

ADDRESSING LABOR RISKS IN PRIVATE EQUITY

Private equity firms own **at least 31,000 companies** across many sectors of the economy, with high concentrations in low-wage industries like hospitality and retail. Private equity-backed portfolio companies employ **13 million US workers**, which is **nearly 10 percent** of the private sector workforce.

Although there are indications institutional investors' **appetite for private equity is softening**, public pension funds allocate an average of **14 percent** to the asset class. Given substantial exposure and **heightened risks**, investors are **seeking better alignment** with general partners around long-term objectives and sustainable economic growth.



State pension funds managing over a trillion dollars in combined retirement assets have adopted Responsible Workforce Management policies to help drive value and manage risk in their private equity portfolios, including **New York State Common, Maryland, Massachusetts, Illinois**, and **CalPERS**.

By integrating workforce policies into manager selection, due diligence and monitoring, investors can better assess and manage potential labor-related risks within their portfolios. Private equity-backed companies have **higher risk of bankruptcy** which often result in layoffs and other workforce harms.

Research shows that 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. 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."

Conversely, poor workforce relations can lead to operational disruptions, litigation, fines, **substandard work** 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.

The private equity industry **is facing prolonged headwinds**, with firms holding an unprecedented **\$3.7 trillion dollar backlog of portfolio companies**. Private equity returns have **lagged over short- and long-term** timeframes, while economic volatility, competition for deals, and higher interest rates dampen prospects for improvement. At the same time, the current environment of **reduced regulatory oversight** and **declining enforcement of worker protections** could lead to greater undetected risks.

Investor-led oversight has been an essential tool for protecting long-term value and ensuring sustainable business practices, and it is even more vital now.