said, 'This will create 700 jobs of which 60% are for women.'

"This is the FCPF's first big new development in the province in the past three years. The single-storey complex is next to the area's sports stadium and alongside municipal offices, forming the hub of a growing central business district (CBD).

"'Seventy percent of our products will be proudly South African,' Van der Vent said.

"The 14 000m² shopping centre is 20 km east of Nelspruit, on a main road which passes through rural towns off the N4 between Kruger National Park and Malelane. Transport has been incorporated into the development with a taxi rank on site and facilities for the association. A new service station is in the planning stages and is due to open early in 2006…

"It is the 17th centre to be funded by the Futuregrowth Fund in disadvantaged areas across South Africa. Today the fund retains 13 of them."[76]

### 5.2.4 Community Growth Fund (CGF), part of Old Mutual Investment Group SA (OMIGSA), Capetown, South Africa // Focus on corporate engagement

- **Fund Manager:** Internally managed by Old Mutual Investment Group (OMIGSA)
- **Board Governance:** Primarily business and financial members
- **Capital Partners:** Institutional investors and private investors; the CGF is a joint project with the Community Growth Management Company (Comanco)
- **Location**: Head office Capetown
- **Geographic focus**: Invests primarily in SA
- **Assets Under Management:** R2.7bn in holdings for CGF primary equity fund; there are additional holdings
- **Website:** www.omigsa.com/docs/docredir.asp

Old Mutual Investment Group (OMIGSA) is a large multi-boutique investment house encompassing all the investment businesses in the South African Old Mutual Group. OMIGSA now manages the Community Growth Fund (CGF), a fund that invests in South African companies committed to sustainable development and triple bottom line reporting. OMIGSA manages over a dozen investment management businesses, and CGF is a joint project. CGF integrates social, environmental and economic factors into investment decisions and processes. The Fund's premium investment vehicle, the CGF Equities Fund, garnered annual returns of nearly 20% for the past year (as of early 2008), and 29% for the three and five year periods, meeting or beating comparable indexes, according to the Fund's website.[77]

The CGF was launched in 1992 by the Community Growth Management Company (Comanco), a joint project of OMIGSA and Unity Incorporation (representing seven trade unions). Since inception in 1992, Comanco has provided socially and environmentally- aware investors a choice of vehicles through which to grow and manage their wealth while, at the same time, contributing to the economic sustainability of South Africa. The CGF arose as a complementary force to the international SRI movement, which organized the disinvestment campaign to challenge apartheid. CGF South Africa sought to effect change from within the country by applying SRI criteria to investments in domestic companies.

CGF's claims that consistently sound returns can be generated by an ESG approach. CGF funds aim to deliver above-average returns by applying a three-pillared philosophy underpinned by in-depth research, engagement and active investment. The CGF conducts a "social audit", examining eight criteria that include good corporate governance, health and safety, and corporate social responsibility. For example, Comanco commenced its social audit of South African in 1992; it was not until 1994 that the company qualified for inclusion in the CGF investment universe. Other companies have gone through even lengthier approval processes.

**CGF and the Power of Negative Screens**

"Comanco borrowed the term 'refuseniks' from the glasnost-era Soviet vernacular to refer to companies that refuse to submit to its social audit. Aspen Pharmacare, Sun International, and Vanadium Corporation, among many others, have been listed as refuseniks. Such branding generates results Over a one-year period, almost three quarters of some 30 refuseniks reformed their ways to gain entrance into the CGF universe."[78]

For instance, CGF representatives have reported that the Naspers company is dedicating more resources to training, empowerment, adherence to health and safety standards, and corporate governance, and employee representatives have confirmed that employment conditions have improved, though it scored poorly on employment.

"In addition to Comanco's social audits, Unity Incorporation has been involved in shareowner activism since the inception of CGF. Within its first two years, Unity engaged with such companies as De Beers, Southvaal, Nedcor, and Dimension Data. Unity believes its shareowner initiatives on affirmative action and corporate spending on employee training inspired two recent pieces of South African legislation..."[79]

## 5.3 Europe and Australia

One of the European leaders in RI is Hermes in the UK. Hermes is fully owned by the BT Pension Scheme (BTPS). BTPS exercises a mainstream investment approach itself, seeking to integrate ESG issues into the investment process, and also focuses on corporate engagement. Hermes is active in real estate and PE. This report highlights a significant long-term urban revitalization endeavor by Hermes.

ABP in the Netherlands is the second largest union-sponsored pension fund in the world. ABP clusters its investments in three platforms: equity, fixed income, alternative investments and allocation & research. The report focuses on an innovative micro-credit and environmental initiatives launched by ABP.

Examples of other European union-sponsored pension funds that are active in alternative investment include:

- **PGGM** is the second largest union-sponsored pension fund in the Netherlands, with $97bn in assets, and it is supported by the health care and social work sectors. PGGM applies ESG criteria to its investments when there is an impact on the financial performance of the investments. The fund invests in real estate and PE on an international basis, using internal and external asset managers. PGGM also has taken a stake in the world's largest private sector carbon fund, Climate Change Capital's (CCC) Carbon II fund. The fund will invest in developing countries aiming to reduce greenhouse gas emissions.
- The **Swedish National Pension AP Funds Family**, with $27bn in assets, also invests in PE and real estate. It has also invested $363m in CCC's Carbon II fund.
- The **Environment Agency Pension Fund** (EAP), representing the staff of the agency in England and Wales, applies an environmental overlay to its entire investment portfolio of $2.7bn. Its property and PE investments search for environmental opportunities in the renewable energy and technology field. [80]

In Australia, as of 1992 the Superannuated Funds manage most of the country's pensions as legislated by the Labour Government's "Superannuation Guarantee" and negotiated with the Australian Council of Trade Unions (ACTU). The ACTU is active in worker's capital issues, and collaborates with Industry Super Holdings, an amalgamation of fund management services that includes Industry Fund Service (IFS), which owns an investment firm active in PE and infrastructure. That firm owns the largest renewable energy company in Australia. ACTU is also working on affordable housing with the government.

### 5.3.1 Hermes Corporation, UK // Focus on real estate

- **Fund Manager:** Primarily internally managed
- **Board Governance:** Business and financial members
- **Capital Partners:** Union-sponsored pension funds and other institutional investors, government entities and financial institutions
- **Location**: Head office London
- **Geographic focus**: Invests primarily in UK but also internationally
- **Assets Under Management:** £34bn
- **Website:** www.hermes.co.uk/index.htm

Hermes was created in 1995 to manage the assets of its initial sponsors, British Telecom and the Post Office, before becoming wholly owned by the BTPS. Hermes is a fund manager that invests funds on behalf of 209 clients including BTPS and other union-sponsored pension funds, insurance companies, government entities and financial institutions, as well as charities and endowments. At the end of 2007, Hermes had over £34bn under management, and was investing across a broad spectrum, including a growing interest in real estate and PE.

Its ownership ensures by default a close alignment to the needs of other long-term investors, especially union-sponsored pension funds,[81] as expressed by its investment principles:

> "Those who control the largest blocks of shares in the UK, are the investment 'institutions'…In Hermes' case, several million people depend on our investment to secure their income in old age. Hermes' clients have liabilities which extend for a long period of time. A typical 'average' liability would be well over a quarter of a century. It is these liabilities that we seek to cover by investing in and becoming the part-owners of public companies."[82]

Hermes Real Estate offers property investment through segregated and pooled vehicles. Hermes Real Estate operates across all the primary markets of retail, office and the industrial sectors. In each of the major markets, Hermes claims to have specialist investment managers with specific relevant expertise and market knowledge. Hermes Real Estate is one of the largest real estate managers in the UK, with in excess of £12bn of gross assets under management (as of 31 December 2007). Hermes Property Unit Trust is the principal balanced pooled vehicle.

Hermes Private Equity (HPE), the PE arm of Hermes Pensions Management, has £2bn committed to PE, both as an active investor in external PE partnerships, and through its own direct investment activity. HPE funds are diversified by geography (Europe and North America) and by type of investment (venture capital, mid-market and large buy-out funds), and have been focused on the UK and European medium-sized buy-out market. Since 2003 HPE has led the management buyouts of Walbrook, Merlin Entertainments, Oyezstraker Group, The Works, Ashworth Mairs Group, Riva Gaming, Siblu Holdings and Independent Living Group.[83]

Hermes' well-publicized corporate governance and RI program prioritizes active shareholders, codified under the Hermes' Principles. Hermes works to ensure that companies are run by managers and directors in the best interests of their long-term investors. A pioneer in corporate governance and shareholder engagement, Hermes is a leader of the debate in the UK and abroad. Furthermore, Hermes claims to have taken its corporate governance and RI program to the next level by advising and acting for other institutional investors through its Equity Ownership Service and being the first major investment institution to establish shareholder engagement funds. Hermes believes that good stewardship contributes to superior corporate performance.

**Hermes Case Study: King's Cross Development, London**[84]

In 2000, Argent St. George, mainly owned by BTPS, began planning one of the largest city renewal projects in Europe. An immense multi-dimension urban renewal strategy in London is underway called the King's Cross Central Regeneration Project. The strategy aims to revitalize 67acres (27ha) of brownfield land on one of the most derelict and dangerous parts of London, along the Regent's Canal. The project will cost £2bn, and take 12 to 15 years to complete. The development will include 8m sq. ft of mixed use, including up to 25 large, new office buildings, 20 new streets, 10 new major public spaces, the restoration and refurbishment of 20 historic buildings and structures, and up to 2,000 homes and serviced apartments. That includes 500 homes classed as affordable housing, 250 homes dedicated to shared equity, homebuy purchase and key worker rent and another 650 units for student accommodation. The project will create 30,000 jobs.

The project will be enhanced by open space, new park lands along the canal, cultural and arts amenities and a huge commitment to sustainable development. Argent seeks significant savings in carbon emissions through energy efficient building design and technology. They are developing buildings that will connect into a site-wide district heat network incorporating a distributed Combined Heat and Power (CHP) plant with top-up boilers fired by biofuels. The cooling demands will be met by a combination of absorption chillers fed from the district heat network (tri-generation) and any extra demand from efficient mechanical chillers. Argent will use renewable technologies including roof mounted wind turbines, photovoltaics, ground source heat pumps and solar thermal systems for generating hot water.

Transit-wise, King's Cross claims to be the best connected development in the United Kingdom. Two major rail termini offer direct services throughout the country and Europe, connecting to Eurostar. In December 2009 a high speed direct service will connect commuters in Kent and the South East with King's Cross. Other direct train and tube links go to Heathrow, Gatwick and Luton Airports. King's Cross St. Pancras Underground is the biggest interchange station on the London Underground network and is serviced by six tube lines. The development will provide an 800 space bicycle interchange located between the two rail termini. The area is also serviced by 12 bus routes and being located at a transport 'hub' catching a cab should never be a problem.

### 5.3.2 *Caisse de Prevoyance du Personnel Enseignant de I'Instruction Publique et des Fonctionnaires de l'Administration du Canton de Genève* (CIA), Switzerland // Focus on real estate

- **Fund Manager:** Externally managed, except for real estate
- **Board Governance:** Members broadly represented through supreme governing body
- **Capital Partners:** Represents government education and civil employees
- **Location**: Head office Geneva
- **Geographic focus**: Invests primarily in Switzerland but also internationally
- **Assets Under Management:** $5bn
- **Website:** www.cia.ch

The CIA is the largest contingency fund (insurance and pensions) in Geneva, with 35,000 active members and pensioners. The CIA has worked towards sustainable development for 20 years and applies ESG criteria to its entire portfolio, according to a 2007 UNEP FI report.[85]

The CIA invests in equities, bonds and real estate, in equal portions, resulting in an allocation of one-third of its $5bn assets in real estate.

The CIA has a democratic management structure in which there is extensive involvement by cantonal pension fund members:

- The supreme governing body, the assembly of delegates, is composed of 180 representatives elected by pension fund members.
- The assembly of delegates votes on statutes and main policies, such as investment strategies and asset allocation guidelines.

The real estate fund, which is internally managed, is focused on producing optimum returns while providing affordable, good-quality housing to residents of the canton of Geneva. Accordingly, 90% of the portfolio is located in Geneva and 40% is invested in low-rent housing with a strong commitment to good maintenance and renovation. The Fund also gives priority to efficient architecture and green/energy saving construction.

In addition to real estate, the body takes a strong interest in other social aspects of its investments. In 1996, the CIA set out its RI policy in its statement of investment principles. The policy was discussed, debated and approved by pension fund members via the assembly of delegates.

As a union-sponsored pension fund with a long-term horizon and significant assets under management, the CIA believes it has a responsibility towards members and society as a whole. As an institutional investor, it has a social responsibility to reflect on its role as an economic agent. Conscious of its investment footprint, the CIA monitors how funds are invested as well as the potential impact of its investments.

The Fund aims to invest in a manner consistent with sustainable development, and wants to meet the needs of the present generation without compromising the needs of future ones. Accordingly, the CIA requires its asset managers to integrate ESG and sustainability criteria into their investment decision-making. This investment strategy is applied across its entire portfolio. The CIA does not invest in companies where more than 5% of revenues come from weapons, tobacco, gambling or nuclear production or agrochemical companies where more than 5% of revenues come from genetically modified products.

In all its requests for proposals, the Fund states that it requires investment managers to take account of its exclusion policy and integrate sustainable criteria into portfolio construction and management. The CIA also seeks investment managers that can take account of such collateral issues as corporate environmental policy, recycling, supply chain management, collective bargaining and human rights. Provided these requests are abided by, investment managers are free to pursue the investment strategy they deem most appropriate.

The CIA accepts the philosophy that higher management fees may need to be paid to carry out RI mandates. Thus, investment managers are evaluated on a broader basis.

### 5.3.3 *Stichting Pensioenfonds ABP*, the Netherlands // Focus on sustainable private equity placements for energy projects and micro-credit for Development

- **Fund Manager (private equity only):** Externally managed by AlpInvest
- **Board Governance:** *Stichting Pensioenfonds ABP* is an independent body with their own Board of Trustees. Social partners, represented by employers and employees, control ABP.
- **Capital Partners:** Pension fund for employers and employees in service of the Dutch government and the educational sector.
- **Location**: Head office
- **Geographic focus**: The Netherlands and internationally
- **Assets Under Management:** €216bn
- **Website:** www.abp.nl

ABP is the pension fund for employers and employees in service of the Dutch government and the educational sector, with €216bn in assets. While the first responsibility of ABP is to achieve the highest possible return on investment in order to safeguard the pensions of the fund's 2.7m participants, ABP is also aware of its social responsibility, managing various ethical and sustainable investment policies and practices.

Approximately 4% of ABP assets are allocated to PE.[86] An outside manager, AlpInvest, manages PE investments for ABP (and other pension funds both in Europe and Canada).[87] AlpInvest monitors investment effects on employment and economic growth and endeavors to integrate ESG factors as part of its efforts to promote transparency. It reports that it is concerned as to how investments impact a greater stakeholder population.

Through various partnerships, ABP also invests in specialized investments, such as the Ampère Equity Fund, which will invest up to €0.5bn in dozens of sustainable energy projects (profiled here). There are also investments in the Global Solidarity Forest Fund, the Climate Change Fund, Clean Technology and in micro-credits funds (also profiled here). Since 2006, there is also a 1% allocation to infrastructure, which has been transferred to an international infrastructure fund.[88]

**ABP Case Study: Ampere Fund investing in Sustainable Futures**[89]

ABP – in partnership with PGGM and others - will invest up to €0.5bn in dozens of sustainable energy projects through a new sustainable investment vehicle called the Ampère Equity Fund, which will be managed by Triodos Bank. Evelop (www.evelop.com), of the Econcern group in Europe, will develop the majority of the projects funded through the Ampere Equity Fund and the financial and legal frameworks for the fund were worked out with Evelop's participation.

"The projects include wind parks on land and at sea and biomass power stations in various Western European countries. The development, construction and operation of these projects will be financed by the Fund. At present Evelop is supervising the creation of the 'Koegorspolder' wind park in the province of Zeeland, claimed to be one of the largest wind-power sites in the Netherlands. 'Koegorspolder' is the first such project to be financed by the Ampère Fund.

"All projects financed by the fund are expected to generate both a long-term predictable cash flow and an attractive yield on investment… [T]hese sustainable power stations reduce CO2-emissions by 1,500,000 tons per year…

"The investment criteria are set out in a 'mandate.' If a project meets the conditions, the Fund will invest in it, in the form of taking an equity stock."[90]

The 'Koegorspolder' wind farm will have 22 wind turbines and a total capacity of 44MW. The wind park will generate approximately 115,000 MW/year, an annual sustainable energy production for 35,000 households. The wind turbines are located along rail lines in a partly industrial, partly agricultural area. The project is already entirely operational.[91]

**ABP Case Study: International Micro-Credit Investments**[92]

In 2005, the Year of Micro-credit, ABP became the first Dutch pension fund to invest in micro-credit, with an initial investment of €$5m. In 2007, ABP doubled its investments in micro-credit to a total of €$20m. This investment will support more than 14,000 enterprises by an average loan of €350.

ABP claims that micro-credit is an attractive long-term investment for union-sponsored pension funds: "It provides a way to diversity investment risk and generates a reasonable return (over 6% on an annual basis) that is not correlated with equity or bond returns. In addition, micro-credit is affected only to a very small extent by macro-economic factors such as interest rates and inflation."[93]

The social aspects of the micro-credit also help to make it attractive as an ETI. Micro-credits are small loans to people who lack access to traditional credit. An innovation from the third-world countries, it has found a niche in the developed world as well. Varying from $50 to $1000 loans, these investments allow people to set up businesses and build up assets. Micro-credit stimulates enterprise, individual responsibility and family welfare.

"Micro-financing provides quality, sustainable, demand-driven financial and business development services to the poor," said Eric Chinje, specialist in micro-finance at the African Development Bank in Tunisia. "Micro-finance is increasingly regarded as working for a complete system of financial services provision for the poor. Services within this system are, for example, savings arrangements, loans, leasing, business advice and open ended investment funds."[94]

Because individuals in developing countries are often unable to provide collateral, micro finance institutions (often refered to as "mifis") frequently grant loans to a group – so-called social collateral. If an individual in the group is unable to repay a loan, credit is no-longer granted to any member of the group. Examples of institutions offering micro-credit directly are Akida Commercial Bank in Tanzania and the Bhartiya Samruddhi Finance in India.

As reported in European Pensions and Investment News, "It is well known that ABP is a multi-faceted pension fund when it comes to investments, but now even the poorest African can make use of the pension assets of Dutch civil servants. The fund has made this possible by means of a €5m investment in micro-credit, which it sees as an asset class providing potential growth."[95]

Huub Hamers, fund manager for ABP's structured finance fund, stressed the sustainable side of the investment: "There is a strong social aspect behind the reason that a pension fund like ABP chooses these investments. Micro-credit helps people in third world countries to develop a dignified existence by themselves…The provision of micro-credit contributes to the stimulation of entrepreneurship, the economy and to welfare in developing countries."[96]

The character of micro-credit might lead to the impression it carries a higher potential risk. In fact, the default level is better than average. The primary risk relates to country targeting risks; factors such as market conditions and the legal system of the country in question could be a problem, not to mention currency exchange rates.

### 5.3.4 The Industry Fund Service, Australia // Focus on private capital

- **Fund Manager:** Internally managed
- **Board Governance:** Business and financial members
- **Capital Partners:** Superannuation funds
- **Location**: Head office Melbourne
- **Geographic focus**: Invests primarily in Australia, but also Asia, Africa and South America in terms of private equity; invests globally in public equities
- **Assets Under Management:** $32bn (for the larger holdings group)
- **Website:** www.ifs.net.au

The Industry Fund Services (IFS) was established in 1994 to provide a range of services and products to industry superannuation funds and unions and their members. Its objective is to provide cost effective, market leading services that the funds are not able to provide directly themselves due to regulatory and/or cost considerations. IFS is a wholly-owned subsidiary of Industry Super Holdings Pty Ltd (ISH), which in turn is owned by a number of major superannuation funds. All told, ISH offers retail and business banking, wholesale and retail funds management, financial planning and other superannuation-related services. ISH claims to manage assets of $32bn, earning an annual net profit (after tax) of $14.8m to June 2007. IFS reports that its investment products reap superior returns. The IFS recently merged with another group to form Industry Super Holdings, with much larger total assets. Shared ownership of core fund managers yields lower fees and commissions.

Another recent merger brought Industry Funds Management (IFM), the country's second largest fund manager of alternative asset investments, under the Super Holdings Group umbrella. IFM claims that it is committed to making significant long-term investments in renewable energy infrastructure internationally, and reports that all of its major investment products beat respective indexes. The firm manages an aggressive allocation to alternative investment, including:

| | | | |
|---|---|---|---|
| 12% | Domestic PE | 22% | International infrastructure |
| 10% | International PE | 15% | Debt investment |
| 21% | Domestic infrastructure | | |

**IFS/IFM Case Study: Pacific Hydro**[97]

Pacific Hydro (PH) is one of the world's largest independent renewable energy companies, with hydro and wind assets in Australia and overseas. IFM acquired 32% of PH in 1996, moving to 100% in 2005. PH is managing more than 1,800MW of hydroelectric and wind farm projects that are at varying stages of development, involving construction and operations across Australia, the Asia-Pacific and Latin America. In addition to prioritizing profit growth and rewarding investors and financial partners, PH claims it is committed to innovative renewable energy projects that respect the environment and benefit our communities. PH employs 100 persons directly and many more through its partnerships and projects. PH's board includes a former leader of the Australian Confederation of Trade Unions (ACTU).

One of PH's new wind projects is the four-part Portland Wind Energy Project, which will ultimately increase by 20% Australia's wind energy capacity. The Yambuk Wind Farm is the first stage in the project. The farm is located next to PH's Codrington Wind near Port Fairy in southwest Victoria, a site chosen for its ideal wind conditions. The wind farm contributes up to 30MW of clean electricity to the national grid, enough to supply the annual electricity needs of 18,000 Victorian homes. Yambuk displaces up to 130,000 tons of global warming pollution produced by traditional power generation methods each year (like removing 30,000 cars from roads). PH claims it consulted widely to gain community support for this AUD$50m project, which injected AUD$20m into the local economy and supported a building and maintenance crew of 60 people at the peak of its construction. When construction of the farm commenced, it also marked the opening of a nearby blade factory by Danish wind turbine maker Vestas. The plant has created many new jobs in the region.

# 6. Trustee Action Steps

As a capital steward you must consider how your pension fund can be a responsible investor and still earn a competitive risk-adjusted return. The field of responsible investing has a lot to offer in performing your tasks as a trustee. It will deliver risk-adjusted rates of return that match or beat other investments and provides collateral benefits that create long-term value for beneficiaries and society in general. The required expertise for relevant industries and investment areas exists to make responsible investing a reality.

While capital stewards and trustees have to rely on carefully chosen experts for good judgment and sound advice, in hiring professionals, they do not give up their fiduciary responsibilities: they are the experts but you make the final decision. Inasmuch, union capital stewards must manage their professionals. Pension consultants usually develop databases of investment options. Their database is their universe from which they choose the appropriate investment vehicles for your pension or trust fund. If you're interested in responsible investing, you may need to demand that your consultants expand their horizons and find out what you want to know.

The bottom line is that you must only invest in things you truly understand.

Here are some action steps that will increase your understanding of the alternative investment field:

## 6.1 Read up on alternative investments

As noted in the "Caveats" section in the introduction, alternative pension investments are complex and fraught with risk. Therefore, capital stewards need to understand the differences between investing in a general investment portfolio of stocks and bonds and investing in alternative investments. Fortunately, international trade unions and federations have issued a number of very important reports and studies on several of the issues at hand, including: PE, hedge funds, the financial crisis, and responsible investment guidelines.

For example, on a range of alternative investments asset classes:

- UNI Global Union, Pension Fund Investments in Private Equity (July 2008)
- SEIU website, Behind the Buyouts
- IUF, A Workers' Guide to Private Equity (2007)
- TUC, Private equity - a guide for pension fund trustees (October 2007)
- Falconer, Kirk. (1999). *Prudence, Patience and Jobs: Pension Investment in a Changing Canadian Economy*. Ottawa: Canadian Labour Market and Productivity Centre.

On responsible investment guidelines:

- The CWC on the Principles for Responsible Investment: A guidance noted for trade union- sponsored trustees (December 2007)

- Statement by the Global Unions on responsible approaches to the stewardship of workers' capital (December 2007)
- United Nation's Principals for Responsible Investment (UNPRI)
- Marathon Club Guidance Note on Long-term Investment (Spring 2007)
- Marathon Club Responsible Ownership for the Long Term (No date)
- Institute for Responsible Investment at the Boston College Centre for Corporate Citizenship, Handbook on Responsible Investment Across Asset Classes (November 2007)

**Action step:** Read the pertinent literature and learn about the issues. Examine your options. Engage the management of alternative investment funds on these issues.

### 6.2 Consider the arguments against RI

When responsible capital funds are obtaining returns comparable to other investment options, or meeting/beating their respective indexes — or even if they are only slightly trailing — it is difficult to dismiss them with ad hoc rationales or simple personal preferences. Nonetheless, resistance to these types of investments persists.

**Action step**: Take the initiative. Spend time getting to know who the responsible investors are — the ones mentioned here and others. Review the websites of umbrella bodies serving the RI community, like UNPRI and other social investment organizations. Find out how individual funds' investments are making a difference.

### 6.3 Assess your current portfolio

Investments in PE and real estate have the potential for both negative and positive outcomes, as has been discussed above. Your pension fund may very well already have PE and real estate assets in its portfolio. If so…

**Action step:** Request a report on the labor relations practices of the companies owned by the partnerships in which your fund invests. Ask the managers to quantify, company by company, how many jobs have been created and how many eliminated over the last three years. Ask if funded construction projects are using green building methods. Find out if the employees of your portfolio companies are covered by collective bargaining agreements. If not, discuss what can be done to correct that. If your professional consultants do not know the answers, ask them to investigate and report back to your fund.

### 6.4 Discuss portfolio rationale with your fund managers

There are many good reasons for union-sponsored pension funds to embrace alternative investments, not the least of which is that it leads to further diversification. However, most alternative asset classes and strategies are illiquid. It can be very difficult, sometimes

impossible, to get money out of PE, private real estate and many hedge funds on short notice. In a down market, investors could get caught in a **liquidity trap**.

Furthermore, consider why your fund managers suggest specific options and not other. Conflicts of interest may lie behind their preferred options.

**Action step:** Ask your consultant to provide a full investment portfolio rationale as to why your fund needs to increase or begin investing in alternative investments. Ensure that PE returns are not correlated with stocks and bonds. Ensure disclosure on management fees, as well as transaction and carry fees, is required.

### 6.5 Learn to read alternative investment reports

A number of reports have questioned the relative high returns of PE and hedge funds and the real estate bubble has called into question the returns on property and fixed income investments. Many newer vintage venture and private capital funds have tried to replicate the successes of older established funds (such as those managed for the Harvard Endowments), but often fail to achieve those results. In some cases, failed funds are not counted when averaging fund class returns. Fund managers can manipulate return averages to make their fund appear "top quartile".

Increasingly, the source of PE returns come from debt: the initial owners of the PE fund borrow against the assets of the newly-acquired company to pay themselves capital gains. This means companies acquired by PE firms may be worse off than they were before they were bought. Also, hedge fund leverage in a number of highly-publicized deals has been extremely high, exacerbating risks, according to Fitch Ratings, if not factoring into the collapses of several hedge funds.

Therefore, due diligence on reported returns is necessary.

**Action step:** Ask your consultant to document the source of the returns from alternative investment funds. Make sure your real estate or fixed income investments are not tied to pure speculation.

### 6.6 Consider your reporting cycles

Many union-sponsored pension fund trustees are given quarterly performance data on their money managers. The focus on quarterly performance reduces the incentive for money managers to invest in companies that have long-term horizons. The demand for short-term performance results by investors and pension trustees has undoubtedly contributed to the fact that the average stock market investment is now held for less than 12 months, compared with seven years in the 1970s. Responsible institutional investors need to lead the way to break this short-termist cycle and reward fund managers willing to invest for the long-term.

**Action Step**: Instruct your consultant to investigate different benchmarks for long-term mandates.

### 6.7 Consider incorporating worker-friendly policies

Some union-sponsored pension funds such as CalPERS have incorporated "responsible contractor" policies and project labor agreements in their real estate investments. This is to encourage fair wages, benefits and training for investment projects with a construction component. Some union-sponsored pension funds, such as Laborers and SEIU, have also adopted such policies. Others pensions have promoted card check neutrality for operating company investments. Similarly, CalPERS and the New York City pension funds have adopted anti-privatization and opt-out policies.

These policies allow union-sponsored pension fund capital stewards to begin a productive conversation with consultant and managers about how assets are managed and the consequences of private ownership. These policies spell out the standards by which the funds expect their investment managers to evaluate potential real estate projects and acquisitions and to manage those investments.

**Action Steps**: Review the policies of the above-mentioned unions. Engage your fund managers on this issue. In those countries or contexts where needed, draft and propose responsible contractor and worker-friendly policies.

### 6.8 Begin a multi-stakeholder conversation

Engaging your peers to discuss these issues is perhaps the most important action step of all. Trustees can indeed promote responsible and prudent alternative pension investments, but they need to be well-educated. Multiple labor unions on several continents continue to develop trustee education material. The Global Union's Committee on Workers' Capital (CWC) has an active trustee education network. For more information visit the CWC website (www.workerscapital.org). Furthermore, fund beneficiaries, pension fund managers and consultants, labour union leaders and business leaders will all have important contributions to make.

**Action step:** Engage fellow trustees, principals of the beneficiary groups you represent, pension fund managers and consultants, and business, labor and public leaders on the issue of responsible investment in general. Engage trustees specifically on the issue of trustee education. Network with organizations that currently deliver trustee education. Encourage trustee education opportunities for your trustees.

# 7. Towards the Third Wave: Building the New Frontiers of Responsible Pension Capital

Union-sponsored pension funds around the world have succeeded in achieving positive environmental, social and governance (ESG) returns from investing in communities and the private economy. They have succeeded in promoting more egalitarian growth while earning healthy, sustainable profits. Capital stewards, using workers' capital, are creating new models of responsible and innovative investment, beyond investing in property and businesses.

Some have called it an *emerging third wave investment strategy*.[98] This third wave strategy combines real estate, PE and other ETI strategies to launch at-scale regional redevelopment efforts, comprising multi-use complexes of affordable housing, commercial workplaces and public facilities, jobs-producing firms and renewable energy infrastructure. Some of these projects build bridges to the broader community (and the public sector) by creating alliances with training and social services. This approach is being deployed in London, Vancouver, Montreal, South Africa, the Netherlands, and in rebuilding the US Gulf Coast to name only a few examples.

Here are some of the specific lessons learned:

## 7.1 Social Returns

- **Decent housing**: Workers' capital has built or rehabilitated hundreds of thousands of housing units. Pensions have been wisely invested in the construction field to provide homes for their members and communities, increasing jobs available to construction trades members and new workers (a guaranteed quality workforce).
- **Affordable and workforce housing**: Workers' capital has deployed best practices in constructing affordable and workforce housing, the latter becoming a new gold standard in commercial real estate in some countries.
- **Commercial and public construction**: Workers' capital has also helped build large multi-family housing projects, apartment and condo buildings, in addition to a wide selection of commercial and community facilities projects, including hotels, hospitals, clinics and schools. Many have earned architectural and design awards.
- **Decent jobs**: Workers' capital has saved and created hundreds of thousands of jobs, many permanent, through massive investments in construction, energy and domestic infrastructure and other job-generating industries. Whether investing in new jobs through venture capital, micro-credit and development finance, expanding existing employers through PE growth funds, stabilizing jobs through special situations funds, or generating new industries and occupations through Clean-Tech funds, labor's capital is also having a growing impact on the permanent jobs front.
- **Smart restructuring**: Workers' capital has deployed a smart, new approach in the difficult field of business restructurings and turnarounds, an approach that minimizes

downsizing (especially outsourcing and subcontracting) and maximizes smart management and workforce partnerships to yield increased productivity.

- **Broad industry investment**: Workers' capital has invested in diverse, critical strategic industries such as steel and other manufacturing, transportation, distribution, and communications, as well as in labor-intensive sectors, including the medical, hotel, restaurant, agriculture and food processing fields, stabilizing and re-growing seasoned industries, diversifying and modernizing new opportunities in essential key sectors, and bringing new jobs, economic ladders and high employment standards to sectors that often paid lower wages.

## 7.2 Environmental Returns

- **Environment and climate change**: Workers' capital is pouring billions of dollars into new cross-border investment vehicles focused on global environmental preservation and climate stabilization. As the broader labor movement joins environmental and climate investment networks, this activity will increase dramatically.
- **Green construction:** Workers' capital is often leading the way in building green housing and commercial real estate projects, utilizing LEED and other sustainable building products and state-of-the-art processes. In some cases, funds are investing in green multi-use real estate and commercial projects that cover multiple city blocks. Some of these projects have won prestigious environmental awards.
- **Clean-tech and renewable energy:** Workers' capital is capitalizing advanced clean-tech industries, including renewable energy and efficient transit and transportation, helping build new solar and wind energy systems and connecting to the renewable grid. In at least one case, labor's capital owns the largest in-country renewable energy firm.
- **Social and performance audits**: Workers' capital has, in some countries, utilized social and performance audits (and ethical and social screens) to ensure their investments fulfill employment outcomes, respect workers' health and safety concerns and support healthy communities.
- **Waste and pollution reduction:** Workers' capital is modernizing older companies and factories. With improvements to equipment, machinery and production process and a focus on waste reduction, these efforts reduce pollutants and increase recycling practices, thus providing safer health conditions for workers and a cleaner environment.
- **At-scale redevelopment:** Workers' capital is redeveloping blighted regions and urban areas, rehabilitating abandoned and distressed properties and cleaning up brownfields. By converting large sections of cities and rural areas into more environmentally-friendly housing and commercial complexes, these efforts are providing good jobs for union members and low-income people and, in some cases, revitalizing whole communities.

## 7.3 Governance Returns

- **Responsible employment relations**: Workers' capital has adopted progressive responsible contractor policies, providing a safe harbor for labor-relations neutrality when workers endeavor to organize collectively. This outcome leads to better labor-

management cooperation, a voice on the job, and allows for improved wages, benefits, education and working conditions (often a proxy for improved productivity).

- **Workforce participation and ownership**: Workers' capital has created new workforce participation and worker-owner partnerships, including ESOP firms and worker co-ops, women-owned firms and other worker-community ownership models, but also more traditional labor-management and co-determination strategies. This process engages workers and labor representatives from the shop-floor to board room governance to shareholding. This has led to new economic ladders, training and social programs for workers and has provided ownership opportunities to historically-disadvantaged populations.
- **Financial literacy and training**: Workers' capital firms also provides ongoing financial reporting and training for investee firm employees — which boosts knowledge of the business, improves labor-management cooperation and increases economic literacy and job security.

## 7.4 Long-term Investment Returns

- **Professional capacity:** Workers' capital is managed by investment professionals who are well-trained in conventional methods, with advanced degrees and a wealth of experience and knowledge, and they have pioneered new investment models. They all seem to have deeply held convictions about what constitutes social progress, care deeply about working families and their communities, and are open to future collaborations with their colleagues in other nations.
- **Growing capital:** Worker's capital is growing rapidly in terms of capital deployed — possibly into the hundreds of billions. Some funds have been so successful that they have doubled and quadrupled available capital in successive partnerships. Capital stewards are pooling sizable capital funds that invest across borders.
- **Tracking and besting indexes:** Workers' capital is, in a healthy proportion of funds, yielding returns that are tracking or often besting their respective indexes and in some cases throwing off top-tier returns. While this paper does not claim that all worker-friendly funds are accomplishing this tack, the reported evidence thus far is impressive.
- **Enhanced deal flow**: Workers' capital has built solid relationships with various constituencies — labor union officials, environmental and community representatives, and business people — that have helped the funds find good deals. Enhanced deal flow is a comparative advantage in the investment field.
- **Close engagement**: Workers' capital can closely monitor the targeted investment vehicles and their respective investments to ensure first, profitability, and second, that the interests of capital stewards are respected. This provides protection from bad privatization deals and anti-union mistakes, through "opt-out" and "embarrassment clauses". In terms of possible organizing at workplaces facing PE ownership (particularly by irresponsible funds), unions can also utilize the "successorship" clause negotiated by the United Steelworkers in several buy-outs.[99]

It is clear that Labor's Capital provides new tools to engage in the economy, a pertinent finding at a time when the "gospel of market efficiency" has failed working people and communities in many parts of the world. The most salient finding is that each fund

emphasizes its ability to meet standards for traditional financial success while advancing a goal that benefits, rather than harms, working families and communities. There will be a greater benefit to workers, citizens and regions, and also the employer community, if investments result in long-term positive outcomes, such as the development and diffusion of environmental technology, rising living standards by encouraging collective bargaining, and the conservation and growth of well-paid jobs in a region (as opposed to irrational downsizing or loss of markets due to company off-shoring).

What, then, is the bigger picture burgeoning from these rich and varied trends and impacts? It's clear that the most progressive investment practices in workers' capital are not distributed evenly.

- In mature economies such as Europe and Australia, union-sponsored pension funds apply, in many cases, ESG criteria to investments. They are less likely to use "worker-friendly" covenants (neutrality clauses, etc.), due to generally higher rates of unionization and social-democratic protections (co-determination, etc.). These funds are capturing huge investment opportunities in renewable energy and other clean-tech fields, concurrent with governments that have progressed rapidly along similar lines.
- In the US, the reality of *laissez-faire* (and anti-union) federal and state administrations has resulted in many union-sponsored pension funds endeavoring to ensure a fair playing field. So, they have had to strenuously push for worker-friendly standards and similar protections as part of their pension investment expectations (in some cases by defending union density and in others by growing union market share).
- In emerging economies like SA, union-sponsored pension funds have made significant advances toward "empowerment" ownership transitions and toward positive economic development of disadvantaged areas (though massive disadvantages and widespread poverty still exists). Both promise the potential for growth and greater income equality.
- In other developing countries, capacity-building is in order and cross-border training, fund-to-fund mentoring and even co-investment partnerships might be helpful towards realizing the broader potential for ETIs.
- In all cases, a more serious effort to utilize responsible funds-of-funds could expedite the process of alternative fund investing. The strategies employed by the Australian superannuation funds to aggregate fund managers have resulted in, generally, lower fees and commissions.

## 7.5 Toward the Third Wave

Capital stewards, union leaders and responsible fund managers have a great opportunity to build the third wave, investing to *manifest a worker-friendly, sustainable marketplace* that crosses borders, financed by a growing network of responsible funds. Partnering and collaborating with other responsible investors and public bodies, pooling and levering resources, capital stewards *could* deploy hundreds of billions of dollars as part of an "international solidarity capital network". Capital stewards in the network could explore:

- **Co-investing** in renewable energy, green construction and other clean-tech industries, advanced manufacturing and other essential technology and economic strategies, promoting collaboration across many ETI-related asset classes.

- **Pooling investments across borders** in at-scale strategic funds and fund-of-funds across the spectrum of ETIs, including:
    - Climate change, energy and technology funds (to build new infrastructure and capacity in advanced wind, solar and efficient transportation technologies);
    - Infrastructure bond funds (especially in developing economies); and
    - Defensive buy-out and turnaround funds (to hold hostile mega-funds at bay).

- **Partnering with union-sponsored pension funds in developing countries** to co-invest in firms and projects that provide good investment models and grow capacity for the benefit of people in Africa, South and Latin America and parts of Asia. Many of the Funds highlighted here are already investing across borders, assisting in the development of wind farms or micro-enterprises in developing economies, for instance. Furthermore, such efforts could help re-build regions after natural or economic disasters.

- **Linking green building projects and complexes**, supplying smart, affordable and workforce housing and safe workplaces for union members and citizens — with links to:
    - Green products and resources supply chains (to grow the capacity of regional industries to convert to new products and take advantage of this growing market);
    - Renewable energy programs and utilities (ensuring the installation of solar panels and other green power and conservation methods);
    - Efficient transportation hubs (to re-settle declining urban areas and reduce sprawl, and reach out to isolated rural areas).

- **Renovating and retrofitting** the millions of substandard homes, offices and factories (and union halls) in our countries, the lowest-hanging fruit in terms of reducing wasted energy usage, employing renewable energy and implementing the use of green building products and processes.

- **Partnering with international, national and state/provincial governing bodies and other stakeholders** to invest in the next generation of innovation platforms, renewable energy, rapid transit and housing and medical systems, to rebuild our communities and renew our infrastructure with green technologies that create green jobs and educational opportunities for our children.

So, in conclusion, the evidence is in. The stewards of workers' capital have shown that they can make responsible, long-term investments that earn a good rate of return but also yield important collateral benefits. Thus pension managers can align investments with the interests of pension beneficiaries and their communities.

In so doing, global capital stewards are seizing the moment, re-creating and renewing parts of urban cities, redeveloping poor rural areas, and investing in sustainable developments that promise good jobs. In dramatic form, workers' capital is invested in and owns not only

enterprises and housing and commercial stock (in many cases in a transitory way), but also has taken control of new energy, technology and efficient transportation enterprises and infrastructures. Thus, capital stewards are ensuring that investment streams are flowing to critical economic needs and essential opportunities, and at the same time being deployed in the triple-bottom line. In other words, workers' capital is investing in a responsible future—our future—and investing in a vision of the economy that's more humane and sustainable.[100]

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This report borrowed heavily from *Up from Wall Street: The Responsible Investment Alternative*, a book by Thomas Croft on responsible capital in the US and Canada with a special focus on private equity, venture capital and real estate investment funds. It is sponsored by the Heinz Endowments in Pittsburgh. http://www.amazon.com/Wall-Street-Responsible-Investment-Alternative/dp/1605209252/ref=sr_1_1?ie=UTF8&s=books&qid=1253887436&sr=1-1

Heartland commissioned an earlier pioneering book on pension funds and alternative investment called W*orking Capital: The Power of Labor's Pensions* (2001).

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# Glossary

**Alternative investment:** a term to denote an investment that is not one of the three traditional asset types (stocks, bonds and cash). Most alternative investment assets are held by pension funds and other institutional investors or accredited, high-net-worth individuals because of their complex nature, limited regulations and relative lack of liquidity.

**Asset allocation**: a well diversified portfolio is made up of a spectrum of asset classes as a means of spreading risk across classes. A fund's asset allocation policy is the targeted percentage of funds to be invested in an asset class as a percentage of total assets, assessed by the actual investment mix.

**Asset managing** refers to exercising the ownership rights and responsibilities that shareholders acquire along a given regulatory framework. There are a range of practices available to shareholders to influence including proxy voting and shareholder engagement.

**Asset screening** describes the application of certain "screens" to the investment process. For example, negative screens could be applied to geographic areas. Divestment during apartheid South Africa is an example of this strategy and as are current investor campaigns against investments in Burma and Sudan. Negative screens could also apply to a product type, such as tobacco and alcohol. Positive screens could include investing where there is a strong record of labor relations or environmental policy.

**Asset targeting** refers to the active targeting of investments, utilizing responsible investment principles and ETI methodologies.

**Black Economic Empowerment** is a set of policies and practices in post-Apartheid South African that aims to initiate socio-economic process and enable economic transformation for the benefit of all South Africans.

**Buyout funds** are funds that specialize in acquiring a large or controlling stake in more companies, either mature or underperforming ones.

**Capital gap:** an inefficiency in the market where a potentially profitable undertaking is unable to secure affordable financing. This situation is seen as an information asymmetry that causes uncertainty among investors. Holders of capital overlook opportunities or demand a higher risk premium to offset the perceived uncertainty of the investment. Small firms, minority-owned or employee-owned companies, renewable and alternative energy start-ups, businesses from certain geographic locales, or non-enterprise investments like affordable housing developments are examples of sectors that commonly face the capital gap problem.

**Collateral Benefit is** the benefit that accrues when an investment generates both a market-based rate of return and a positive impact on one or more of the firm's stakeholders.

**Economically-Targeted Investments** (ETIs) are investments that seek competitive rates of return but that also provide specific collateral benefits to communities and to society in general.

**Empowerment transactions** are transition initiatives to share the ownership of in-country corporations with historically-disadvantaged citizens.

**Fixed-income funds** are a type of investing or budgeting style for which real return rates or periodic income is received at regular intervals at reasonably predictable levels. Fixed-income investors rely on their investments to provide a regular, stable income stream.

**Hedge fund** is a private investment partnership that aggressively manages a portfolio of investments that uses advanced investment strategies such as leveraged, long, short and derivative positions in both domestic and international markets with the goal of generating high returns (either in an absolute sense or over a specified market benchmark).

**Liquidity trap**: a situation in which an investor is committed to funding certain alternative investments but lacks the cash flow from previous investments to readily do so.

**Leveraged buyout fund (LBO)** is a fund that acquires another company using a significant amount of borrowed money (bonds or loans) to meet the cost of acquisition. Often, the assets of the company being acquired are used as collateral for the loans (in addition to the assets of the acquirer). The purpose of leveraged buyouts is to allow companies to make large acquisitions without having to commit a lot of capital, thus compounding the potential return (or loss).

**Mortgage vehicle** is a fund engaged in the business of originating and/or funding mortgages for residential or commercial property. A mortgage is a loan collateralized by property.

**Pension fund** is a fund established by an employer and employees to facilitate and organize the investment of employees' retirement funds contributed by the employer and employees. The pension fund is a common asset pool meant to generate stable growth over the long term, and provide pensions for employees when they reach the end of their working years and commence retirement. Pension funds are often the largest institutional investors in many nations.

**Pooled funds** are funds from many individual investors that are aggregated for the purposes of investment, as in the case here of pension funds, real estate funds, etc. Investors in pooled fund investments benefit from economies of scale, which allow for lower trading costs per dollar of investment, diversification and professional money management.

**Private equity** is an asset class consisting of equity that is placed in operating companies that are not publicly traded on a stock exchange.

**Private placements** are stock or bond issues sold by a corporation directly to an investor without registration under securities regulations.

**Property development** is financing for the construction of new buildings and property.

**Property re-development** is financing for improvements, upgrades and expansions to existing real-estate stock.

**Senior term debt** is the second most common form of financing for a small and mid-sized company. Senior term debt is typically lent against the collateral value of property, plant and equipment. Senior term debt comes in many varieties and there are many sources of this type of financing. It is typically the second most expensive form of financing.

**Subordinated debt** financing typically includes both debt and equity. Subordinated debt is substantially riskier than senior debt since the lender generally has less right over collateral and cash flow than the senior lender. As a result, subordinated debt is more expensive financing than either revolving lines of credit or term debt. Lenders usually require equity, generally in the form of warrants, to augment what they earn in interest income.

**Special situations funds** are a subset of buyout and turnaround funds are that target financially-distressed firms, even those in bankruptcy.

**Turnaround funds** are funds that purchase failing companies and then instate, as owners, changes that lead to a positive reversal in performance.

**Venture capital** is capital that is made available to companies whose products or projects are still in development and are often made in the fields of technology, renewable energy and bio-science (among other industry sectors).

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[3]See www.ilr.cornell.edu/ilrpress/titles/3624.html .

[4]This section title takes the meaning of "new capitalism" as presented in The Bevan Memorial Lecture "The Challenge of the New Capitalism", given by John Monks, General Secretary of the European Trade Union Confederation in 2006 (see www.etuc.org/a/3052) and it is distinct from the use of the phrase by authors Stephen Davis, Jon Lukomnik and David Pitt-Watson in their book *The New Capitalists, How citizen investors are reshaping the corporate agenda* (Harvard Business School Press, 2006).

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[21]"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time). We also recognize that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

1. "We will incorporate ESG issues into investment analysis and decision-making processes…
2. "We will be active owners and incorporate ESG issues into our ownership policies and practices…
3. "We will seek appropriate disclosure on ESG issues by the entities in which we invest…
4. "We will promote acceptance and implementation of the Principles within the investment industry…
5. "We will work together to enhance our effectiveness in implementing the Principles…
6. "We will each report on our activities and progress towards implementing the Principles…

"The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social and corporate governance issues to investment practices. The process was convened by the United Nations Secretary-General. In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities…" http://www.unpri.org/principles/

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[95]Ibid.

[96]Ibid.

[97]Sources: Fiona Reynolds; ifs.net.au/; pacifichydro.com.au/

[98]Stephen Coyle, President, AFL-CIO Investment Trust.

[99]CWC International Trustee Meeting, July 2, 2007, Geneva, Switzerland.

[100]Attributed to Leo Gerard, International President, United Steelworkers.