The Seven Drivers Toward Responsible Investment

From *Responsible Investor Handbook: Mobilizing Workers' Capital for a Sustainable World*

"Investors have an incredible amount of power. They have the ability to effect huge amounts of change, and they just need to come together and act."

- Fiona Reynolds
Managing Director, Principles for Responsible Investment

A new wave of responsible investors is mobilizing capital for smart buildings and affordable housing, civic infrastructure projects, wind and solar energy, and high-speed rail, hybrid buses and electric cars. They are sustainably rebuilding cities, renewing the industrial commons, growing the clean economy and fighting to make the "boss" more accountable.

Our *Responsible Investor Handbook,* published by Greenleaf Publishing, tells the story of this transformation and some of its innovative investment aviators. These "capital stewards" are applying a more holistic, integrated investment approach to the challenges facing cities, industries and our environment.

The *Handbook* issues a call to action to responsibly invest peoples' capital. It scans the history of responsible investments in the US, UK, the Netherlands, Sweden and Australia, and includes examples from other communities. It defends our "Common Wealth."

For over a century, labor's capital stewards have been the original "crowd-funders." In addition to fighting for and winning a shorter workday, the weekend and the first pensions, including social security, these stewards have been designing innovative, long-term, investment vehicles, and they were among the savviest architects of good corporate governance.

As far back as 1850, Amsterdam's unions built social housing to address overcrowded slums, and since then workers and mutual societies have invested in social housing, banks, credit unions, clinics, co-ops and businesses, and later helped lead the way toward dignified retirement policies.

According to the Canadian Encyclopedia, Canadian labour won major victories in the 1930s and 1940s, promising to protect Canadian working people against major economic misfortunes. The formation of the New Democratic Party in the 1960s led further to the development of new welfare and housing programs for all Canadians. And in Quebec, the co-op movement, through life and health mutual-assurance funds, expanded rapidly after 1850 among the working class. These early signs of worker consciousness demonstrate the workers' desire to create alliances in response to the insecurities of factory work and urban life, and also the workers' rejection of the capitalist labour market in which they were treated as commodities.

America's unions showcased their power when they began building housing, banks, clinics and other institutions in the early 1900s. They invested in communities and financed mortgages, affordable and multifamily housing, small businesses, etc.

- In the 1960s, working with the Civil Rights movement, the AFL-CIO formed new housing investment institutions as a new thrust in the movement for social and economic justice. With the leadership of the construction trades pension funds, these new institutions created affordable and livable workforce housing in dozens of cities.
- Since the 1980s, industrial labor leaders have designed shrewd capital strategies, deploying worker-friendly investment banks and new capital vehicles that turned around or expanded critical industries.
- And, in the new millennium, teachers, public, and service employees have invested their pension funds in energy, transportation and infrastructure innovations to grow the clean economy.

In so doing, *our money* - the assets and savings of teachers, steelworkers, firefighters, pilots, engineers - seeded and grew *innumerable* innovative industries, such as the solar industry, with far-reaching, earth-changing impacts, benefitting people and planet. This capital, workers' pensions and savings, insurance funds, bank deposits and endowments--represents an enormous share of economic and capital market wealth. In 2014, US institutional investments grew to $22 million and pension assets at over $9 trillion. Globally, pension assets were valued at just over $36 trillion across 16 major pension markets.

U.S. unions also have a long history of pursuing active ownership strategies, beginning in late 1940s when the Association of Independent Telephone Unions used their share ownership in AT&T to bring fellow shareholders' attention to management's unilateral decision 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, resulting in the Oscar-winning movie *Norma Rae*.

Labor's capital stewards have fought for workers' rights, safe and fair supply chains, direct employee involvement in decision-making, the independence of boards, and sustainable investment. They have waged popular campaigns against excessive CEO pay, aided by new rules in Dodd-Frank. They've joined broader investor coalitions, such as the global Committee on Workers' Capital (CWC) and the U.S. Council of Institutional Investors (CII), and were a force in the creation of the UN Principles of Responsible Investment (PRI). The *Handbook* highlights Labor's successes, over the years, in responsible active ownership.

But despite the progress made toward RI, capital stewards still face strong headwinds, including:

- The ongoing agency separation between beneficiaries and pension managers.
- Excessive focus on short-term gains.
- A fear that responsible investing compromises financial returns.

- Lack of knowledge by consultants and trustees, and little in-house staff expertise.
- Limited worker representation on boards of trustees, unless where mandated.

Exhibit 1: the 2008 global financial market crisis, led by Wall Street banks, which threatened our "common-wealth" and drained community and national prosperity (while federal austerity policies starved and delayed a full recovery). Billionaire privateers and bankers are still working against the interests of people and communities, pillaging our treasuries and savings.

However, **seven powerful drivers** are challenging this short-term investment myopia:

- **The UN-PRI.** The surge of the UN Principles for Responsible Investment (PRI) which includes 1,500 signatories with $60 trillion in assets. Pledging to embrace environmental, social and governance (ESG) non-financial matters, the PRI represents a growing share of global capital markets. There are innumerable other sustainable investment platforms.
- **New U.S. DOL Guidance on ETIs and ESG.** The U.S. Department of Labor (DOL)'s Interpretive Bulletin 2015-01 re-confirmed the legality of Economically-Targeted Investments (ETIs) and strongly urged that investors consider ESG matters. The new rule, thus, strengthens the responsible investments case. Responsible investment directives are being adopted Europe-wide, and in Canada, the UK, Australia and other countries.
- **A battery of responsible investment performance meta-studies** by prestigious institutions (like University of Oxford, Harvard Business School and Mercer) demonstrating that investors who pay attention to ESG and good corporate governance produce financial outperformance results.
- **Post-2008 market crash reforms.** Supported by investors' concerns, the Dodd-Frank Act of 2010 was enacted to increase corporate board involvement and objectivity and improve accountability to shareholders. With the support of the American labor movement, the SIF and other players, the SEC adopted the Dodd-Frank-mandated "Say on CEO Pay" rule for corporations. Similar reforms are being adopted across borders.
- **The Paris Climate Change Accords of December 2015,** resulting in landmark commitments from 195 countries to address climate change.
- **The "Fight for $15" and national movements to pay livable wages** and reverse income inequality.
- **Global Labor's endorsement**, including the AFL-CIO's support, better aligning capital stewards' consideration of pension investments with the ESG framework (along with the long-term interests of beneficiaries).

Our book provides peer-to-peer, lay learning on institutional investment management, corporate governance, reclaiming fiduciary duty, RI across asset classes, and implementing and measuring ESG performance. We provide concrete tools and best practices that help capital stewards navigate these complex decisions.

We tell the story of responsible investment aviators who have worked to invest in the "real economy" – the part of the economy concerned with actually producing goods and services (vs.

financialization). The record shows that such investments have generated strong financial returns while also promoting positive economic development, good employment, dignified labor relations, and sustainable environmental practices.

The stewards of workers' capital and community stakeholders stand at the threshold of the most transformational economic changes in a generation, adopting appropriately scaled capital strategies, and creating a more livable, inclusive, hopeful planet. Steadily, capital stewards are amalgamating resources and investment capacity, and investing across borders. They are joining the movement to re-claim our cities, demanding affordable, transit-oriented housing, green jobs and sustainable energy. They are reinvesting in our makers and manufacturers, infrastructure and schools.

Our hope is that we will spur active engagement and action to elevate this new generation of responsible investors into our national conscience and conversations.

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