

Private Equity International

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INVESTORS

LPs: Employee ownership initiative will lead to 'better financial outcomes'

Investor group ILPA will advise Ownership Works as it helps investors develop shared ownership structures at portfolio companies.

The Institutional Limited Partners Association supports a new organisation that seeks to address income inequality at private equity-backed portfolio companies.

The investor group, which advocates for institutional investors in private equity, plans to advise Ownership Works as the new non-profit organisation develops programmes to increase employee ownership of investor's portfolio companies. ILPA's involvement is a "new area of engagement" for the group but "sits firmly" within its role of supporting the interests of its LP members, according to Greg Durst, ILPA's managing director for corporate development.

"We believe that this will be accretive for investors, that this is going to lead to better financial outcomes," Durst told affiliate title New Private Markets. "When employees understand they have real opportunity, not just a job, but something that can have differentiated impact for them financially... this will grow the value of the enterprise beyond the equity that is designated for those groups."

New York City Comptroller Brad Lander told New Private Markets in an emailed statement that "shared ownership has the potential to be a powerful tool for promoting wealth creation for

employees and driving long-term value for companies".

Ownership Works seeks to show that companies perform better when employees are given financial incentives, according to a statement announcing the organisation's launch. It aims to create at least \$20 billion of wealth over the next decade for low-to-middle income employees.

Ownership Works plans to help investors establish shared-ownership structures at their portfolio companies as well as financial literacy and employment engagement programmes. The organisation is also considering a research and data initiative to measure and report how employee stakes are distributed throughout companies.

Durst said ILPA's more than 500 members seek "clear, actionable" ESG metrics that are comparable across their portfolios. He added that ILPA will also be part of a "pension plan advisory group" to help evaluate the impact of Ownership Works initiatives.

Efforts to measure shared-ownership data are in the "early stages," but it is important to understand how company stakes are distributed "to get a sense of how equitably ownership is being shared", Anna-Lisa Miller, executive director of

Ownership Works, told New Private Markets.

LPs would play an important role in supporting Ownership Works in developing employee ownership programmes at portfolio companies with their influence to pressure GPs into improving governance practices.

"We see employee ownership programmes as an asset that can put families in a position to weather crises and invest to create generational wealth," Miller said. "When these programmes are done well, they pay for themselves."

More than 60 investors, asset managers, advisers and service providers have agreed to support Ownership Works. The California Public Employees' Retirement System, KKR, Goldman Sachs, The Ford Foundation and StepStone Group are among the groups that have pledged to work with the organisation.

Peter Stavros, co-head of KKR's Americas private equity group, said in a LinkedIn post that the launch of Ownership Works is the "start of a new movement". Stavros has spearheaded employee ownership efforts at KKR, telling New Private Markets in 2020 that he was in discussions with other buyout firms to share notes on his experiences.