Retirement News Highlights

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Maryland Pension Flags Child Labor Concerns to PE Manager

The $63.5 billion system is not an investor in the fund that owns a company featured prominently in a New York Times article detailing migrant child labor but expressed its concerns anyway.

By Justin Mitchell
FUNDfire
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The Maryland State Retirement and Pension System sent a letter to one of its private equity managers expressing concern about a recent New York Times report that found underage migrant children working in a portfolio company's factories.

The article includes interviews with multiple children working at factories run by Hearthside Food Solutions, a company that packages many well-known food brands, including Cheerios and Lucky Charms cereals, Chewy and Nature Valley granola bars and Cheetos snack chips. Hearthside is owned by two private equity firms, Charlesbank Capital Partners and Partners Group, which acquired it in 2018 for $2.4 billion, according to Pitchbook data.

Maryland is a limited partner, or LP, in Charlesbank's third credit opportunities fund as well as a separate dislocation fund, according to Pitchbook data.

While Maryland "is not a limited partner in the fund that owns the Hearthside Foods interest … it is a limited partner in other Charlesbank funds," says the letter, dated March 24 and signed by Chief Investment Officer Andrew Palmer. "The Board would like to express its concern for the welfare of the children highlighted in the article and its expectation that Charlesbank will exercise responsible stewardship of its portfolio investments to ensure proper governance, human rights, safety, reporting and adherence to law in all aspects of their operations."

Moreover, the $63.5 billion pension was concerned these issues could "have a negative impact on the value of Hearthside Foods and reputational damage to Charlesbank and its partners," according to the letter.

Maryland is also an investor in several Partners Group funds, according to Pitchbook, but apparently did not write a letter to that firm. A spokesperson did not respond to a query on the reason for only writing to Charlesbank.

Two other prominent U.S. pensions are also investors in the funds that took part in the Hearthside acquisition: the State of Wisconsin Investment Board and the San Bernardino County Employees Retirement Association, according to Pitchbook.

Wisconsin had no comment, and a San Bernardino County spokesperson said in an email message that fund staff were "aware of this article, and are monitoring the situation very closely."

Child labor has become a flashpoint in the private equity industry recently, with the two largest U.S. pensions, the California Public Employees' Retirement System and the California State Teachers' Retirement System, discussing the issue at recent meetings, as reported. Blackstone, one of the oldest and most prominent private equity firms, recently came under fire for its ownership of another company, Packers Sanitation Services, which was fined $1.5 million in February by the U.S. Department of Labor for violating child labor laws.

The public employees' pension, called Calpers, should develop a policy on child labor for its private equity investments, said board member Ramón Rubalcava at a March 13 investment committee meeting.

"I know that … private equity has the biggest returns, but at the same time, I don't want to have blood on our hands, either," he said.

Creating a binding policy would shut Calpers out of the private equity market, CIO Nicole Musicco said at the meeting.

"No private equity firm is going to be open to there being a policy put on them to take out capital," she said. "What they absolutely have to do is respond to our requests for transparency, [and] respond to our requests to fix things."

The board did instruct staff to document how it integrates human capital management concerns into its private equity investments. Calpers has been attempting to deploy more capital into private equity, as reported.

Charlesbank, Partners Group and Hearthside did not respond to requests for comment by press time.

In a March 10 op-ed responding to the Times story and posted on the company website, Hearthside CEO Darlene Nicosa said the company was unaware of the child labor violations, had taken steps to change its processes, and ordered an independent review of those processes.

"We have and will continue to work tirelessly to verify the integrity of and build confidence in our workforce and those of the staffing agencies we use," she wrote.

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In today's edition of Retirement News Highlights, you may have noticed these two lines in the story, Maryland Pension Flags Child Labor Concerns to PE Manager: "Maryland is also an investor in several Partners Group funds, according to Pitchbook, but apparently did not write a letter to that firm. A spokesperson did not respond to a query on the reason for only writing to Charlesbank." I, the spokesperson, did not have the information in time to respond to the reporter's inquiry about this matter by press time.

For the record, our CIO, Andrew Palmer has confirmed that we are not sending a letter to them. Why? We have used them for secondary investments—where partners group buys stakes in other private equity funds and has no control of the underlying investments—but have not made a commitment since 2015, so we are not actively engaged with them.

Once I got the information from Andy, I followed up with Justin Mitchell, the FUNDfire reporter this morning. His response, "I asked my editor, and we are unable to update the story in that way after publication." I've pushed back, "FUNDfire doesn't have the ability to update stories? The story is *incomplete as it now stands and leaves an impression that we didn't do enough. I would urge your editor to make an exception and update the story."*

I thought you should know the whole story, since it appears FUNDfire isn't so inclined. I'll let you know if that changes.

Michael Golden, Director of External Affairs, MSRPS