



Investment Office Memorandum

June 24, 2022

To: CalPERS Board of Administration

From: Private Equity

Subject: Background material for July 2022 offsite discussion of Ownership Works, featured in presentation titled "Sustainable Investing: Developing an Impact Toolkit for Private Markets"

Investment Belief #3

CalPERS investment decisions may reflect wider stakeholder views, provided they are consistent with its fiduciary duty to members and beneficiaries¹

What is Ownership Works?

Founded in 2021, Ownership Works is a non-profit focused on broadening corporate ownership and providing all employees with the opportunity to participate in the wealth creation being generated by investors and corporations. The organization is supported by a diverse consortium of investors, foundations, institutional investors, corporations and labor advocates.

Several private equity firms have played a key role in founding Ownership Works, with many of them key partners within the CalPERS private equity portfolio. The non-profit launched with the support of over 60 partners, including ILPA, Goldman Sachs, Morgan Stanley, KKR, Leonard Green, Ernst and Young, McKinsey, and individuals from the National Labor Relations Board.

What is the purpose of Ownership Works?

The Ownership Works model seeks to align interests across businesses, investors, and employees, in turn generating superior financial returns for all involved. The model will be comprised of four key pillars:

1. Structure and implement broad-based ownership programs. Every employee should have the opportunity to participate in meaningful compensation through ownership, including shares, options, restricted stock units, and other forms of equity.
2. Develop a culture of ownership that aligns a workforce around shared wealth creation.

¹ See CalPERS' Investment Beliefs, page # 6

3. Create a financially inclusive workforce that understands the benefits of shared ownership
4. Share data, best practices, and insights into how broad-based employee ownership positively impacts employee financial health and corporate performance

The goal of Ownership Works is to help implement broad-based employee ownership programs across corporate America. The organization has laid out specific data-driven ways in which the program will contribute meaningfully to increased prosperity:

- Create hundreds of thousands of new employee-owners
- Generate at least \$20 billion of wealth for working families
- Extend ownership to millions of lower-income workers and people of color who have been excluded from wealth-building opportunities for generations

What is CalPERS' involvement with Ownership Works?

CalPERS Investment Director Yup Kim is one of six individuals on the Pension Fund Leadership Council. The Council is comprised of leaders from pension funds across the United States and will be focused on providing thought leadership and industry expertise towards advancing the mission of Ownership Works. CalPERS was referenced in the initial press release and Yup Kim provided a quote on the benefits of the Ownership Works model:

“Shared ownership is, in fact, a stronger form of capitalism,” said Yup Kim, Investment Director and Head of Investments, CalPERS Private Equity. “It is an invitation to every individual in an organization to contribute in different ways to accelerate growth and maximize shared wealth creation. It is a recognition that in today’s dynamic and increasingly complex marketplace, no title or set of titles have a monopoly on great ideas.”[†]

CalPERS recognizes the benefits of shared ownership and will strive to incorporate the approach into the broader ESG strategy.

What are the challenges that Ownership Works must address?

Common obstacles to shared ownership include:

1. Junior colleagues do not understand and value ownership
2. Employees prefer cash compensation based on performance measures
3. Employees feel like they are taking on additional unpredictable risk
4. Companies and investors do not believe they have an obligation to offer ownership

[†] <https://www.businesswire.com/news/home/20220404006018/en/New-Nonprofit-Ownership-Works-Launches-Movement-to-Help-Create-at-Least-20-Billion-in-Wealth-for-Working-Families-Through-Employee-Ownership-Programs>

Many of these challenges require education and a paradigm shift in how parties approach the concept of shared ownership. Ownership Works has been founded by a comprehensive base of stakeholders that will be well positioned to address these challenges, including several PE firms and public companies.