Sparking More and Better Infrastructure Investment: A Conversation for Pension Trustees

Moderator:

Erin Shackelford, Trustee Leadership Forum for Retirement Security,
Initiative for Responsible Investment, Harvard Kennedy School

Presenters:

David Wood, Director, Initiative for Responsible Investment, Center for Public Leadership at the Harvard Kennedy School

Sharon Hendricks, Vice Chair, CalPERS and President of AFT Local 1521

Adam Downs, Fund Administrator, LiUNA National (Industrial) Pension Fund

Erin Hutson, Director of the Corporate Affairs Office at LiUNA

Jeff Murphy, Managing Director, Union Labor Life Insurance Company (ULLICO)

Dan Pedrotty, Director of Pensions and Capital Strategies, AFT

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at the Center for Public Leadership

Agenda

- **Introduction**

  Erin Shackelford, Trustee Leadership Forum for Retirement Security, IRI, Harvard Kennedy School

- **Sparking More and Better Infrastructure:**

  David Wood, Director, Initiative for Responsible Investment, Harvard Kennedy School

- **How Funds are Moving Infrastructure Investment:**

  Sharon Hendricks, Vice Chair, CalSTRS

  Adam Downs, Fund Administrator, LiUNA National (Industrial) Pension Fund and

  Erin Hutson, Director of Corporate Affairs for LiUNA

  Jeff Murphy, Managing Director, Infrastructure for ULLICO Investment Advisors

  Dan Pedrotty, Director of Pensions and Capital Strategies, AFT

- **Questions and Comments**

- **Resources and Conclusion**

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Sparking More and Better Infrastructure:

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LiUNA

Laborers' International Union of North America

LiUNA!

Feel the Power

LIUNA & IFM

A Story of How Perseverance Can Payoff

LiUNA!

The Players

- Industry Funds Management
  - Infrastructure Investor with $42 billion AUM
  - Owned by 30 Australian Pension Funds
  - Only Investors with “Aligned Interests” are Invited to Invest

- Two LIUNA National Pension Funds
  - $2.2 Billion in Assets
  - Seeking to Invest $52 Million in Initial Infrastructure Investment

LiUNA!

Time Line

- September 2013 IFM Presentation to LIUNA
- January 2014 LIUNA Executes Subscription Agreement
- Summer 2014 IFM Acquires Majority Share of Freeport LP

LiUNA!

Freeport LP, Train II

- LNG Receiving and Regasification Terminal
- Designed to Process 2 Billion Cubic Feet Per Day of LNG
- Train II will Increase Capacity at Freeport by 13.2 Million Metric Tons Per Year

LiUNA!

The Issue

- IFM Claims Their Ownership does not include Participation in Choosing Contractors
- LIUNA along with Plumbers, Operating Engineers and Teamsters (Pipe trades) would Like Union Subcontractors to be able to Bid on Pipework and Site Preparation
- Non-Union General Contractor H.B. Zachry Company already Awarded Primary Contract

LiUNA!

LIUNA's Request In Letter to IFM

- Option 1: For the Pipeline and Utility Systems work that will be needed, Select Union Contractors
- Option 2: Zachry does Direct Hire and is a Non-Union Contractor, but LIUNA can still work on Supplying Labor to Zachry.

LiUNA!

Meeting With IFM

- Cordial Meeting With IFM in New York that included LIUNA's Corporate Governance Department and Construction Division
- LIUNA Proposal Discussed
- IFM Indicates they will "Ask" but Doubtful they Can Influence
- LIUNA Feels IFM's Position on ESG and Responsible Contractor Policy May Just be "Hot Air"

LiUNA!

LIUNA's Corporate Governance Takes Action

- Letter to Current and Potential IFM Investors Sent To Members of :
  - National Conference on Public Employee Retirement Systems
  - National Coordinating Committee for Multi-Employer Plans
  - Council Of Institutional Investors
- Establish Labor Coalition with Teamsters, Operating Engineers and Plumbers and Pipefitters – All existing Investors or Considering Investment

LiUNA!

LIUNA Suggests IFM Fails in its Due Diligence Re: Zachary Industrial

- LIUNA Alleges Zachary Industrial has a History of:
  - Sexual Harassment & Discrimination
  - Wage & Labor Law Violations
  - Occupational Safety and Health Act Violations

LiUNA!

IFM's Response

- Letter to Fund Chairman Demands LIUNA Corporate Governance Cease and Desist
    - Letter also insists that IFM supports ESG and Responsible Contractor Policies
- Request for Immediate Meeting In Washington, DC with LIUNA and CEO of IFM from Australia

LiUNA!

LIUNA/IFM Meeting

- IFM stands by investment in Freeport, but Acknowledges Zachary Does Not Share IFM's Values
- Agrees to Appoint a Union Liaison to Consult with Them on Freeport and Future Investments
- Assures LIUNA that they Completely Support ESG and Responsible Contractor Provisions
- Will do Everything in Their Power to Get Union Contractors to be Included in Freeport Bidding

Outcome – Summer 2015

- The Pipework at Freeport LP was put Out to Bid to Both Union and Non-Union Contractors
- Final Bidders were 1 Union Contractor and 1 Non Union Contractor
- Union Contractor Withdraws Form Bidding When They Realize They will not be able to Meet the Delivery Metrics of the Project

LiUNA!

The Silver Lining!

- IFM Proves True to It's Word!
- IFM Acquires Toll Road in Right to Work State Indiana
- Road Needs Immediate $250 Million in Repairs Plus Ongoing Maintenance.
- All Work Will be done Union under a Project Labor Agreement Specifically Including LIUNA

Lessons Learned

- Ask Your Infrastructure Managers Who They Will Joint Venture With
- Ask Your Infrastructure Managers Who They Contract With and have They Taken Anti-Defined Benefit Stances (Zachary Opined on Their Website that Defined Benefit Pensions Plans are Bad)
- Don't Accept ESG at Face Value and Ask How it is Operationalized in the Due Diligence of Deals

Laborers' International Union of North America

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High Road Infrastructure Standards – Best Practices

AFL-CIO – "Standards for Pension Fund Investment in Infrastructure"

In their statement "Standards for Pension Fund Investment in Infrastructure" the AFL-CIO provides standards widely supported by the American labor movement for such investments. This includes placing a value on maintaining public ownership of public assets, stating that "We oppose investments in public infrastructure that will result in private control or operation of public assets."

PGGM – "Responsible Investment in Infrastructure"

The Dutch asset manager PGGM, identifies three environmental factors they consider when looking at infrastructure investment: a stable climate, a responsible use of scare natural resources, and a clean and healthy environment. These factors are laid out in their guidelines for responsible investment in infrastructure.

ULLICO – "Infrastructure Fund Responsible Contractor Policy"

ULLICO Investment Advisors provides a good example of a responsible contractor policy that supports collective bargaining rights through construction, operation and maintenance. It also calls for neutrality and card-check during organizing efforts.

CalPERS – "Investment Policy for Real Assets"

CalPERS has an infrastructure investment policy which expresses the value they place on preserving public sector jobs. It states: "CalPERS intends, consistent with . . . constitutional and statutory duties to act solely in the interest of, and for the purpose of providing benefits to, participants and their beneficiaries and to make sound and prudent investments, not to make investments that will result in job losses to CalPERS members."

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