PRIVATE EQUITY

PROFITABLE BUT COMPLICATED PARTNERSHIP

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WHY INVEST IN PRIVATE EQUITY?

- Potential for strong returns (better than public equities)
- Risks are reasonable and the volatility is lower than stocks
- The face of corporate ownership is moving from public to private
    - More start ups are choosing to remain private
    - Private companies are growing in size and importance
    - Diversification requires investors to consider private equity
    - Private companies employ millions of workers

WHAT’S THE HITCH?

- Once investors commit, you are locked up and locked in
- Almost impossible to fire the General Partner, even if performance is weak
- High investment management fees
- General Partners like to charge the Fund for their own operating costs
- Funds use more leverage which increases risk
- General Partner has all the authority to decide when you get any money back

WHEN SELECTING FUNDS, INVESTORS FOCUS ON:

- GP’s judgement to find undervalued companies that can be improved
- GP’s who are clever at deal making
- GP’s ability to grow earnings rapidly (which drives company value)
- GP’s skill to sell the company for a big profit

INVESTORS HAVE NOT PAID ENOUGH ATTENTION TO:

- Business practices of companies owned by the GP
- Commitment of the GPs to collective bargaining
- Right of employees to representation and employer neutrality
- Responsible contractor policies and responsible operating practices
- Use of responsible contractors and our employers

KPS AND BLUE WOLF

- History of working with unions and not against them
- Before agreeing to purchase a company, they meet with the respective unions to understand the issues they are facing
- Analyze what needs to be done to improve the company and make it viable working with labor
- Companies they end up acquiring after all analysis has been completed are structured to ensure fair treatment of the workforce along with restructuring the operations of the company for future success

1st CASE STUDY: KPS

- Briggs and Stratton
- Bought company out of bankruptcy July 2020
- Tens of thousands of union jobs were going away as the company was going to move forward in liquidation through the bankruptcy courts
- KPS looked at the company and developed a plan to re-organize
- KPS met with the United Steelworkers Union and formulated a new agreements
- Some jobs were eliminated any many reclassifications and job descriptions were changed, but a vast majority of the workers were able to keep their jobs and benefits under union contracts
- Company is improving

2nd CASE STUDY: Blue Wolf Capital

- Twin Rivers Paper Company Maine
- 1000 employees, located in northern Maine on border of New Brunswick Canada; unionized employees
- Company manufactures razor thin specialty paper used with pharmaceuticals
- Subsidiary of Frazier Paper company
- Frazier was in Bankruptcy
- Emerged from Bankruptcy and Twin Rivers was an orphan of the emergence
- Twin Rivers now owned by Brookfield because they were debtholder
- Labor Contracts were outdated, renegotiated with paper workers
- Changed job classifications and work rules
- Increased wages and maintained benefits
- Workforce did decrease to 700 from 1000
- Early retirements were offered to 300 employees
- Paper Company became successful and the investment was successful

3rd CASE STUDY: Toys R Us

- **Problem**: Excessive debt, mismanagement, no severance pay
- Toys R Us was bought in 2005 by KKR, Bain Capital and Vornado
- New owners installed new management and loaded on debt
- Business plan failed, debt forced company into bankruptcy in 2017
- Company paid millions in retention bonuses to executives, but offered no severance pay to workers
- Workers protested and filed suit, winning $20 million severance pool

4th CASE STUDY: BLUSKY RESTORATION

- **Problem**: Contracting out; wage theft; irresponsible oversight
- BluSky specializes in environmental remediation, disaster response, and general cleanup
- Dominus Capital bought BluSky in 2018; HarbourVest invests in Dominus fund
- BluSky uses a mix of direct employees and temporary staffing agencies (who hire subcontractors)
- Subcontractors are alleged to have engaged in wage theft and safety violations
- BluSky, Dominus, and HarbourVest all deny responsibility
- NBC News: The hidden scourge of 'wage theft:' When higher profits come out of workers' pockets

THE WAY FORWARD: A TWO-WAY STREET

- Private equity may be “worth it”, but we need to insist on better practices
- We should invest, but GPs need to treat their employees fairly
- Labor can be an essential partner, but GPs need to align with our values

WHAT DO INVESTORS NEED TO DO?

- Support GPs who “get it” and who do the right thing
- Develop principles to guide our investments (like we do with RCP)
- Get our consultants involved
- Avoid GPs who behave badly or “don’t get it”

LABOR'S COMMITMENT TO
THE SUCCESS OF PRIVATE EQUITY

- Provide skilled labor needed to construct and operate facilities
- Provide apprenticeship and training to support the construction industry and our communities
- Work with owners and EPC contractors on necessary permits and approvals
- Advocate for federal, state, and local funds and credit
- Help find good deals

NABTU’S PARTNERSHIP WITH THE AMERICAN INVESTMENT COUNCIL

- Promote the growth of union jobs with family-sustaining wages
- Expand investment partnerships like the $13 billion redevelopment of New York’s JFK Terminal 1
- Present a unified front on public policy decisions affecting retirement security, job growth and access to capital
- Advocate for streamlined regulatory approvals and permitting
- Encourage our pension funds to invest in private equity

DRAFT PRINCIPLES OF RESPONSIBLE INVESTING

1. Right to representation, employer neutrality
2. Adopt a Responsible Contractor Policy
3. Avoid use of temporary staffing agencies
4. Fair wages and benefits
5. If company fails, pay all earned wages and accrued benefits
6. Offer fair severance pay