# ADDRESSING LABOR RISKS IN PRIVATE MARKETS

Proactive workforce management practices can benefit companies' performance. Investing in employees through improved wages and benefits **supports value creation**. **Deloitte found** that companies with a program to manage workforce risk reported better performance. Implementing good health and safety practices can **reduce costs** associated with injuries and illnesses, including workers' compensation payments, medical expenses, and lost productivity.

Investor-led oversight has been an essential tool for protecting long-term value and ensuring sustainable business practices, and is all the more vital in the current environment of reduced federal enforcement. The Trump administration's **approach to labor policy** has signaled curtailment of federal oversight of workplace conditions. Federal personnel cuts may limit the capacity of the Department of Labor, OSHA, the National Labor Relations Board, and generally reduce enforcement of workplace rights.

Poor workforce relations can lead to operational disruptions, litigation, fines and reputational harm that can have **material impacts** on a company's performance. Work stoppages can be **costly**, with broad economic impacts. Without strong external oversight of workforce management, risks may go undetected until they escalate, potentially affecting investor returns.

Private equity firms own **over 29,000 companies** that oversee over **13 million US workers**. Private equity-backed companies have **higher risk of bankruptcy**, which often result in layoffs and other workforce harms.

The landscape for private markets investment opportunity **has evolved**, and private equity firms are facing **disappointing returns**, more competition for deals, higher interest rates and challenges exiting portfolio companies. Investors are **seeking better alignment** with General Partners around long-term objectives and sustainable economic growth. Investors should state clearly their expectations of private equity sponsors. By integrating labor policies into due diligence and monitoring, investors can better assess and manage potential labor-related risks within their portfolios.

In light of high-profile labor controversies and growing evidence of financial risks, **industry players are setting policy** to **guide improved practices**:

- **New York State Common Retirement Fund** adopted a policy covering a broad set of labor standards across its private equity portfolio.
- **CalPERS** adopted Labor Principles  and has subsequently **reduced or declined** investments with private equity funds whose portfolio companies violated the CalPERS' labor standards.
- The **Illinois State Board of Investment** adopted a policy to guide their private equity managers.
- The **Maryland State Retirement and Pension System** adopted a policy across its private equity portfolio.
- **Apollo** and **Blackstone** announced Responsible Workforce Principles, acknowledging the link between worker issues and investment returns. Similarly, asset managers Bernhard Capital Partners, GCM Grosvenor, Hamilton Lane **have adopted labor principles**.
- **A report by AFT** calls on public pension fund trustees to press private equity firms to do better for the employees of the companies they own, and they argued that doing as much will lead to stronger investment returns.

A **Glass Lewis analysis** of shareholder engagements in public equities found that companies' "approach to labor rights issues can significantly influence the overall business landscape and ultimately affect investor returns." Private markets have **grown as a share** of pension fund portfolio allocations, but private asset classes deprive investors of the governance tools of public markets. In order to address the governance gaps in private markets, it is imperative that institutional investors set workforce management policies for risk mitigation and value creation.