Heartland Capital Strategies

HISTORY OF LABOR'S RESPONSIBLE INVESTMENT

MINI-BOOK #2

Companion to The Responsible Investor Handbook

KEY TAKEAWAYS

- Labor and its allies have been instrumental in advancing responsible investments through the decades, both in the U.S. and globally
- Labor visionaries continue to be the strongest proponents of the S in the ESG framework of responsible investing
- Economically Targeted Investments (ETIs) are a legitimate and ESG-compatible option available to pension funds wishing to invest responsibly

About Heartland Capital Strategies

Since 1995, Heartland Capital Strategies (HCS) has been mobilizing workers' capital, i.e., pension plans, in the U.S. and Canada, towards greater responsible investments. We do so by convening events, highlighting investment opportunities in the real economy, educating capital stewards, and laying the foundation for bringing together a new generation of responsible investors.

Based in Pittsburgh, Pennsylvania, HCS is a partnership launched by the Steel Valley Authority (SVA), an innovative regional organization that has been successfully restructuring troubled manufacturing firms in the American rust belt for more than 30 years. Heartland was co-founded by the Steelworkers, the AFL-CIO HIT, AFL-CIO IUC and SVA to bring together labor's capital stewards to explore ways to rebuild our economy and reclaim workers' capital. In the aftermath of the 2008-2009 financial markets crash and recession, HCS was re-booted to align its goals with the responsible investment movement and to reflect a broader category of services offered.

Heartland's Mini-Handbook Series

In July 2016, HCS staff authored The Responsible Investor Handbook: Mobilizing Workers' Capital for a Sustainable World. The Handbook helps pension trustees re-align their governance and investment strategies with the long-term interests of plan participants (the workers) and their families by incorporating responsible investment practices into the investment decision-making process for plan assets.

Heartland’s mini-handbook series takes important topics from the Handbook and breaks them down into individual mini-handbooks, each focused on addressing barriers to the integration of responsible investments in pension plan portfolios. Topics range from clarifying fiduciary responsibilities to highlighting good corporate and pension plan governance practices, showcasing responsible investments across asset classes, and creating effective investment policy statements that take into account responsible investment practices.

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Introduction

In the aftermath of the financial crises of the last 15 years, corporate governance practices have been placed front and center in the minds of investors. As the OECD's 2015 report on principles of corporate governance states, "The degree to which corporations observe basic principles of good corporate governance is an increasingly important factor for investment decisions".

An interest in corporate governance began in America in the mid-1900s when the ownership and management of corporate America began to change hands from founder-owners to institutional investors and investment professionals. The change led to a separation of interests between owners and managers. During this time, dozens of U.S. public companies were "busted" due to widespread corruption practices, prompting concerns about managerial accountability. In the 1980s and 1990s, concerns grew that weak corporate governance and managerial shortcomings had contributed to America's economic decline relative to Germany and Japan.

Further fracturing occurred in the next 15 years when "Executives in U.S. public companies stood accused of forsaking the production of dependable, worthwhile products in favour of pursuing hasty growth by acquisition and ... counterproductive diversification to (offset) business setbacks" and CEO pay "sky-rocketed to unprecedented and highly controversial levels."

Simultaneously, by the mid-1980s, institutional investors such as pension funds began in earnest to exercise their rights as owners, holding management accountable (Hawley and Williams, 2000b) on a variety of issues impacting their investments (from board governance and financial management issues to broader ESG matters). One important result of these efforts was the formation of the Council of Institutional Investors (CII) in 1985.

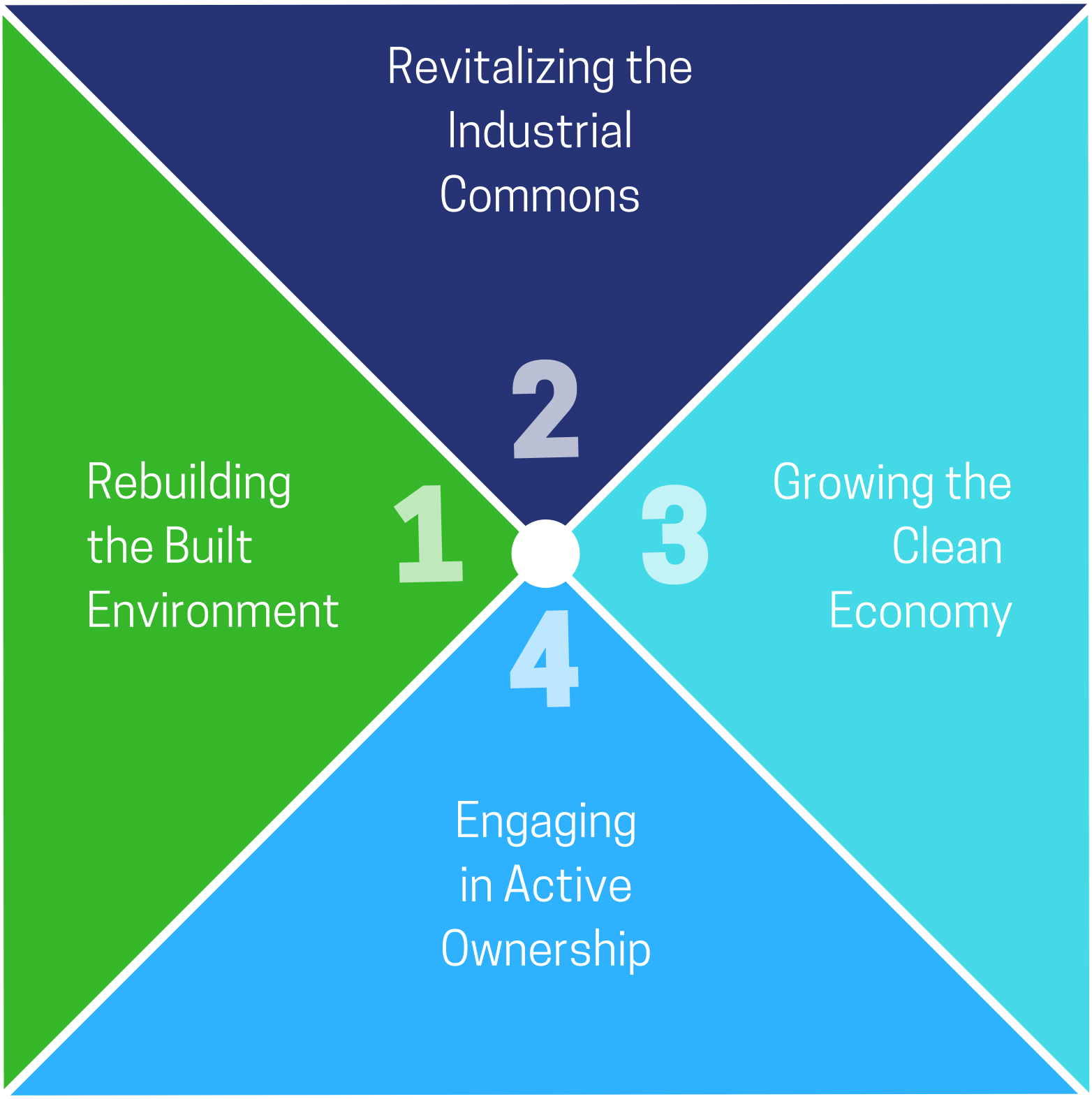
Despite advancements, there continues to be a division among the interests of shareholders, managers, and employees of corporations. This increasing separation means that "the balance of power at public companies has been gradually shifting away from shareholders to management, the day-to-day agents at these companies."

Supported by investors' concerns, the Sarbanes–Oxley Act of 2002 and the Dodd–Frank Act of 2010 (passed as a result of the 2001 accounting scandals and the 2008 financial market crisis, respectively), were enacted to increase corporate board involvement and objectivity and improve accountability to shareholders. (Add: Volcker Rule, which bans banks from making risky bets with depositors' money.)

As we write this min book congress has passed measure to repeal portions of the Dodd Frank act..

As universal owners, ie..., pension funds have the capacity to hold corporations accountable even with loosening regulations. By wielding their collective clout as representatives of thousands of shareholders - the workers and retirees on whose behalf the investments are made -pension funds can have a say in affecting corporate change as active shareholders. By doing so, pension funds can choose to engage in "Wall Street Talk" over "Wall Street Walk" (see Box 6.5). In addition, pension funds can seek to integrate material ESG considerations alongside financial strength indicators into the investment decision-making process for their investments. In this mini-book, we highlight good corporate governance practices that trustees should seek from their plan investments, and discuss available responsible investment strategies, particularly those related to active ownership, that can enable trustees to positively influence corporate behavior.

A History of American Labor's Responsible Investment Strategies



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Rebuilding the Built Environment

Labor's targeted investment in socially responsible projects began in earnest in the 1960s when civil rights and trade union leaders encouraged multi-employer pension funds to invest in affordable housing and community development. With the leadership of Dr. Martin Luther King, Jr., and George Meany, AFL-CIO's President, concerted efforts were made to direct the investment of pension assets in housing at the grass-roots level as a way to ease economic inequality in the U.S. economy leading up to that decade.

In 1964, President Meany sent a letter to AFL-CIO affiliated unions outlining his vision for a new investment vehicle that would directly support housing creation and home ownership. The cooperation was the impetus for the creation of the Mortgage Investment Trust fund, predecessor to the AFL-CIO's Housing Investment Trust (HIT) fund now valued at $5 billion in net assets. The AFL-CIO, under the leadership of Meany and Lane Kirkland, argued that workers had to take control of their capital to avoid manipulation by banks and the financial system. The purpose of the new fund was to help unions invest their retirement assets at a competitive rate of return and with a high degree of security, while emphasizing the construction of much-needed affordable housing.

Since the mid-1960s, Taft–Hartley pension plans (particularly construction trades plans), as well as many public plans, have capitalized fixed income and alternative investment vehicles, including the HIT, the Building Investment Trust (BIT), the Multi-Employer Property Trust (MEPT), and Ullico, making investments in affordable and workforce housing and other responsible properties. With these projects being built with unionized labor, the investments also increased good jobs for construction union members, while maintaining financial returns that matched or beat standard indices.

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Revitalizing the Industrial Commons

KPS invested in and transformed Motor Coach Industries, Intl.

Labor unions and political leaders also sought to encourage pension plans to reinvest in industries and regions that had suffered deindustrialization . For example, faced with a severe recession and restructurings in steel mill production and ownership in North America in the 1980s, Lynn Williams, President of the United Steelworkers of America (USW), began engaging with labor friendly investment bankers and deployed their services to intervene in the steel industry through defensive buyouts and other strategies, such as employee stock ownership plans (ESOPs), saving jobs and parts of the industry. Other unions, such as the machinists and pilots, followed suit in addressing the economic crises in their own industries.

In another example, in the late 1980s, New York Governor Mario Cuomo's Commission on Trade and Competitiveness sought to revitalize industries critical to the economic and defense security of the U.S. Shortly after, Cuomo's State Pension Investment Task Force sought to implement an ETI strategy that would utilize workers' capital to invest in manufacturing, housing, and economic revitalization.

By the late 1990s, the AFL-CIO and USW's then Secretary-Treasurer, Leo Gerard, assembled the Heartland Labor/Capital Network and commissioned the book Working Capital, which asked how the labor movement might harness the power of pension funds to rebuild America. Multiemployer pension plans, and later public pension plans, began to invest in private capital funds, such as KPS, Yucaipa, Blue Wolf, North Sky and Stellex, that are focused on restructuring troubled manufacturing and industrial companies while respecting workers' rights and providing a voice for workers as stakeholders in the company. This initiative gained ground slowly through the decade of the 2000s and was similar to efforts around worker-capitalized vehicles in Quebec (The Solidarity Fund) and Australia, where the Superannuated Funds established specific investment managers to invest in infrastructure, renewable energy, and other responsible energy alternatives.

Growing the Clean Economy

Since the 1970s, labor unions and pension funds have joined broader global efforts to address environmental pollution and risk, and have subsequently urged investments in green environmental technologies and other transformative strategies. The Oil, Chemical and Atomic Workers Union (OCAW) and other unions were influential in the passage of the 1970 Clean Air Act. The AFL-CIO President John Sweeney also promoted a labor–environmental dialogue in the 1990s, after the Kyoto Accords on global warming. Other labor–environmental business coalitions followed, including the Apollo and Blue-Green alliances, both of which called for hundreds of billions of dollars of investment in the clean economy frontier.

After the Exxon Valdez oil spill disaster in 1989, a small group of investors, including responsible investor Joan Bavaria, founded Ceres (formerly known as the Coalition for Environmentally Responsible Economies). The idea was to bring environmentalists and capitalists together to forge a new sustainable business model. Ceres created the Valdez Principles (now known as the Ceres Principles), a 10-point code of environmental conduct that Ceres' founding investor members encouraged companies to endorse publicly. In 2003, Ceres began working with the UN and a number of responsible pension fund leaders to launch the Investor Network on Climate Risk (INCR). Currently, the INCR has 130 signatories, including some of North America's largest pension and institutional investors and asset managers, managing over $17 trillion in total assets.

As a response to climate change, public pension plan giants such as CalPERS, CalSTRS and the NYC Pension Funds, spurred on by teachers and public service trustees, also began to explore investment opportunities in green construction, clean technology, efficient transportation, infrastructure, and renewable energy. New investment vehicles funded by pensions have emerged since the mid-2000s in particular. As Rev. Kirsten Snow Spalding, Senior Director of the Investor Network for Ceres, notes, institutional investors and capital stewards have become more focused on developing strategies that will mitigate risks associated with climate change and related issues. These investors are simultaneously looking for opportunities to invest in sustainable solutions that will create green jobs and build durable value for their funds.

CalPERS made a splash with a water bank investment north of Los Angeles

Engaging in Active Ownership

Active ownership involves engaging with companies in the "execution of ownership rights [that] can influence performance and risk over time". Unions have a long history of pursuing active ownership strategies as shareholders of companies they work at. For example, in 1949, the Association of Independent Telephone Unions used their share ownership in AT&T to bring fellow shareholders' attention to the unilateral decision by management to cut pension benefits. In the 1970s, the Amalgamated Clothing and Textile Workers Union (ACTWU) brought the unsavory employment practices of the southern textile firm J.P. Stevens to light at the company's shareholder meetings. As a result of its efforts, the union won representation for more than 3,000 of Stevens' workers.

Over the years, labors' capital stewards broadened the range of issues addressed through their shareholder activism to include fair employment practices, excessive executive compensation, and the independence of corporate boards of directors, improving the corporate governance of companies.

In the 1980s and 1990s, with the rise of institutional investors as major stockholders, pension plans became increasingly vocal participants in the corporate governance of investee companies. This new corporate accountability movement was symbolized by the creation of the Council of Institutional Investors (CII) in 1985. The CII is a non-profit association of pension funds, other employee benefit funds, endowments, and foundations with combined assets that exceed $3 trillion. Labor has generally filled a co-chair position on the CII Board. By using their voice as shareholders, the labor movement's associated pension plans began to encourage their portfolio companies to adopt responsible business practices.

The AFL-CIO's Capital Stewardship Program and Change to Win (CtW) have influenced pension investment and corporate governance decisions on a wide range of issues over the years. They have issued proxy voting guidelines, coordinated shareholder and proxy voting initiatives, supported active ownership and corporate governance reform strategies, advocated for legislative and regulatory reform of the capital markets, launched trustee education programs, and created an executive compensation watchdog website, among other activities.

Member of the Amalgamated Clothing & Textile Workers Union

ETIs

ETIs, or **Economically Targeted Investments**, are “investments selected for the economic benefits they create apart from their investment return to the employee benefit plan”. ETIs can include investments in real estate, private equity and venture capital, fixed income, infrastructure, and credit enhancement strategies. Such investments allow pension and other institutional funds to promote positive economic development, good employment and labor relations, and sustainable environmental practices among portfolio investments.

Indeed, since 1994, Labor in the U.S. has utilized the legal framework of ETIs, under the Employee Retirement Income Security Act (ERISA) and the U.S. Department of Labor (DOL) guidelines, to invest in the “real economy." They have done so in ways that advance the interests of beneficiaries more broadly and that “do no harm.”

What are some examples of ETI related investments?

Increase the availability of sustainably built affordable and workforce housing

Provide growth capital to small and medium enterprises (SMEs)

Invest in retrofitting and modernizing the residential, commercial & industrial built environment

Increase the availability of worker-friendly, community-scale, sustainable infrastructure investments

Provide capital to stabilize & turn around domestic manufacturing industries and other economically vital sectors of the industrial commons

Support new market driven innovations such as renewable energy, efficient transportation, transit oriented development, downtown revitalization, and smart growth in the clean economy

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DOL RULINGS ON ETIS Evolution Through the Years

1980

Under the Regan administration, DOL's first ERISA Administrator, Ian Lanoff, issued the Lanoff letter which encouraged economically targeted investment of pension assets

1994

Under the Clinton administration, DOL Secretary Robert Reich issued Interpretive Bulletin 94-1 regarding ETIs, touting a "new ethic of stewardship" in that "ETIs provide pension funds with competitive, risk-adjusted rates of return plus ancillary benefits, such as affordable housing, infrastructure improvements and jobs".

2008

Under the Bush administration, the DOL issued Bulletin 08-1 which though contained cautionary language about ETIs, did not reflect a substantive change in the law on the issue.

2015

Under the Obama administration, DOL issued its strongest support of ETIs in Bulletin 15-01. In addition to reversing the Bush administration rule that clouded ETIs, the new rule adopted an ESG approach, aligning the U.S. fiduciary investment process with the modern global standard set by the PRI.

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Excerpt from Secretary of Labor Thomas Perez's speech on the announcement of Interpretive Bulletin 15-01:

A lot has changed in the years that followed [the Interpretive Bulletin 94-1]. Around the world, the ETI market has taken off remarkably as more and more investors recognized the promise of these opportunities.

In 2005, the UN doubled down on this idea, putting ETI front and center on a global scale, with the development of new principles for responsible investing. Philanthropy got on board. Big asset managers across the country and around the world made the determination that this was a growth market they could embrace. For many investors and conventional investment firms, ETI investing has become mainstream. Decision-makers acquired new tools leaving them better equipped to evaluate this question of whether a given investment could both benefit plan participants and advance social goals…

With that growth has come improved metrics, which were unavailable seven years ago, allowing us to more precisely evaluate the performance of a given investment. Some of the biggest fund managers out there are employing these tools and making decisions about their entire portfolio accordingly.

And what those analytics often tell us, in fact, is that these so-called "collateral" benefits aren't necessarily collateral at all. In fact, the social impact can be intrinsic to the marketplace value of an investment. In other words, ETIs can be the place where doing well also means doing good…

Today, we return to the sound principles, and reinstate the language, of 1994. We remove the thumb from the scale, restoring balance and leaving decisions to the marketplace. We assert that there should not be an automatic presumption against an investment that also promotes the public good. Today, the Labor Department is issuing this new guidance regarding Economically Targeted Investments made by retirement plans covered by ERISA. This guidance confirms the department's longstanding view, as laid out in the 1994 interpretation, that fiduciaries may take social impact into account as "tie-breakers" when investments are otherwise equal.

Labor parties historically have represented the interests of working people, unions, and the broader citizenry in many of the Western governments outside the U.S. Social democratic governments in European nations generally mandated employee consultation, stronger labor rights, and labor-friendly laws, though this varies within the community. And the most progressive pension and institutional funds and banks in these countries claim to adhere to international conventions on human rights, labor, the environment, bribery, corruption, and the use of certain weapons.

Workers' pension funds in America have had a greater responsibility to use their rights as shareholders to insist on policies at investee companies and the capital markets at large that will respect working people and empower workers. In European countries with a dualistic model of corporate structure, such as in Germany, Austria and the Netherlands, workers voice is empowered through co-determination and stronger unions. Co-determination is a legislative framework where workers are elected by their peers to boards or supervisory boards of companies, and also participate in corporate decisions through works councils. Shareholders are generally more passive in their engagement with companies because, unlike in the U.S. where market forces dictate the employment model, worker protection in these countries is institutionalized to a great degree through regulation.

In addition, in Europe, the concept of corporate social responsibility (CSR), a variant of responsible corporate governance, differs a great deal from the American understanding because many social issues that are part of the original CSR social approach, such as employee participation, education and healthcare, are regulated by law in European countries.

Since American unions have not had consultation rights outside of collective bargaining, workers' capital stewards here have promoted a stronger, earlier push toward exercising their shareholder rights. As a result, union and public pension funds have generally been aggressive in launching proxy campaigns and shareholder engagements with companies.

While the 2015 change in the U.S. DOL's ETI guidance (via Interpretive Bulletin 15-01) in the U.S. has, for the first time, provided stronger guidance for pension funds to consider ESG as part of their fiduciary duties in making investments, other nations have been relying on the ESG framework for a longer period of time. Indeed, "outside the U.S., many countries already have in place legislation that requires consideration of ESG issues in the management of pension assets or by investment funds."

The rest of this mini-handbook provides a brief review of responsible investment trends in the U.K., Sweden, the Netherlands, and Australia. We describe the evolution of retirement and institutional assets in these countries, underlining the importance of trade unions in that development, and shed a light on the evolution toward responsible investment. While the review is not complete, the aim is to demonstrate both divergences and commonalities across borders in relation to responsible investments.

The Netherlands

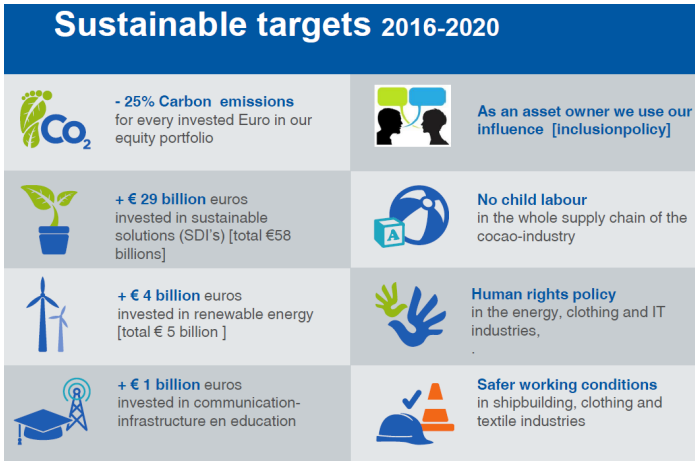
Dutch workers have been supporting the creation of social housing since the mid-1800s. As in many other European countries, labor unions launched co-operative associations and housing societies; and by the late 1800s, they targeted slum sections of Amsterdam for rebuilding.

After the Second World War, Dutch labor unions of various denominations and hundreds of housing associations joined with the federal and municipal governments to replace or repair many of the 300,000 homes lost or damaged during the war. During the 1950s, the General Dutch Building Trades Union (NVVICFTY) pushed for the modernization of the industry, promoting labor–management cooperation, worker training, and new efficiencies that would also help bring down the cost of housing. The Dutch Federation of Trade Unions (NVV) worked with the Minister for Reconstruction and Housing and the National Housing Council to speed up housing construction and reduce costs.

The Dutch pension funds, among the largest in the world and early PRI signatories, were among the earliest and most aggressive funds pursuing responsible investment and corporate governance mandates. The Dutch Pension system has been widely praised for its adequacy and sustainability, as the occupational system is basically mandatory and covers 90% of the workforce. The system generally enjoys a fully funded status. An example is ABP, the second-largest union-sponsored pension fund in the world.

The largest Dutch trade union alliance, the FNV, conducts training courses that introduce trustees to the basics of company pensions and also responsible investment. Though the FNV does not have a specific initiative concerning the exercise of voting rights, and so does not provide recommendations on voting rights for the voting behavior of pension funds, unlike, for example, the British Trades Union Congress (TUC) and the AFL-CIO in the U.S., it was the first union alliance in the Netherlands to have a responsible investment policy for union trustees, working together with such former union-affiliated companies as Reaal (insurer), the Hollandse Koopmansbank (former union investment bank), and the ASN bank (a former union savings bank)

In addition, the Dutch have built one of the most vibrant responsible investment markets on the planet. The Netherlands houses a number of progressive responsible investment actors, including banks, responsible investment funds and sustainability rating agencies.



ABP, a founding member of the UN PRI, serves Dutch civil servants and has €350 billion in assets The fund claims that while its first responsibility is to achieve the highest possible return on investment, it is also aware of its social responsibility, managing various ethical and sustainable investment policies and practices (as shown in their graphic to the left).

Sweden

Historically, Sweden has had both strong labor unions and a robust co-op movement. At the beginning of the 20th century, Swedish co-op societies formed companies to compete against cartels and to lower the price of essential goods.

In 1916, the Central Union of Social Labour and the Stockholm County Council founded the Stockholm Co-operative Housing Society (KSB). Various co-op housing societies and tenants' savings funds were created during this century, including the most advanced and sophisticated investment and construction entities in the country, and Swedish labor invested in these vehicles to modernize the country's housing stock.

In later years, the Swedish Trade Union Confederation (LO), the national labor federation, and the national construction trades invested in these vehicles, and also partnered with municipalities and the Swedish government in this regard. Labor's partnerships have built hundreds of thousands of housing units through the decades. In 1908, the LO and the Swedish Cooperative Union (KF) founded the Folksam insurance company, one of the largest insurers in Sweden.

Folksam reports that it contributes to long-term sustainable social development and, as one of Sweden's biggest asset managers, works to influence the companies in which it invests in this regard.

In 1913, Sweden was the first country in the world to pass a law on universal old-age pension insurance, guaranteeing coverage for all elderly citizens.

The Swedish National Pension AP Funds Family, the primary public pension funds in Sweden, was started in 1960 after a public referendum and vote of parliament. The AP funds have a combined US $146 billion (1.2 trillion Swedish kroner) in assets. The leaders of the LO have had board seats on the AP funds, and labor has been active in the latter's development.

In recent decades, the AP funds have invested aggressively in housing and real estate, continuing the long-term efforts of labor unions to prudently invest to meet social housing needs. As an early signatory of the PRI, the AP Funds have been very active in responsible investment and, in 2007, established a joint socially responsible investment (SRI) council to systematically screen non-Swedish investment portfolios to ensure compliance with international norms and conventions related to environment, human rights, and labor rights.

The funds have also invested in CCC's Carbon II fund. More recently, the Swedish AP Funds have agreed to coordinate the way carbon footprints are reported, and agreed to increase investments in alternative assets and infrastructure. Based on a major climate report from Mercer, AP recently increased its share of real assets in the portfolio, investing in real estate, agricultural land, and timberland.

Norway's KLP is among the Nordic institutional investors embracing sustainability investments

Great Britain

Great Britain was the first to feel the negative societal impacts of rapid industrialization in the form of slums and overcrowding.

In the 1830s, the government, through a series of Housing Acts, empowered local authorities to improve the worst conditions. However, Britain did not have the preponderance of housing societies as seen on the Continent and, unfortunately, building activities were not very fruitful. It was in the early 1900s that the local government boards were expanded, with the support of the trade unions, to build more workforce housing.

During the years before the First World War, the country built the first experimental "New Towns," such as the garden city of Letchworth. After the war, the British labour movement joined a nonpartisan push for a national housing policy.4 During the depression, the labor movement strongly pushed for new housing and local authorities dramatically stepped their progress in this regard. After the Second World War, the Labour government was active in local authority efforts to replace destroyed or damaged housing, as well as reconstructing industry.

In the late 1800s, occupational pension schemes were started for nurses, civil servants, teachers, and the police. Labor unions fought for the establishment of funds in railway companies, the first industrial plans, followed by other companies. Trade unions continued to push for occupational retirement schemes through the 20th century.

At the beginning of the 20th century, British governments passed laws providing for "old age pensions," around the same time it adopted workers' insurance programs, which emulated the German national insurance programs passed in the 1870s.

This began the demise of the Elizabethan-era Poor Acts. Provision for the basic state pension, then known as the Old Age Pension Act, had passed in the U.K. in 1908. After the passage of the National Insurance Act of 1946, providing social security coverage, the British retirement system developed similarly to other European systems.

In particular, the U.K. Pensions Act of 2000, passed by the Labour government, made a stronger push towards responsible investing by requiring ESG disclosure in pension investments. And the Financial Reporting Council's Stewardship Code of 2010, updated two years later, spelled out stewardship activities for trusts, such as disclosing how they will carry out stewardship responsibilities and explaining their policies for voting and monitoring investee companies.

In 2013, the British Trades Union Congress (TUC) and its two largest affiliated unions, Unite and UNISON, launched Trade Union Share Owners, a new group aiming to put union values at the heart of the world of corporate governance, with a new approach to the way in which their investments are voted on at company meetings (AGMs). Utilizing a new set of policy guidelines drawn up by the TUC, the group has been working through a shareholder advisory group to ensure that its funds, with over £1 billion in assets, take a common voting position in FTSE350 companies where either the TUC staff pension fund or these unions hold shares.

Climate Change Capital (CCC) was founded in 2003 to develop solutions to climate change and resource depletion. Capitalized by institutional funds across the continent, CCC's carbon finance fund invests in an array of projects to mitigate climate change, including direct emission reduction projects. CCC's property fund was the first green fund in the U.K., focused on buying commercial green buildings or retrofitting existing properties in the U.K. Other CCC funds invest in environmental technology and service firms.

There are other notable private and public initiatives in the U.K. that are pushing the envelope in relation to labor rights and responsible investing. For example, 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 £2.9 billion. Its property and private equity investments search for environmental opportunities in the renewable energy and technology field, and the fund will become the first to manage its assets in accordance with the UN-agreed principles of preventing global temperatures from rising by more than 2°C.

King's Cross Development, London

In 2000, a British Telecom Pension Scheme (BTPS)-capitalized real estate group began planning one of the largest city renewal projects in Europe. An immense multidimensional urban renewal strategy in London, the King's Cross Central Regeneration Project is aimed at revitalizing 27 ha of brownfield land in one of the most derelict parts of London, along the Regent's Canal:

Spanning a … site of disused railway lands in central London, King's Cross is being transformed from an area once known for lost industry into a vibrant mixed-use city quarter. Thousands of workers, residents, and students now inhabit King's Cross, the largest area of city-centre redevelopment in Europe. When it is completed in 2020, 45,000 people a day will benefit from the 3.4 million square feet (316,000 sq m) of office space, 500,000 square feet (46,400 sq m) of retail and leisure space, and close to 2,000 homes.

In addition, King's Cross will have 500 homes classed as affordable housing, 250 homes dedicated to shared equity, home-buy purchase, and key worker rent, and another 650 units for student accommodation. The project will create 30,000 jobs. It has been enhanced by open space, new parklands along the canal, cultural and arts amenities, and a huge commitment to sustainable development, including alternative energy sources and carbon-reducing technologies on-site.

Granary Square and Map of Kings Cross Project
ULI.ORG Case Study

Australia

In the late 1800s and early 1900s, unions and friendly societies were involved in workers' welfare and housing needs in Australia, similar to many European countries.

Beginning in the late 1930s, housing societies and co-op housing societies became active in providing financing and mortgages for affordable rental and owned housing, partnering with provincial governments and becoming dominant home lenders in the 1950s in some provinces.

The Chifley Labour government after the Second World War made federal funds available for housing to provincial housing authorities, which until that point had provided most of the public housing as part of an overall postwar reconstruction campaign. The maritime unions had helped build social housing in one of the earliest suburbs in Sydney for their members, especially elderly seamen, and the New South Wales Builders' Labourers' Federation famously led campaigns in the early 1970s against efforts to privatize, destroy, or gentrify hundreds of houses and apartments in the Rocks.

The first pensions were established in the mid-1800s for some public servants and corporate managers. Social security schemes were introduced in some provinces in the early 1900s, and a national "Age Pension" system replaced these schemes in 1909. By the 1980s, only 40% of the country's citizens were covered by so-called "annuation," or private pension schemes.

Led by the Australian Council of Trade Unions (ACTU), national campaigns were launched in the mid-to-late 1980s to create Industry Super Funds. The Keating Labour government won, in 1993, a compulsory superannuation guarantee. The new program began requiring all employers to make mandatory contributions for their employees (starting at just under 10% of pay) as part of a tripartite agreement among unions, government, and employers. "This new scheme allowed millions of working Australians to now enjoy superannuation benefits of their own, and this helped relieve the growing burden on the taxpayer-funded government pension scheme."

Today, the not-for-profit superannuation sector manages total assets of A$650 billion, out of about A$2 trillion in total national pension savings. ACTU is active in workers' capital issues, and collaborates with Industry Super Holdings, an amalgamation of fund management services. ACTU also worked with recent Labour governments on affordable housing and other jobs programs. In concert, ACTU and the supers are active in corporate governance campaigns in the country and globally, and ACTU was a coalition member with other national and international bodies, and the International Trade Union Confederation (ITUC), in the decades-long campaign to end Burma's use of forced labor and its suppression of workers' rights.

ACTU Policy of Congress 2003 included A Fair Australia Environment and Sustainable Development Policy that included the following bullets on Global Responsibilities for Economic Sustainability:

Just as unions recognise and work at an international level to reduce the massive global inequities in working conditions and occupational health and safety, so unions recognise that environmental protection and sustainability follow the same paths of inequity. Those people of the world who work in the worst and most dangerous conditions for the lowest pay, invariably work and live in the most polluted and degraded environments.

The ACTU will work with international bodies such as the ILO and UNEP to promote improved living and working conditions and sustainable development. This could include a world-wide program of 'workplace assessments': a process whereby trade unions and employers in one or several work-sites, sectors or regions agree to joint assessments of workplace performance with agreed checklists of environmental, occupational and social criteria.

The Emergence of the PRI

The Principles for Responsible Investment (PRI), launched in 2006 by the UN Environment Programme Finance Initiative (UNEP FI) and a number of investment leaders, are inspiring investors globally to think long-term and strategicallyabout ESG risks and opportunities. Among the PRI's founding board members are labor pension investment leaders who pushed the PRI to align ESG with labor's values, a testimony of labor's historic leadership in the responsible investment field.

The Principles for Responsible Investment

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 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:

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

PRI | Principles for Responsible Investment

Key Achievements of the PRI

The PRI has been instrumental in raising awareness about responsible investment among the global investment community and fostering collaboration between signatories, including:

- Growth of responsible investment (RI). Assets under management by PRI signatories now stand at more than $60 trillion, up from $4 trillion at the PRI's launch in 2006
- RI policy. Ninety-four percent of signatories now have a responsible investment policy in place, covering an increasing range of asset classes; many signatories publish their policies online
- ESG incorporation. Over half of the externally managed funds of its asset owner signatories are integrating ESG; 65% of these external assets are managed by investment manager signatories
- Collaboration. Ninety percent of signatories have collaborated with one or more other investors on RI-related topics
- Disclosure. Seventy-one percent of signatories have asked companies to integrate ESG information into their financial reporting
- Asset class guidance. PRI signatories have participated in designing guidance reports for public and private equity companies, fixed income, real estate, and other subclasses on responsible investment
- Clearinghouse. Signatories engaged with more than 1,800 companies via the PRI Clearinghouse to encourage improvements in ESG disclosure and performance

Growth of the PRI

Unlike the ETI framework which focuses on the provision of collateral benefits, the PRI reframes the investment decision to better ensure that investors account for the real risks of their investments.

There is an increasing recognition by trade unions around the world that the investment of workers' capital should reflect the intrinsic interests of workers, not only by earning competitive financial returns, but also by contributing to the long-term vitality of workers and their beneficiaries, society and the environment.

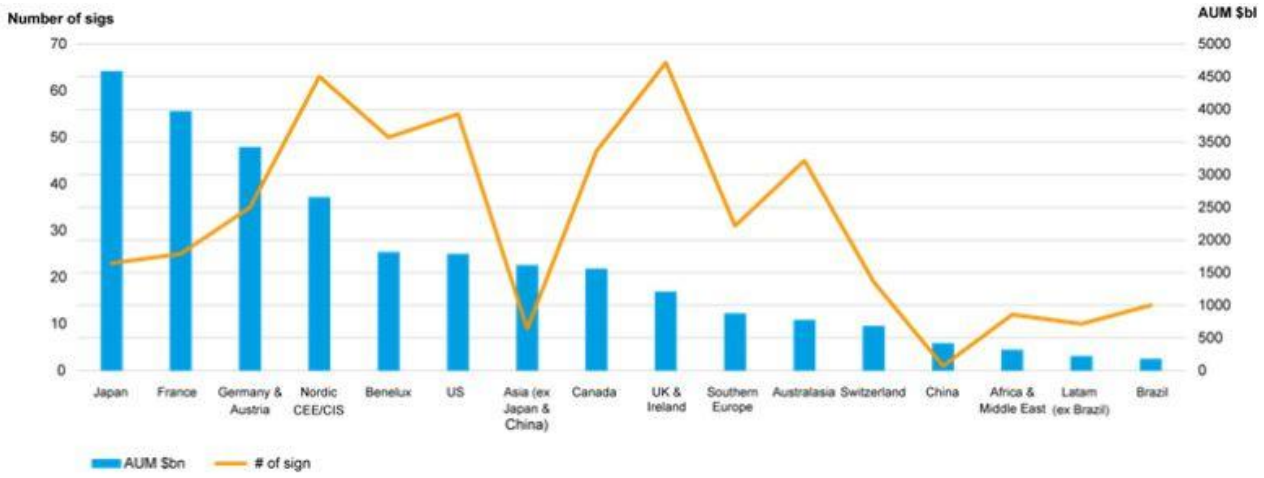
In December 2007, the Global Unions approved a statement on responsible capital stewardship that calls on investors to take into account the broader social and environmental consequences of their investment decisions. The statement recommends that: "In particular, the Global Unions urge trustees and institutional investors to embrace this responsible approach to investment decision-making as promoted by initiatives such as the Principles for Responsible Investment (PRI)." Since then, many trust institutions and unions, corporations, and banks alike have joined the PRI.

ESG AND PRUDENCE

A 2016 report issued by the PRI presents two legal perspectives on integrating ESG factors within the new ETI guidelines. Per the report, while historical notions of ETIs view nonfinancial factors as "incidental" or "tie-breakers" between two otherwise equivalent investments in terms of risk and return expectations, the concept of responsible investments supported by the PRI views ESG factors as:

Material considerations in determining the prospects of a company and its ability to create long-term value. The focus is on the prudent evaluation of certain risks that, if disregarded, could adversely affect long-term investment returns … As such, the argument in favor of incorporating ESG factors into the investment process is based on prudence considerations, not the objective of serving noneconomic social goals.

As the report notes, DOL's Interpretive Bulletin 15-01 affirms this distinction and supports the use of ESG factors "solely to evaluate the economic benefits of investments and identify economically superior investments." Therefore, the new guidance views the inclusion of ESG factors as "'proper components' of a fiduciary's economic analysis," and not just as "collateral considerations or tie-breakers," as with ETIs. This historic ruling also makes it easier for pension funds to offer ESG options to plan participants within 401(k) plans.

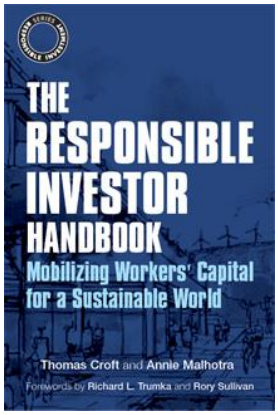


Asset owners by AUM and size

Heartland
CAPITAL STRATEGIES

References

All material is referenced in *The Responsible Investor Handbook.*



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