

The Economic Club of New York

2nd Annual

Women in Business Forum
Return on Investment

Panel 1: Gender Diversity as an Investment Criterion

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Chaired by:
Barbara Novick, Vice Chairman, BlackRock

Speakers:
Lynn Blake, Executive VP & CIO, Global Equity Solutions, State Street Global Advisors
Kim Thomassin, Executive Vice President, Caisse de Depot et de Placement du Quebec
Virginie Morgon, CEO, Eurazeo

Ali Velshi: I'd like to introduce our next panel. This is going to be a discussion that a lot of you are in the room for, and it is about gender diversity as an investment criterion. If I could just ask everybody for your attention. I know we have to move around a little bit. Gender Diversity as an Investment Criterion is the next discussion that we are going to have. And I want to invite to the stage, Barbara Novick, the Vice Chairman of BlackRock, who will be moderating it, along with the panelists. Lynn Blake is the Executive Vice President and CIO of Global Equity Solutions at State Street Global Advisors. Kim Thomassin is the EVP at Caisse de depot et de placement du Quebec, and Virginie Morgan is the CEO of Eurazeo. I invite you all to the front. (Applause)

Introduction

Barbara Novick, Chair

Vice Chairman, BlackRock

We did get a little laugh as we came through the kitchen to get to the room. I suspect that there was a time when the university club probably didn't have women coming in. And that was the only way to get them into the room.

We have a great panel. I wanted to just kick off, we each are going to have a few remarks and then we'll open it to some questions and then we'll open it up to your own questions. Just starting, as an investment manager, how do we think about diversity and especially from an investment stewardship perspective. I think when you talk about ESG, we like to put G first.

Because at the end of the day the board is responsible for governance and for overseeing what goes on at the company. And if we don't get it right at that level, it's not clear we can get it right at any level of a company.

The things we look for is a board that is both qualified and engaged. So on qualifications, diversity is clearly becoming a bigger topic. You've heard from the panels earlier, some of the reasons. You're just looking at the decision making. When there's more than one woman in the room the ability to support each other, not get talked over, not have that eye rolling.

What we're really looking for is that critical mass. How do you get diversity? How do you get better decision making? How do you get longer-term thinking in many cases, and we would argue, it's both the positive and the negative? On the positive side, are you seeing new growth opportunities and on the negative side, are you watching out for the problems? Are you thinking about what might hit you around the corner, or you are just being too complacent?

We do think diversity of various kinds, whether it is gender, it's ethnicity, it's different ages. There's a whole lot of different measures of diversity. But having people who are not all sort of the same cohort, they're more likely to challenge each other. It also means that people have to think through their own decisions better and defend their decisions better. So that, at the end of the day, it is about better decision making.

The other side of it is the role models. So, looking around this room, I'm going to guess that many of you have had the experience in your career that you're the only woman in the room. And that when you looked ahead, there really weren't women ahead of you. How inspiring is that. Not.

So you look around today and the number of senior women, qualified women at many companies is actually very inspiring. What I've heard from younger women at our company is, the more we're willing to be visible, not just mentoring and sponsoring, but even being visible, it says to the younger women, I could do that. I could get there. There's somebody else who's done it. And that sends a very powerful message.

So, it's about the employees, it's about the customers, and it's about all of these different stakeholders, but again, coming back to the central, better decision making, and then you get the other benefits along the way. So, if I can turn it over to my co-panelists, Lynn, we'll start with you.

Lynn Blake

Executive Vice President & CIO, Global Equity Solutions,

State Street Global Advisors

Thank you. Well, at State Street, I would say that as an organization, we've focused on diversity

and inclusion for well over ten years, but as an investor, it's relatively new. So, we really started pushing with a purpose in 2016 with two notable events. The first was our launch of the gender diversity index, which we implemented through the SPDR SHE ETF in collaboration with CalSTRS, and that is a strategy that tilts, first identifies companies in the US marketplace that have strong levels of gender diversity at the leadership level, so among CEOs, the board and senior executives. That was the first event.

That same year in 2016, we made gender diversity a focus of our Asset Stewardship Program. We identified almost 1300 companies in major markets, so the US, Australia, the UK, Japan, Canada, 1300 companies that did not have a single woman on their board. We communicated and engaged with those companies and told them that if they did not add a woman to their board at the next election period, we would vote against the Chair of the NOM Committee. We've since expanded that policy to essentially vote against the entire nominating committee.

Of course, that call to action was symbolized in the Fearless Girl, which we placed on International Women's Day in March 2017. So, two years ago. Just last week we placed an exact replica in London to continue the focus and the momentum that we've seen, and the interest in the US marketplace.

So, since then, 1300 companies, we voted against over 700, but the positive is, almost 500 companies, in just a two-year period, a relatively short amount of time, have added a woman to

their board. That's really what launched our focus on gender diversity as an investor.

Kim Thomassin

Executive Vice President, Caisse de Depot

et de Placement du Quebec

I have the privilege of leading our Stewardship Investment Group at Caisse de Depot et de Placement du Quebec, CDPQ for the rest of this presentation. We are a Canadian pension fund manager. We manage a little over \$310 billion. Ladies and gentlemen, money still talks.

Whenever we have these discussions on diversity, with the entities and portfolio, people listen.

When we team up with other investors, people listen.

So, we've had a big focus on diversity, climate change as well. We've seen progress over the years. We have done, similar to what State Street has done, to send letters to the people who had no women on their boards. And there was always an excuse. Now they no longer have an excuse because we offer candidates (laughter) and we have a list of great candidates. We're taking resumes. So, we no longer have those excuses or discussions of oh well, there's a one, or we've tried and we couldn't find any. We've solved that.

We publicly disclose our votes. So, not many people want to be on that Hall of Shame. They'd rather be on the Hall of Fame of people doing the right thing. So, we engage constantly with

them. We do the same in private equity investments.

I have yet to find a corporation in which we're about to pour X million dollars, not wanting to have the discussion with us about diversity or climate change or any other values of ours. This has been very...it's very dear to us, and we're doing more and more. We'll talk a bit later about the other initiatives that we've started along with other institutional investors. The ILN Network, it was a G7 initiative that was announced last year, where we have three pillars; climate change, better disclosure, infrastructure, sustainable infrastructure globally, and more diversity in the investment world.

My colleague Guna Stuck and Jason Chang from Teachers are Here, in the room, they lead that initiative, so we'll be happy to tell you more about it, and how we can all contribute.

Virginie Morgon

CEO, Eurazeo

Thank you. Nice to meet you all. On the private equity side, I'm leading an investment company, which has 100 years of history. I joined about ten years ago, Eurazeo. We have a lot of companies in the group. It's actually interesting to see how much levers you have in your hand, and there was sort of one, for me, in terms of the opening remarks or advice, we are pretty lucky in this room. And I think where we can make change, we should make it happen, and not have

any regrets of not pushing things forward and making the changes being sufficiently courageous. Because if we don't do it from sort of our people or women in this room, nobody will really.

Two things, what I did about ten years ago with my team, part of the group, I pushed Eurazeo to become an investor with ESG sensitivity first. That was ten years ago, back in 2008. And then conviction, then ambition, then targets. Rather than have a fund, which would be dedicated to ESG compliance, companies, or led businesses by women, I thought I would inject ESG across the board in every company in which we invest, rather than having a dedicated pool of capital investing in ESG compliance.

I think, there was a comment made earlier by one of the first panelists, it was about the same thing. I think, make it big, rather than make it on the side, which yes, that was Indra, she was saying, I would rather invest my money in changing the way we overwrite rather than invest some of my profits in NGOs.

To a different sort of level, I thought ten years ago that we should be pushing hard in private equity to be good investor in terms of making things change. So we start from governance for sure, and I have control of the company in which I invest. It's sort of embedded in the deal that we make with the management team, that the governance would have to change, women will come on the boards. I will have some independent board member in charge of the nomination and remuneration committee, most likely a woman, that helps, so that at least those issues of

equal pay, equal hire, equal promotion, comes up on the agenda.

But, more widely ESG is about supply chain, human rights watch, so the list is very long. But we've made a big change. And what I thought was interesting is that at the beginning I was sort of proud to be the first one to lead. As a company I mean, or in the private equity sector, which is very sort of, male, sort of occupied or led.

But then, shortly thereafter, maybe in 2010, I thought well maybe we should push so that this industry wakes up and realize how much levers we have in our hands, because it's still been a private equities becoming so big, we are sort of owning, 5, 8% of GDP. It's the same in Europe, the same in the US, so how big those levers are, and I thought we should animate in this industry this willingness to become ESG compliant, rather than being proud as one company amongst so many to be yielding or leading the way. That has changed. I think this industry is now very much into ESG. This is starting. There is a big move and I'm very proud that we can make those things change as an industry rather than as one company being sort of championing that move, because that's nice, but it doesn't move the needle sufficiently quickly.

BARBARA NOVICK: It's interesting to hear Indra's comments and your own. Not that long ago socially responsible investing was a thing, right, and it was exclude this, exclude that, focus on these things. Today, I would say the needle has moved more to what we call sustainable investing. And obviously something that can apply to all companies, operational excellence in

whatever the sector. Are you seeing the same across your various platforms? Anybody see differently or issues you'd want to highlight.

LYNN BLAKE: I guess I could start. I mean, it's certainly evolving, while SRI or thematic types of investing is still, I would argue, the norm. I mean, when we look at our assets under management that are ESG, that continues to be the bulk. But it's absolutely evolving. The conversations that we're now having with clients, investors, asset owners, are very different. Where they're really looking for full ESG integration and that's not just across their active portfolios, but it's potentially across their beta portfolios as well. So that's new. And I think that is very much data and research driven. It's not about the social or society benefits, it absolutely is about long-term sustainability and long-term value creation and it's absolutely a different mindset. That's the trend and the momentum that we're seeing and ultimately I would argue that ESG will be a part of every portfolio in some aspect. Whether it's strong engagement within an asset stewardship program or actually from an investment stock selection or security selection standpoint.

VIRGINIE MORGON: I'm just sharing an experience. I mean, because we started ten years ago, I mean, let's be honest, there wasn't much appetite for it. The way we pushed for being more ESG compliant, taking care of the supply chain, making sure that you were checking on your suppliers, you were complying with all of the rules and regulations locally defending human rights watch. We actually demonstrated to our portfolio companies that even if you have control,

you don't impose a change of mind. So, you have to get your management team to be convinced that this is the right thing to do rather than be imposed. Because things being imposed never go very far in a company. We know that when we're women. When we want to push the boundaries.

So we thought we should demonstrate and it's not just a question of being more fair, it's a question of surviving in time and making more profits. I'm actually very convinced that ESG is not just about fairness, it is about being more competitive and at the end of the day, either saving significant amount of money. So, we actually value every year, for our portfolio company, the money that we have saved in not doing so and so, or not protecting the emission of our CO2. There's a way of valuing either what you save, effectively, and what you bring to your P&L as a plus, or valuing what you've saved in terms of costs that you would have incurred, had you not changed your process, production process. That, of course, is super-efficient to convince a management team which may not be completely into making ESG it's priority. But then suddenly you would become a priority if you can demonstrate it makes money at the end of the day, at the end of the road.

BARBARA NOVICK: If I could...just given the time, we'll switch questions, you mentioned a mandate is just that, has certain limitations, and yet, there is some cause for government quotas on diversity, for example. California just passed a law, there's certainly laws in northern Europe and other places. How much of this is the responsibility of investors, like ourselves, to make

change, how much is the responsibility of government. Who can really help in moving the needle? Kim I was intrigued by the idea that you have the list. And how do you approach someone and say, oh you don't have enough diversity, here's some ideas for you.

KIM THOMASSIN: We do that, it's basically how it ends up being the discussion or saying, we noticed that your board has no women, there's no diversity, and we think you need help. And we're willing to help. And they are often happy not to have to pay the headhunter fee if we provide the candidates ourselves. And frankly, people thank us afterwards for having the discussion with them, and making sure that we do it at all levels. We're trying to do it before we need the laws to do it. We'd rather be, we feel that it's our duty. It's also our role as an institutional investor. We're stewards of capital and we think it's the right business decision, it's the right society decision. So, we want to do it.

We're also having way more discussions with our stakeholders and we feel that there's more and more women in the investment committees of our depositors, our clients, who raise the questions. The millennials are also pushing the discussion on many subjects, such as diversity. So, we're having way more interesting discussions. Even little things like, for me, getting an email from someone on my team to say, a millennial, would it kill you to move the meeting we have scheduled for 7 am at 8:15, that's when my wife and I drop our kids to school. I'm like, that's a good point. I should move the meeting. And I'll jump on a call with London or do something else. So, I think the millennials are also very much helping this discussion.

BARBARA NOVICK: Anybody else want to jump in. Government versus private sector.

LYNN BLAKE: I guess I can comment on the idea of quotas because that's been a very interesting kind of phenomenon for us to look at. In markets, countries that do have quotas, those companies have been obviously mandated and very successful at hitting the number, whether it's 30%, 40%, 50%, but our engagement with those same companies, it's interesting, but also concerning because what we're seeing and what they're articulating to us is a loss of executive or senior leadership women. Very often those women that were in the business at an executive level on a day-to-day basis have opted to leave the company to take roles as directors.

So, it's absolutely leading this kind of a brain drain, big pipeline issue, not just within the company but ultimately at the directorship level. We are concerned that there could be an issue at a relatively near point in time with board quality among women. That's one of the unintended consequences of kind of a quota system.

VIRGINIE MORGAN: It's interesting because France is a country where the quota is in place for a number of years and then as Muriel Penicaud mentioned, its 43%, now, so it works. I was actually part of that group of women and men who advise on the government back in time of this law. There are a few comments. The first one, I remember, that the male community, and there was the business community, which was essentially male at the time was really trying to fight

against the consequences of not applying that law. And I think your comment that you made about, well I'm sorry, if you're not presenting a woman at the next AGM, we're going to vote against. That works quite well.

So, the consequences have to be very, very heavy, otherwise, nobody cares, and we basically pay the fine, which sometimes is sort of a way out. You just pay the fine, or worse comes to worse, you can explain rather than comply. Then the second comment, me, as a CEO, I am on two other boards as independent board member, including L'Oréal and I'm not surprised they are one of the big sponsors of that event. I would never not allow one of my team, executive team member to be accepting a board position. Because a) I think this is what is needed, because you want executive women on your board, you don't want women or men, by the way, who are just board member. Because you can't just be a board member. You have to be a board member because you have an expertise, you are managing a company, a business unit, you have a position and you know how the world is going. So, you don't want to create this sort of two level of board member, the CEO type of board member and the experts or the independent board member who will only do board membership that has not quite the same value.

So, why would you not let your team, your women's team go on boards? I think women, just like men, can find tremendous time in their agenda, work over the weekend. That's not an issue.

When you love what you're doing, you find time.

BARBARA NOVICK: Given time, we are going to only take one question from the audience and then we'll have a wrap-up.

QUESTION: Thank you. Thanks so much for this event and for your panel. My name is Nili Gilbert, I'm a Co-Founder and Portfolio Manager of Matarin Capital, here in New York. So often when we talk about gender diversity as an investment criterion, we talk about the corporations that we're investing in with a bit less focus on the fact that there's just not many women in control of capital, making the investment decisions, about which corporations will receive the capital, which may result in the disparities that we see.

As a matter of fact, here in the US, less than 1% of all of the professionally managed capital is managed by women. Women on firms. So, I was wondering if you, any of you, may be willing to share a perspective about this question of, women in control of capital as a vehicle for greater gender diversity within the business sector. Thank you.

BARBARA NOVICK: Great question. It turns out we have a little bit more time than I thought. So, we will be able to take some more questions. It's a very good question and it's interesting because you're 1% number, I think it very much depends how you count what you're counting. So, here in the US, the phenomena is there are many, many large pension plans that out-source their asset management. The person making that out-source decision is a very important voice in that chain. And I think the number who are female in that role is far in excess of 1%. Now, when

you get to the next level in the chain, the asset management companies, I think it falls off quite a bit. And that's quite noticeable, worse, unfortunately in private equity than in public equity, but even in public equity, not a good story. But I think as you kind of go back in the chain, I think what we're seeing more and more is those end clients are asking those questions. And how many women are on your team, how many use diversification in a number of different categories. What does your team composition look like? And I think that's where it starts. And it can improve, I think, starting with those, we call them asset owners, but the end investors themselves. I don't know if anybody else wants to jump in on that.

LYNN BLAKE: Nili, it's a very good question. You raised one of the things that it forced us to do is also looking at ourselves, what do we do before we come and see corporations and ask them to do A, B, C. Well how do we do it. So we looked internally, our entire procurement process. We looked at all of the law firms, legal service providers, asking them about their stats on diversity. Hourly rates, promotion rates, partnerships, to make sure we were able to compile that. And we're doing that same exercise within the portfolios as well. And who are the people that render services to us? Who do we invest in? So, we are in terms of the providers, to make sure that we do the same analysis.

VIRGINIE MORGON: I'd like to share my current thoughts on...I put myself on the other side and we're thinking, as we speak, that maybe we are creating another imbalance while we were treating the corporate world, we made great progress in the corporate world for women. But now,

we are dealing with, I think, a new issues, which is about financing, entrepreneur and I can see Kathleen Bochman, sort of nodding. And I think this is a real issues because we, as investors, are backing more men than women, as a management team or entrepreneur. And we are doing so because there's more men led entrepreneurs, top up companies, or manage businesses, than women for sure.

There's a concern which arise, on actually both sides of the Atlantic, and has arose for a number of months I would say, I took sort of a note, or conscious, that we may have to deal with a new imbalance for the millennials or the new entrepreneur about making sure that the money that we handle either through public investment or private investment, actually also goes in a fair way to companies being either women led or women launch, as women entrepreneur and we at Eurazeo, we have from launch cap to venture. And I'm trying to think, without imposing to my team something which is unachievable. So, it's interesting to see in which situation I am, as a woman CEO, I want to make sure that we are pushing the boundaries, we are financing women, women entrepreneur, and at the same time, we are managing \$20 billion. I have eight different teams. And do I go as far as imposing quota. Like I want to be able to finance X percent of women led, or launch companies. I think it's probably a bit young for the moment. It's interesting that I was going to say, even the number of opportunity maybe is not enough to reach that quota. But I think just the very fact that we're talking about it. We are at least in the default, like the hiring, but in the default we make sure that as many women led as men led. I think we need to be aware of this in our investment environment that women, as entrepreneur are less supported and we

have a lot of progress to make in comparison to the corporate world.

BARBARA NOVICK: Do we have another question?

QUESTION: Good afternoon, I'm Bridget Fawcett with Citi. Thank you all for today. I'm just curious, you mentioned the Hall of Shame and while you are all being very proactive in your asset allocations and looking up board compositions, C-suite composition, etc., do you measure dollars that aren't allocated or dollars that you take away from private or public companies because they're not reaching the gender quotas that we all aspire for?

VIRGINIE MORGON: I wish we would be at this stage. The day we would have to measure this we would have won a lot, know. I wish we would.

LYNN BLAKE: It's a great question and I think generally the answer is no. I mean what we are seeing among allocators, asset owners, sovereign wealth, is they are looking at diversity as a manager selection criteria. So they're absolutely making decisions, at least towards the asset management world about whether, to the earlier question, whether we're more diversified as an industry.

BARBARA NOVICK: I also think it gets more complicated when you look at an index fund versus an active fund, right. An index fund you're going to own everything. Your input or

influence is at the voting level. So, there's nothing to measure of, did I give more or less. So, it's not such a simple answer.

VIRGINIE MORGON: I think we would have won the day we don't just talk about an ESG-dedicated fund, or a female CEO-led investment fund. We are right in there. I mean, there are initiatives every day, every month, 2018, 2019, which are the way I've just described, which is nice, but is not solving, because that means that we are treating the issue of ESG or women's led, on the side. Just a very small portion of the enormous amount of capital available being dedicated to what counts most, ESG and diversity. I think, I am still fighting, I don't know what the experience is in this room, I'm still fighting to justify that this is not about fairness, it is about being more efficient, more professional, making the best business judgment. There's tons of analyses out there, by McKinsey, Bloomberg, we saw that earlier with the gender parity index of an over performance of stock prices, in three or four years, but still there's 80% of the business community who do not believe in those research, and those statistics. This is absolutely clear. And the eye rolls that Indra was mentioning, it's there, all the time. So, it's a long way before we will be able to sort of assess what we're not investing in non-gender balance companies.

BARBARA NOVICK: So we have time for one minute each. If you had one big idea, what would you change, what would you recommend people in this room do when they go back to their day job.

LYNN BLAKE: Well I guess I would ask yourself and your organization what's holding the organization back. Why aren't they making progress. When I look at my own company, State Street, we had phenomenal programs. We've had great programs for ten years, but in terms of actual better gender diversity at kind of at the top of the house among the executive leadership, it was really slow and it was frustratingly slow to all of us. And the one change that has made a difference in the last three years are real goals. Goals at the top of the house. Across all executives. Those goals are just as important as any financial metric and they're tied to comps. So now when I look at our board, we have three board members. Ron O'Hanley is direct reports, almost 40% are women. We're making good progress. Measuring...what gets measured gets managed. I think that's absolutely a true mantra.

KIM THOMASSIN: I'd go back to your point about role models. I think people in this room are privileged, they're all role models, but we need to pay it forward. We need to have that coffee with that young person coming up who wants to ask you a question, is wondering about A, B, C. I think paying it forward, we need to do that. Sometimes someone will ask me for a coffee or a tea and I'll say yes, and then they say, can I do anything for you and I used to say, no, no, it was my pleasure. And now I say, yes, you pay it forward. You do the same for someone else.

VIRGINIE MORGON: I'll be slightly more personal. When I wake up, I have four kids, two girls, two boys, and I'm putting a lot of emphasis on my girls. Just to make sure, not that I'm not spending time with the boys, but you know, the girls, I just want to make sure that the way they

see the world and their education, they have to reach even further to make it happen. I know that. It's 2019, still 2019. So I start with that in the morning. Then I make sure as a CEO of the firm when I look at myself, like in the mirror, I'm not ashamed of what I do not do. I'm so lucky now to have so much more power than I used to have ten years ago. That I try to really exercise every single lever that I can exercise, which are enormous as a CEO. It goes for the board room, it goes for the way I talk, the way I behave, the way I support my team. I'm very close to the women in my own organization. It's a small firm. It's 300 people, so it's easier, of course. You know, I'm not running Pepsi or BlackRock. But, I think we can all do that in our small environments. I reach out to the women. I know when time is tough. You come back from maternity leave. I had four kids, I know what I'm talking about. You need some support. You need institutional support. Equal pay, being paid on what you deliver and not paid on the time you spent. And being super courageous. Because every time I come up with sort of a new idea, doing it differently, bringing ESG to the investment committee, making sure we have more women than men, not more, but at least you know...there's always someone bright and amazingly well educated to explain how wrong I am. So you have to be even more, either courageous or outspoken or authentic in a way to make it happen because we have more headwinds than we think, even as CEOs. So be courageous.

BARBARA NOVICK: If I could just wrap up really quickly. I think a lot of people ask us what's the measurement of success. How do we know if we've gotten there? And I would agree, if we are no longer talking about ESG and it's simply, this is about long-term thinking, this is about

sustainable investing, these are good business decisions. Knock on wood, then we've succeeded, wildly beyond our dreams. My one idea for all of you, men and women alike in this room, is encourage the girls when they're young. It's not about when they graduate college and start their first job. It starts in elementary school and middle school and high school. Here in the US I think one of the biggest game changers was Title IX, encouraging younger women to play sports, to learn teamwork, to really understand what it means to be a part of a team, all the components being important. Sometimes when people introduce me, they make a joke about me coaching soccer. There was a reason. I have three children, two of them are girls. This is an important life skill. Building confidence. I know, I saw somebody in the room, I won't call you out, but there's someone who's running programs to increase financial literacy. To get girls involved in technical fields. Just interested in math, interested in STEM. These are things you could only encourage really early. By the time they're in college, it's kind of too late. So, that's my challenge to all of you. Encourage them early and support them. Please join me in thanking the panel. (Applause)