GCM Grosvenor

INFRASTRUCTURE

In Brief

Labor Impact Investing

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Past performance is not necessarily indicative of future results. No assurance can be given that any investment will achieve its objectives or avoid losses.

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360° Buy-In: Aligning Key Stakeholder Interests on Infrastructure Investments

Infrastructure investments are notoriously complex, particularly in the United States and Canada where projects may be influenced by an array of stakeholders. As a result, getting infrastructure projects across the finish line in these jurisdictions has proven at times to be challenging. To discuss the challenges, three GCM Grosvenor experts with experience from key stakeholder perspectives – labor, government and private capital – share their viewpoints on what it takes to achieve the necessary buy-in to get projects done effectively. It turns out to be a mix of *holistic* and *realistic* factors – and always goes beyond the numbers to the very human dynamics of infrastructure deals.

LABOR

"Organized labor should be viewed as a true stakeholder."

Jorge Ramirez was formerly the President of the Chicago Federation of Labor and Vice President of the Executive Council of the AFL-CIO.

Private capital investments in infrastructure projects often ignore the perspective of local labor organizations. Not necessarily because investors oppose working with organized labor, but rather labor may simply not be front-of-mind of those considering an infrastructure investment. There have been many quality infrastructure opportunities that never came to fruition because investors did not consider the labor perspective and its impact and potential benefits. In our experience, successful investments are those that view labor as a true stakeholder, not simply as an input where the cost must be minimized.

When labor is considered a partner, there is a higher degree of confidence among all stakeholders that the work is being performed by properly trained professionals with countless hours of safety training. It can be considered a risk mitigation policy; we believe the odds are increased that the work will be done right, on time and on budget. Moreover, when labor is a partner, a project is more likely to have labor peace. These are real benefits to an investor, as poor quality, jobsite accidents, and/or labor disputes can, at the very least, cause a significant drag on any infrastructure investment.

Another common issue is that, in many places, labor is represented by a centralized organization that covers all workers – building and construction trades, the service sector, the industrial and public sector unions, etc. Often, these centralized organizations are made up of hundreds of separate unions, some of which may have divergent priorities. As a result, getting the central labor council to support a project can be challenging. For example, if the electricians and plumbers are happy with a deal because it creates jobs for its members, but the service sector trades are not, because the operation and maintenance of the asset will be performed by non-union members, the labor council may be pushed to a neutral position on the project. It is a nuanced but important distinction that can have implications on whether the

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organization will be an active advocate for the project, which can help determine if the deal moves forward or not. A savvy investor will recognize these nuances and work with the central labor council to garner support from member unions at the earliest stages of project development.

It is important to remember that infrastructure is inherently local and impactful to everyday life. We believe that if an investor approaches projects with an eye toward collaboration with key stakeholders such as labor, they can earn a reputation for being fair, which may prove beneficial in the immediate-term as well as the long-term.

GOVERNMENT

"Investors need to see the inter-jurisdictional puzzle clearly."

Matthew Hynes spent more than 20 years working in leading roles in government and electoral politics.

Obtaining the requisite buy-in from various governmental entities in the U.S. and Canada often hinders an infrastructure project. This multi-governmental puzzle can be difficult to assemble, as each government authority has its own agenda and constituencies, which do not always mesh with one another. This is particularly true when dealing with elected officials from different political parties at different levels of government. A major infrastructure project in the U.S. may fall under a number of jurisdictions, with dozens of elected officials having a voice in the process. Take, for example, a proposed rail line that loops around a city – the federal government is involved in funding and transportation regulation, while the governments of the state, counties and cities affected by the rail route will also have interests.

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This challenge is unique from other parts of the world where some national governments have the ability to dictate the outcomes of infrastructure projects at the local level. International investors may be accustomed to dealing within this top-down approach, which can make an infrastructure investment less complex. But many of these same investors have struggled to find their footing in the hyper-local government construct that dominates U.S. and Canadian infrastructure investing.

While these governmental and political challenges can at times seem daunting, we believe they can be overcome by thoroughly understanding a particular project and dedicating adequate resources to it. An investor should begin by understanding how governments work and how decisions are made, and grasp the basics of how governments interact with one another. Then, as a project proceeds through the diligence process, a picture starts to emerge of how its puzzle fits together. At that point, investors should put resources toward understanding the interests of each jurisdiction involved.

Appreciating competing interests enables an investor to adjust project details or messaging as necessary in order to garner maximum support across jurisdictions. While navigating these nuances may help push a project to the finish line, doing so can also illuminate any governmental or political obstacles that will be insurmountable, allowing the investor to pass on a deal before expending significant resources. It is important that an investor remains nimble as a project progresses through the local government channels; doing so gives them the best chance at being successful.

PRIVATE CAPITAL

"Private infrastructure investment works best when interests are aligned."

Matthew Rinklin's background is in originating, executing, and managing infrastructure investments.

Some municipalities and elected officials in North America view monetization or development of a public asset with private capital as a detriment to constituents. This is an unfortunate reputation because there is no inherent reason why public-private partnerships ("P3s") are flawed. In fact, private investment in public infrastructure projects is prevalent outside the U.S. In Asia, Australia, and Europe, private capital has successfully flowed into roads, bridges, tunnels, airports, and rail lines for decades, spurring development and modernization of infrastructure.

When considering the decline in public funding sources in the U.S. and Canada, it is apparent there is a real need for private capital. Historically, infrastructure has been funded by gas taxes, passenger facility charges for airports and the like, but the purchasing power of these fees has declined. On top of that, rising healthcare costs and pension funding issues have effectively maxed out the borrowing capacity of many government entities. In short, P3s are needed.

However, there are many factors that contribute to a successful P3. How a deal is structured is critical. The public side of the transaction must gain from future financial benefit; the project cannot be structured in a way that private stakeholders alone benefit. Another structural issue is that any transaction involving public assets must be a lease – never an outright sale. It is crucial that elected officials and constituents view P3 transactions as finite. When the lease ends, the asset goes back to being purely public and the municipality has the option to re-lease.

Private capital is only one of many interests in a potential transaction, and all interests must be aligned. Private capital should not only ensure that the municipality or government retains its rights and benefits, but also that organized labor and minority- and women-owned businesses are benefiting. That way, politicians can go back to their constituents with a positive outcome for the community overall. By aligning these interests in a thoughtful and collaborative way, investors can unlock opportunities across the U.S. and Canada and improve the state of infrastructure in the process. And, importantly, proper alignment of these various interests and constituencies is ultimately accretive for investors. ■

> There are many factors that contribute to a successful public-private partnership.

ABOUT THE CONTRIBUTORS

Jorge Ramirez, Managing Director, Infrastructure Investments

Mr. Ramirez focuses on labor strategies and initiatives. He is the former president of the Chicago Federation of Labor (CFL), the third largest central labor council of the American Federation of Labor and Congress of Industrial Organizations (AFL-CIO), representing 300 unions and a half million working people across the Chicagoland area. In his role as president of the CFL, he served on executive and advisory boards for labor, civic, and community organizations across the City of Chicago and around the country. He served as an officer of the CFL since July 2006 and was elected the CFL's first Latino president in July 2010. Mr. Ramirez is also a former vice president of the Executive Council of the AFL-CIO, helping to guide the daily work of the national federation. He graduated from the University of Texas at El Paso with a double major in marketing and computer information systems and he obtained his Juris Doctor from the Chicago-Kent College of Law.

Matthew J. Hynes, J.D., Managing Director, Infrastructure Investments

Mr. Hynes leads the Labor & Government Strategies Team and is a member of the Labor Impact Fund Investment Committee. Prior to joining GCM Grosvenor, Mr. Hynes was a Senior Advisor to the Mayor and Director of the Mayor's Office of Legislative Counsel and Government Affairs for Chicago Mayor Rahm Emanuel, where he served as a key strategist on matters critical to the Mayor's office and city government Previously, he worked as an attorney in private practice, specializing in local government law, municipal finance and government relations. Mr. Hynes began his career as a staff attorney for the Federal Public Defender Program in Chicago. Mr. Hynes received his Bachelor of Arts in Government from the University of Notre Dame and his Juris Doctor from Loyola University Chicago School of Law. Mr. Hynes currently serves on the Board of Choose Chicago, where he is a member of the executive committee, and is Vice Chairman of the Chicago Sports Commission.

Matthew Rinklin, Managing Director, Infrastructure Investments

Mr. Rinklin is a Managing Director on the Labor Impact Infrastructure Investments Team. Prior to joining GCM Grosvenor, Mr. Rinklin served as Senior Vice President at Oaktree Capital Management, where he was responsible for originating, executing and managing infrastructure investments. While at Oaktree, Mr. Rinklin executed the acquisition of a large North American solid waste business and the merger with another large waste business to create the largest privately-held solid waste services company in the United States. He led the integration of the two entities and directed the initial public offering of the merged company. Mr. Rinklin also managed Oaktree's investment in the largest marine terminal operator in the United States, including executing follow-on acquisitions and arranging several financings. Prior to joining Oaktree, Mr. Rinklin was a Vice President at Highstar Capital, where he focused on investments in the energy, transportation and environmental services sectors. He has also served on the boards of directors of private and public companies. Mr. Rinklin holds a B.A. in Economics from the University of Chicago.

ABOUT GCM GROSVENOR

GCM Grosvenor is a global alternative asset management firm with approximately $50 billion in assets under management in hedge fund strategies, private equity, infrastructure, real estate and multi-asset class solutions. It is one of the largest, most diversified independent alternative asset management firms worldwide.

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