CUPE Canadian Union of Public Employees

DAY 5: Investments

Overview

A) Your Investment Managers and Investment Consultant

- How to evaluate / what to look for
- Key elements in an investment report
- Asking the tough questions
- When things go sour

B) ESG and the uneasy relationship between being a Trade Union Activist and a Pension Trustee

C) ESG case study: Climate Change (CCLI)

Goals for Today

A) Become better at evaluating your investments and investment professionals

B) Learn how to use those trade union questioning skills to improve your success as a pension trustee

C) Understand the limitations and the contradictions of investing in the capitalist system while being a trade unionist

D) Introduction to how to assess the biggest challenge of the next generation: investing to avoid climate risks.

Why Invest?

- Sources of Pension income for benefits?
  - Contributions
  - Investments
- About 70% of the funds earned for pension benefits come from investments.

- Monitoring investments is a key role for pension trustees
- Requires considerable expertise
- Plans hire “experts” to manage investments and professionals to help us evaluate our investment experts.
- Need to understand the basics in order to meet even the fundamentals of being a trustee.

Jason’s presentation

Pensions are big business

- The financial sector loves workplace pension plans.
- Canadian pension plans with trustees boards managed 2.14 trillion dollars in 2021. (Statistics Canada)
- Pension plans keep share prices high, hire expensive help to figure out where to invest their capital
- Pension plans spend billions of dollars every year on financial services.

The changing landscape of pension investments

- Historically pension funds invested only in stocks (equities) and high grade government or corporate bonds
- Interest rates were high and the simple combination of equities (mostly domestic) and bonds (mostly Government of Canada) evened out market volatility

The changing landscape of pension investments

- A number of factors lead to a more heavily invested pension sector – too many to get into great detail here.
- In the 1990's extremely high equity returns allowed employers to take contribution holidays or even remove surplus from the pension plan.
- As interest rates dropped, bond yields also dropped, meaning government bonds did not provide the returns the would have in the post-war period.
- After the financial crisis of 2008-2009, a glut of capital available for lending also cut bond rates as neo-liberal forces pressured governments to balance budgets and delay infrastructure improvements.

The changing landscape of pension investments

- Growing inequality led to the accumulation of wealth in the hands of a very few
- Over the past thirty years, pension investing has branched out: first to global equities and corporate bonds, then to traditional alternative investments such as real estate and more recently to other alternate investment vehicles.
- Created more complex investment issues for pension plans.

ESG: Environment, Social and Governance

- Prior to 2005 the application of Environmental, Social or Governance filters to investments was generally frowned upon in pension circles.
- University endowments, Religious organizations popularized the idea through divestment campaigns such as
- Anti-apartheid campaigns in South Africa
- Health campaigns against tobacco companies
- Peace/firearm restrictions
- Social goals through investing.
- Seen as contrary to a Pension trustee's fiduciary duty.

ESG

- In 2005 the U.N. sponsored a report on ESG which argued that embedding ESG principles into investment would lead to better outcomes.
- The U.N. “Principles for Responsible Investment” grew out of this report and many corporations and pension plans (including a lot of plans that CUPE trustees sit on) have signed on to the UN PRI. Currently over 3,800 signatories to the UN PRI document.

ESG:

- Unlike previous approaches, the trustees' focus is on the ***risks*** associated with ***not*** taking these factors into account

Environment

Need to look at:

- Impact of the environment on investments
- Impact of investments on the environment

Can you identify some of the Environmental risks associated with:

Real estate?

Forestry?

Farming?

Industries?

Cruise Ships?

Other sectors?
(name them?)

- If investing in these areas, what questions should you ask your investment managers?

What is the Industry impact on the environment?

Coal

Fossil Fuels

Internal Combustion Engines

Plastics Manufacturing

Waste Management

Computers/ Technology

- What are the risks for Pension Plan investors who invest in these sectors?
- Who would you talk to about mitigating these risks?

Governance

- Internal corporate governance / operations
- Board of Directors voting structure
- Executive Compensation / profit sharing / share earnings?
- Ethical practices/transparency

➢Can you identify poor corporate governance issues?

➢What are the risks associated with these issues?

➢Why would executive compensation be a concern for pension plans?

VOLKSWAGON

5 years in, damages from the VW emissions cheating scandal are still rolling in

BY GEOFF COLVIN
October 6, 2020 10:00 AM EDT

Purdue Pharma to plead guilty in $8bn opioid settlement

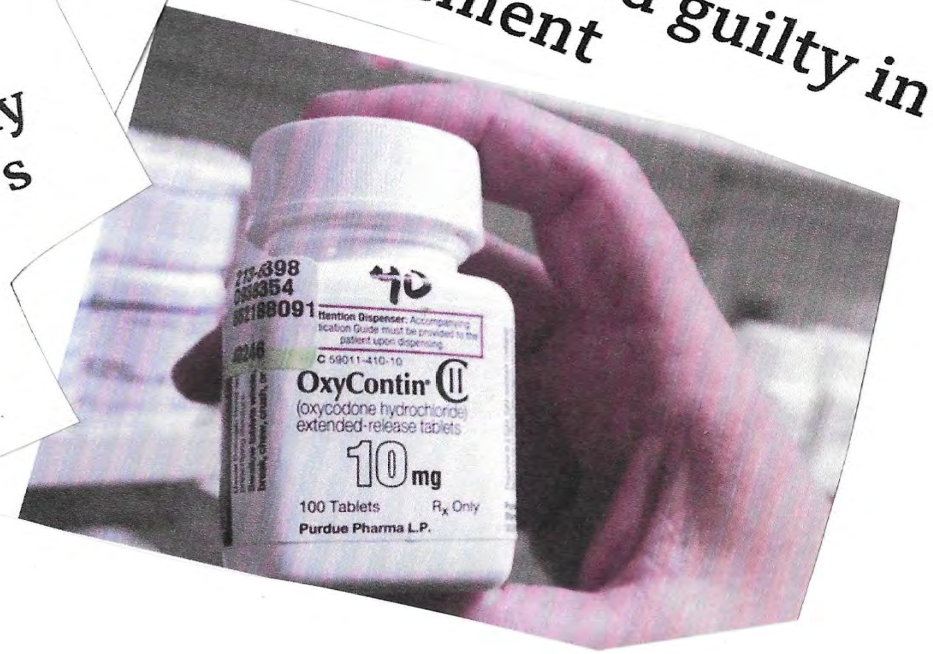
By Natalie Sherman
Business reporter, New York
21 October 2020

CAREERS • EDITORS' PICK

Wells Fargo Forced To Pay $3 Billion For The Bank's Fake Account Scandal

Jack Kelly Senior Contributor
I write actionable interview, career and salary advice.

Feb 24, 2020, 11:33am EST



Governance: Proxy Voting

- Shareholders in a company get to vote at annual meetings on operational and governance issues of the company.
- Proxy votes: are those votes cast not by the owner of the shares, but by a management company indirectly or a pension plan directly on behalf of the plan members who own the shares.
- If your plan owns segregated funds you can vote at shareholder meetings.
- If your plan is in primarily pooled funds you can ask your manager what principles they use to vote their proxy shares.
- Powerful tool if used. Overwhelmingly the recommendations of the board of directors are passed by those

Social

- Impact on Society, Communities
- Labour Standards / Health and Safety / Wages
- Community Health / Cohesion

*This is the area most subject to interpretation

What Risks are Associated with Social Factors?

- Can you identify some risks associated with social factors?
- What are the risks associated with investing in companies with poor labour practices?
- What are the risks associated with investing in countries with corrupt governments?
- What are the risks associated with profit making on previous government services or essential needs?

What Risks are Associated with Social Factors?

- *Toronto Star* Article "Canada's big pensions say they're investing responsibly —so why won't they tell us what they're investing in?"
- What are the risks identified in the *Toronto Star* article?
- Tom Fraser "Canadian Pension Funds Are Financing the Exploitation of the Elderly"
- What are the risks identified in the Fraser article?

ESG Monitoring

- ESG is very popular in financial circles
- It is a new “product” that can be packaged and sold to trustees for large sums of money
- In truth there is very little difference between an investment fund billed as ESG funds and one without the ESG billing
- What does the Tariq Fancy Article tell us about ESG Monitoring (in this case Environmental)?

- Applying ESG principles to investment decisions will reduce some investment risks
- Will not play a huge part in mitigating the societal harm we do through investing.
- Murray talked about the limited weight given to ESG principles when investment managers make investment decisions.
- We can use our trade union experience to ask better questions and open up more avenues for discussion of the risks associated with some of these investments.

New Asset Classes - New Risks

- Interest rates at historical lows (although going up a bit now) and government bonds and GIC's provide less than 3% per annum
- The past two decades of low interest rate returns on safer investments such as government of Canada bonds have raised contribution rates and squeezed benefits.
- Trustees facing pressure to branch out into other asset classes to increase returns without increasing volatility

New Asset Classes - New Risks

- P3's, Infrastructure, privatization of government services
- They *appear* safe.
- Returns have been high – generally.
- Some questions as to their risk profile during a downturn.
- Assets are generally illiquid.

Infrastructure – P3's – Alternative Investments

- Include a wide range of investment areas including:
  - Hedge funds
  - Infrastructure
  - Private Equity
  - Real Assets (e.g. timberland/farmland)
- These are new asset classes / risk management analysis is relatively new and less tested.
- No systems to assess the risks of these alternative classes.
- Alternative asset classes may be expensive – popularity driving up the price

Infrastructure / Privatization / P3's

Numerous examples where plan members exposed to significant risk because of these investments:

- Carillion bankruptcy (early 2018) shows that infrastructure privatization and PPPs/P3s involves risks to investors, including pension funds, banks
- Henderson / John Laing fiasco in the UK also burned many pension fund investors, who did not know what they were investing in

Infrastructure / Privatization / P3's

- *REVEALED*: Canada pension plans investing $1B in water privatization scheme led by Brazil's Bolsonaro

  https://www.youtube.com/watch?v=lXmS9YfheWs

- What are the risks of such privatization to **current public sector workers and pension plan members**? Do such risks matter to pension fund trustees, as fiduciaries?

CUPE Position

- 1990s policy statement on pension investment
- 2015 Convention – Resolution 250

"Our union opposes private, for-profit ownership and control of public infrastructure, even when one of our members' own pension funds may benefit. We want our pension funds to achieve decent investment returns — but not at the expense of the public interest."

- Mark Hancock, iPolitics, Nov 15, 2016

CUPE National Position: Res. 250 (2015)

CUPE NATIONAL WILL:

1. Take a strong stand against the use of public pension funds in the development, building, ownership or operation of private infrastructure; and
2. Lobby municipal, provincial and federal governments and stakeholder organizations against the use of public pension funds for privatization; and
3. Ensure that the NDP at federal and provincial levels takes a strong stand against such policies; and
4. Engage in a public awareness campaign explaining CUPE's position on this complex issue.

KEEP OUR PENSIONS OUT OF PRIVATIZATION:

A guide for CUPE members, trustees and other pension representatives

Next Up: Climate Change and Investing