Investor Brief

Archer Capital

Introduction

The Australian Council of Trade Unions (ACTU), on behalf of affiliate unions with coverage of the Australian aviation industry, particularly the Transport Workers Union (TWU) and the Australian Services Union (ASU), is kindly asking that:

- Union-nominated pension trustees raise at their Board the **fund's exposure to Archer Capital Fund 5**, **a private equity vehicle**; and,
- If there is exposure, **arrange for the Board of trustees to take the steps outlined** below.

To read ACTU's brief, please click here.

About Archer Capital

Archer Capital is an Australian private equity firm, with $2 billion in funds under management, specializing in leveraged buyouts in Australia and New Zealand. Since inception, Archer Capital has closed over 35 acquisitions involving total aggregate funding in excess of $6 billion.

One of its current acquisitions is AeroCare, a provider of outsourced flight support services in Australia and New Zealand, which includes customer service, baggage and ramp handling, cleaning, and other ancillary services. AeroCare employs over 2,500 staff and services major domestic and international airlines across 35 airports in Australia and New Zealand.

Other current investments include Quick Service Restaurant Holdings, Autopact, Brownes and V8 Supercars.

What is the issue?

AeroCare's labour relations and work practices have been identified by the ASU and TWU as of significant concern. The main concerns are:

1. Undermining freedom of association and the right to collective bargaining

AeroCare has engaged the services of First IR, a recognized anti-union labour relations consultancy organisation. The consultancy firm's expertise is utilized by clients to deny the workforce the right to the assistance of unions in collective agreement making. This contravenes the CWC Guideline 2.7 and 2.8 on Social Dialogue.

2. Labour standards and employment conditions

AeroCare has negotiated a non-union collective agreement that significantly undermines the Award Safety Net Minimum Standards for the Australian aviation industry. This agreement includes provisions such as:

- No guaranteed weekly hours within a monthly hours cycle.
- Work rosters can be altered at 2 hrs notice.
- Split shifts, which is resulting in employees being required to sleep rough at the airport while awaiting the second shift.
- No maximum shift duration.
- No specified minimum break between shifts.

There is no mechanism for reviewing wages over the 3-year life of the collective agreement. This contravenes the CWC Guideline 6.4 on pay levels.

Why is this a risk for investors?

Regulatory risks: The current employment model at AeroCare exposes investors to risks and challenges in light of developments in industrial law and practice in Australia.

Legal risks: The potential exposure to liability includes underpayments, labour conditions that present award compliance risks and non-conformity with OH&S standards.

Reputational risks: AeroCare was the subject of an Australian Broadcasting Corporation investigation, which garnered significant negative media attention. This could put future business opportunities at risk for the company and thereby reduce the value of the investment.

Australian Superannuation Fund Investment in Archer Capital

Australian Super determined that Archer Capital's business was not consistent with its values. During a presentation to Australian Super, Archer Capital explicitly said its competitive position/plan for AeroCare was based on a "favourable collective agreement" and a "non-union workforce". Australian Super had previously decided to sell out of Archer Capital and has recently sold its share in Archer Capital (Archer Fund V) to the Canadian Pension Plan Investment Board.

First Super, which manages A$2bn ($1.5bn) in funds, announced in April that it was reviewing its private equity portfolio amid concerns about "poor labour practices" at three unlisted companies it holds, one of which is Archer Capital.

What can trustees do?

Trustees are kindly invited to raise the fund's exposure to Archer Capital at their Board or CEO level. If there is exposure, trustees are asked to request that management take the following steps:

i. **Archer Capital Fund 5:** Trustees may request that investment managers **engage** with Archer Capital to discuss whether the company is meeting appropriate social governance standards. The engagement should entail a discussion on **what standards have been applied by the investment manager and how Archer Capital has been appraised against those standards,** with particular reference to the labour relations risk associated with its poor labour relations performance;

ii. **Archer Capital Fund 6:** As we understand that Archer Capital is currently engaged in a new capital raising (Fund VI), trustees can propose that any investment manager advocating a fund allocation to Archer Capital Fund VI be requested to **obtain assurances from Archer Capital as to its social governance commitments**. Trustees may seek assurances that the company will undertake due diligence on any acquisitions it makes through Fund VI, so the Fund is not likely to be exposed to sustainability risks if it makes an allocation to Archer Fund VI.

Media

Financial Times: Australia pension industry targets private equity over labour practices

ABC Australia: Airport staff sleeping at work say they cannot afford to go home

AU News: Staff claim shocking conditions, fatigue are compromising safety at Sydney Airport

For more information

Rod Pickette | rpickette@actu.org.au
Capital Strategies Officer
Australian Council of Trade Unions (ACTU)

Tamara Herman | therman@share.ca
Program Officer
Committee on Workers' Capital

For information on the Committee on Workers Capital: www.workerscapital.ca